



महालेखा परीक्षकको कार्यालय
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Babar Mahal, Kathmandu, Nepal

Ref. No.

June 10, 2007

AUDIT REPORT

The Governor
Nepal Rasta Bank
Baluwatar, Kathmandu
Nepal

1. We have audited the accompanying Balance Sheet of Nepal Rastra Bank (NRB) as of 16th July, 2006 (32nd Asadh, 2063) and the related Income Statement, Cash Flow Statement and Statement of Changes in Equity for the year then ended. These financial statements are the responsibility of the NRB's management. Our responsibility is to express opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the Nepal Standards on Auditing (NSA), International Standards on Auditing (ISA), relevant practices and also with our own guidelines. These standards, relevant practices and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. Based on our audit, we report that:
 - 3.1 As indicated in the financial statements (Note 2.1), the financial statements have been prepared in accordance with the International Accounting Standards (IAS/IFRS), excepting certain accounting standards, which as stated therein, have been partly complied. Moreover, as given in Note 29 (XIII) of the financial statements, certain financial assets categorized as available for sale have been considered to approximate their fair value. However, some IAS/IFRS (including those, which considered to have been complied with in view of above stated Notes) are not been followed while preparing Bank's financial statements. Major non compliances in this respect include the following:
 - a. Recognition, measurement and disclosure of certain financial assets as required in terms of IAS 32 and 39 have not been done. This includes classification of certain government securities as loans, short term foreign currency treasury bills as bank balances, non determination of amortized cost or fair value of financial assets as the case may be and consequential adjustments/disclosures, if any, arising there from including related income there against following the effective interest method in line with requirement of IAS 18, impacts of which have not been ascertained.
 - b. Actuarial/present value determination of the Bank's obligation toward various employees' benefits including medical fund, employees security fund and gratuity

and pension for the year, compensated absences and disclosure of detailed breakups of certain defined benefit expenses as required in terms of IAS 19 have not been carried out. These expenses have been accounted for as per management estimate, for which various assumption, etc. taken by the management as such could not be validated.

- c. Consolidation of the accounts of subsidiaries and equity accounting for investments in associates has not been done as required by IAS 27 and 28.
 - d. As required by IAS 7, unrealized exchange gains/losses and non-cash transactions of investing and financing activities have not been excluded from the cash flows. Moreover, foreign currency treasury bills and bank balances with longer period maturity have also been recognized as cash and cash equivalent.
 - e. As required by IAS 8, impact for the prior period charge in respect of provision made during the year for Special Leave Benefits to employees has not been ascertained. Moreover, adjustment in corresponding figures for previous year and retained earning etc. in respect of prior period times have not been carried out.
 - f. Certain disclosure requirements including reasons and impact with respect to non-compliances/departures if any from the provision of relevant accounting standards, classification of corresponding figures for previous year in certain cases as required by IAS 1, related party disclosures as required by IAS 24 and determination of impairment, if any, of value of assets as required by IAS 36 have not been complied with.
 - g. Further to above, various matters relating to the requirements of IAS: 1, 2, 14, 16, 18, 21, 26 and 37 are also found not complied with.
- 3.2 As indicated in Notes (to Financial Statements) 19 and 26, the assets, liabilities and net income of certain projects are incorporated in the Bank's financial statements distinctively and are disclosed separately. There are certain other similar projects, which have not been incorporated in these accounts.
- 3.3 Certain records/details/reconciliation/supporting details and vouchers, especially with respect to transactions with government, government organizations, commercial banks and other financial institutions, bills purchased and bills payable, unclaimed balances etc. are not available or available to a limited extent for audits. Various debit and credit balances are not reconciled with the balances of subsidiary records and details. For example balances of fixed assets, bills purchased/payable, general accounts, employee and other loans and advances. Third party confirmations/reconciliations especially of commercial banks, foreign currency bank balances and certain government transactions are not available. In absence of adequate supporting details/record, necessary assurance on the completeness, correctness and existence of the relevant transactions, could not be drawn to the fullest extent.
- 3.4 The systems and procedures followed for physical verification and documentation of various assets, including fixed assets, gold and silver, investments, inventories, notes and IC chests etc. are not adequate. In certain cases, such verifications are not undertaken during the year. No independent agency/experts are involved in such year end verification. In respect of gold, no assessment with respect to the purity content etc. was made available.
- 3.5 Certain errors, discrepancies with respect to accounting, disclosures and classification bearing on the financial statements have been observed. Such items having material

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impact on financial statement include accrual of interest income amounting to Rs. 14.228 millions, non-provision/adjustment against certain balances/charges amounting to Rs. 22.753 millions, recognition of profit on sale of investments amounting to Rs. 4.446 millions in absence of any such income, non-provision for certain employee benefits to the extent of Rs. 17.993 millions and non-ascertainment of remaining provision in this respect, accounting of agency charges additionally to the extent of Rs. 13.8 millions, under valuation of gold coins amounting to Rs. 14.01 millions, non recognition of notes in circulation to the extent of Rs. 27.5 millions (with consequential non-recognition of related note printing charges), accounting of Security Note Stock to the extent of Rs. 392.819 millions without receipt of printed notes there against, non recognition of maturity of investments in foreign treasury bills of Government of India to the extent of Rs. 182.5 millions and incorrect disclosure of amount of contingent liability in respect of guarantees issued to the extent of Rs. 47.45 millions. Had the impact of these adjustments (to the extent ascertainable) been given effect to in the financial statements, Other Receivables (Foreign Currency), Refinance & Loans, Staff Liabilities, Gold & Silver, Currency in Circulation and Cash and Bank Balances (Foreign Currency) would have been higher by Rs. 7.426 millions, Rs. 20 millions, Rs. 17.993 millions, Rs. 14.01 millions, Rs. 27.5 millions, and Rs. 182.5 millions respectively and Other Receivables (Local Currency), Other Inventories, Deposit & Other Balances, Property Plant & Equipment, Sundry Liabilities and Investment in Treasury Bills would have been lower by Rs. 194.835 millions, Rs. 410.661 millions, Rs. 546 millions, Rs. 4.911 millions, Rs. 13.8 millions and Rs. 182.5 millions respectively.

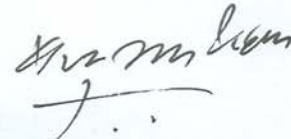
3.6 Loans amounting to Rs.428.027 millions due against 1045 retired employees remained unsettled and are shown as recoverable in the balance sheet at the year end. These loans although settled by retired employees against the proceeds of their life insurance policies which are not surrendered by NRB. Due to inappropriate accounting, loss, if any thereon, are not accounted for in the Income Statement.

3.7 The provision of NRB Act, 2002 in many cases are not complied with:

- Many Cooperatives are running the banking business without the approval of the NRB.
- Investment made in shares and other investment in financial institutions, such as DICGC, CIT, NSE, NPED, APSC, RBS, RMDC, GB Bank, CSID Bank, NIDC, NDBank, CI Bureau and funds as contribution or seed money made available to projects run by NRB-RSRF etc. are not disposed off. (Sec. 7.1).
- Financial statements are not prepared in conformity with the requirements of Nepal Accounting Standards (NAS) and International Accounting Standards (IAS). (Sec. 40.2, 40.3 & 90)
- Provisions made for Employees Benefits and appropriation of net profit to various reserves are found inconsistent with the need, obligation and purpose. (Sec. 41.1).
- Comprehensive periodical review of the budget and plan are not made. (Sec.43)
- Loans to RSRF, ADBL, Small Farmer (Sana Kisan) Bank, Cooperatives or Projects run by NRB and to the Government of Nepal are provided at interest concession rates or interest free rates. (Sec75.1&4)
- Overdraft to Government of Nepal (GON) is given exceeding the limit of agreement and such facility is also not reviewed or controlled. (Sec.75).
- Inspection and supervision report on the performance of banks and Financial Institutions (FIs.) for FY 2005/06 (2062/63) are not submitted within specified timeframe to the Board. (Sec. 84)

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- Bank's financial statements are not prepared and finalized within four months of the expiry of the FY 2005/06 (2062/63). (Sec.91 & 93)
 - The requirements of updating the financial and employee benefits related rules and informing the same to the government are not complied with.(Sec.110).
- 3.8 The internal control system, internal audit and financial management of NRB are not functioning effectively and efficiently. Internal rules and regulations of NRB for the functioning of various departments and various activities are not updated by the approval of the Board of Directors of NRB and also not having been sent to GON for concurrence and information to them. Consequently this resulted in break down of the internal control system which created many infirmities and irregularities relating to non compliance of NRB Act 2002, financial and employees rules and regulations and financial propriety, regularity, economy, efficiency, effectiveness of the financial transactions made during the year. The accounting system and accounting software currently used in NRB are also found not appropriate, not suitable and not able to provide desired information to meet the requirements of various IAS/IFRS, IAAS, NAS and NSA.
4. In our opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements give a true and fair view of the financial position of the Nepal Rastra Bank as of 16th July, 2006 (32nd Asadh 2063) and of the results of its operations and its Cash Flows and Changes in Equity for the year then ended in accordance with NAS, IAS/IFRS and relevant practices.



(Bachchu Ram Dahal)
Acting Auditor General



Nepal Rastra Bank

Annual Financial Statements
For the year ended 32nd Ashadh, 2063
(16th July 2006)

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

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.

.....
(Ashwini Kumar Thakur)
Executive Director

.....
(Bijaya Nath Bhattarai)
Governor

.....
(.....)
Auditor General

Board of Directors :-

As per our report of the even date

Bidhyadhar Mallik

Dr. Parashar Koirala

.....
(K. K. Singh)

.....
(Sundar Man Shrestha)

Pradeep Kumar Shrestha

Dr. Bishwa K. Maskay

Chartered Accountant
Kathmandu

Chartered Accountant
Kathmandu

Krishna Bahadur Manandhar (Dy. Governor)

Bir Bikram Rayamajhi (Dy. Governor)

Date :
Place : Kathmandu

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

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.

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(Ashwini Kumar Thakur)
Executive Director

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(Bijaya Nath Bhattarai)
Governor

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(.....)
Auditor General

Board of Directors :-

As per our report of the even date

Bidhyadhar Mallik

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Chartered Accountant
Kathmandu

Krishna Bahadur Manandhar (Dy. Governor)

Bir Bikram Rayamajhi (Dy. Governor)

Date :
Place : Kathmandu

NEPAL RASTRA BANK

INCOME STATEMENT

FOR THE YEAR ENDED 32nd ASHADH, 2063 (16th JULY, 2006)

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.

(Ashwini Kumar Thakur)
Executive Director

(Bijaya Nath Bhattarai)
Governor

(.....)
Auditor General

Board of Directors :-

As per our report of the even date

Bidhyadhar Mallik

Dr. Parashar Koirala

Pradeep Kumar Shrestha

Dr. Bishwa K. Maskay

(.....)
Singh)Chartered A
Kathmandu

Krishna Bahadur Manandhar (Dy. Governor)

Bir Bikram Rayamajhi (Dy. Governor)

Date :
Place : Kathmandu

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

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 year	-	(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		
GON overdraft	#REF!	(3,375,642,261)
Refinance & loans	#REF!	(2,623,009,090)
Other receivable	#REF!	(1,045,926,347)
Gold & silver	#REF!	236,736,448
Inventories	#REF!	256,838,239
Increase/(Decrease) in operating liabilities		
SDR Allocation	#REF!	(200,281,511)
Deposit liabilities	#REF!	(3,356,775,318)
Bills payable	#REF!	(59,805,319)
Deferred staff liabilities	#REF!	(3,590,084,364)
Other liabilities	#REF!	55,824,367
Sundry liabilities	#REF!	208,707,646
Operating cash flow before prior period adjustment	#REF!	(9,877,282,626)
Prior period adjustment	2,206,247	(4,301,553)
Cash flow from operating activities	#REF!	(9,881,584,179)
Cash flow from investing activities:		
Net Decrease in Government Securities and Bank Deposits	#REF!	14,364,014,386
Sale of Investment in Financial Institutions	#REF!	90,316,441
Purchase of Investment in Financial Institutions	-	(79,600,000)
Fixed assets including WIP	#REF!	(31,362,700)
Dividend income	4,445,900	27,136,250
Total (B)	#REF!	14,370,504,377
Cash flow from financing activities:		
Bank note issued	#REF!	6,370,000,000
Increase in PRGF Loan & ACU	#REF!	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)	#REF!	5,772,950,198
Net cash flow for the year (A+B+C)	#REF!	10,261,870,397
Cash and cash equivalent at the beginning of the year	#REF!	85,866,692,251
Cash and cash equivalent at the end of the year (Note - 28)	#REF!	96,128,562,647

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

(Ashwini Kumar Thakur)
Executive Director

(Bijaya Nath Bhattarai)
Governor

(.....)
Auditor General

Board of Directors :-

As per our report of the even date

Bidhyadhar Mallik

Dr. Parashar Koirala

(K. K. Singh)
Chartered Accountant
Kathmandu

Pradeep Kumar Shrestha

Dr. Bishwa K. Maskay

Krishna Bahadur Manandhar (Dy. Governor)

Bir Bikram Rayamajhi (Dy. Governor)

Date :
Place : Kathmandu

NEPAL RASTRA BANK

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

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	#REF!	-	#REF!
Monetary Liability Reserve	564,300,000	#REF!	-	#REF!
Exchange Equilisation Fund	5,350,405,682	#REF!	-	#REF!
Gold & Silver Equilisation Reserve	1,375,138,412	#REF!	-	#REF!
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	#REF!	-	#REF!
Total	27,172,315,592	#REF!	-	#REF!

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

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	-	1,375,138,412
		(965,823,709)	-	
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.

.....
(Ashwini Kumar Thakur)
Executive Director

.....
(Bijaya Nath Bhattarai)
Governor

.....
(.....)
Auditor General

Board of Directors :-

As per our report of the even date

Bidhyadhar Mallik

Dr. Parashar Koirala

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(K. K. Singh)

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(Sundar Man Shrestha)

Pradeep Kumar Shrestha

Dr. Bishwa K. Maskay

Chartered Accountant
Kathmandu

Chartered Accountant
Kathmandu

Krishna Bahadur Manandhar (Dy. Governor)

Bir Bikram Rayamajhi (Dy. Governor)

Date :
Place : Kathmandu

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 NRs.	As on 31.3.2062 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 NRs.	As on 31.3.2062 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 NRs.	As on 31.3.2062 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.

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 share (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

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet.

NOTE - 6: OTHER INVESTMENTS

Investment of funds

Saving Certificates	
Other Bonds and securities	
Fixed deposits with commercial banks	
Total	

As on 32.3.2063 NRs.	As on 31.3.2062 NRs.
7,805,000	7,805,000
1,418,407,000	1,456,507,000
1,740,324,000	1,449,821,000
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

Refinance to Commercial Banks	
Securities purchased under resale agreement	
Refinance to Financial Institutions	
Loans to Employees	

Less: Provision for doubtful Loans

Total

As on 32.3.2063 NRs.	As on 31.3.2062 NRs.
329,165,000	222,850,000
1,570,000,000	1,501,128,828
766,627,510	1,007,397,510
1,627,400,666	1,643,598,293
4,293,193,176	4,374,974,631
649,666,580	738,275,760
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).

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	602,641,014
Deposits		1,832,324
Advances Recoverable	1010135415	
Less: Provision for doubtful amounts	70,600,000	702,662,386
Other recoverable		8,842,138
Bills Purchased		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	13,681,507
Other Metal Stock	11,972,243	
Less: Provision for non-moving stock	8,716,000	18,739,672
Stationary and other sundry items	10,076,625	
Less: Provision for non-moving items	2,828,262	5,945,313
Total Inventories	822,264,298	555,859,603

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	

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

Particulars	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	Per cent
	<u>of Quota</u>	<u>of Quota</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

Particulars	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	Per cent
	<u>of Quota</u>	<u>of Quota</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	As on 31.3.2062
	NRs.	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	As on 31.3.2062
	NRs.	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	As on 31.3.2062
	NRs.	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
Liability 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	As on 31.3.2062
	NRs.	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

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

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		686,786,749	188,002,222
Total			<u><u>1,035,768,673</u></u>	<u><u>588,699,428</u></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	#REF!	10,487,400,000
Monetary Liabilities Reserve	#REF!	564,300,000
Exchange Equalization Fund	11,584,053,828	5,350,405,683
Other Reserves and Funds		
Development Fund	#REF!	4,006,887,062
Banking Development Fund	527,087,319	527,087,319
Development Finance Project Mob. Fund	#REF!	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	#REF!	600,700,361
Rural Self Reliance Fund (GS Kosh)	253,400,000	253,400,000
Total Reserves and Funds	#REF!	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

Letters of Credit
Guarantees Issued
Claims not acknowledged as debt
Total

	As on 32.3.2063	As on 31.3.2062
	NRs.	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.

NEPAL RASTRA BANK

Notes forming part of the Income Statement

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

NEPAL RASTRA BANK

Notes forming part of the Income Instatement

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

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.

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		107,223,450	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		#REF!	54,728,883,095
Investment in Treasury Bills		#REF!	39,050,699,638
SDR holdings		#REF!	637,064,325
Local currency in hand		#REF!	1,711,915,589
Total		#REF!	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 (1455. 894. 310)	1542.129 (959.680)	2,245,176,836 (1,397,192,651)
Gold held in Stock	3,282. 098. 640 (4,641. 477.757)	1,542.129 (959.680)	5,061,419,494 (4,454,333,374)
Silver held in Stock	138,509. 285. 900 (137,513.428. 365)	27.542 (15.787)	3,814,822,752 (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> 1555	<u>2062 Ashadh</u> 1570
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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.

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

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.

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

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 Bill	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 Securities	15,752,023,688	15,752,023,688	-	-	-	-	-	-	-
GON Overdraft	1,071,000,511	1,071,000,511	-	-	-	-	-	-	-
Investments in Financial and Other Ins	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 Bill	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 Securities	17,443,097,129	17,443,097,129	-	-	-	-	-	-	-
GON Overdraft	2,623,009,090	2,623,009,090	-	-	-	-	-	-	-
Investments in Financial and Other Ins	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