Annual Report
2005

Bank Supervision Department

NEPAL RASTRA BANK

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BANKING SUPERVISION

ANNUAL REPORT 2005

The Banking Supervision Annual Report is a publication of the Bank Supervision Department of the Nepal Rastra Bank, the Central Bank of Nepal. The publication reviews policy and operational issues affecting the banking sector and its regulators/supervisors, with the main objective of disseminating information on current issues.

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MESSAGE FROM THE GOVERNOR

The banking sector is an important part of the national economy. Banks receive deposits, support the payment system and provide the largest source of funds to the economy. Therefore, stable and safe banking practices are of crucial importance for the development of a safe and growth-oriented economy. To ensure the systemic safety and healthy growth of this sector, corporate bank supervision practices widely accepted throughout the world are adopted here in Nepal.

The underlying philosophy governing bank supervision is that banks should be free to allocate credit according to market forces and should be entitled to set terms and conditions for their operations in a competitive environment. However supervisory rules must be set for bank behavior so as to protect the interests of depositors and creditors, and that of the financial system as a whole. The objective of bank supervision in Nepal has always been to promote and maintain the safety, soundness and integrity of the financial system while promoting confidence in the system through the implementation of policies and standards that are in line with the international best practices.

Though the primary responsibility for the safe and sound operation of banking lies with the individual banking organization, supervisory authority of the banks should not lag behind in playing key role in critically reviewing bank operations and encouraging the development of the necessary risk management and control mechanisms. The obvious key objective of supervision thus becomes to ensure the long run safety of the banking industry through promotion and consolidation of the public confidence in the country's banking system.

As banking by nature is a risk taking business, optimal failure rate in this sector can hardly be zero. Risk taking means that failures can occur, and moreover, if risk taking is not permitted, then the banking sector will not be in a position to foster in desired intensity of economic growth. The banking system would then shrink because it would not be able to carry out its underlying economic function. As financial intermediaries, regulators are to help identify unlawful and unhealthy banking practices in its primitive stage itself, so that potential anomalies can be controlled before they could inflict severe harm to the system.

Nepal Rastra Bank as a regulatory and supervisory authority is striving to enhance its supervisory and regulatory capability, but with adequate flexibility that suits to rapidly changing environment due to market openness and economic liberalization. The correct supervisory techniques, human resources, trainings, and technology are of critical importance to an effective supervision. Focusing on these areas we can ensure that the Nepal Rastra Bank remains as the custodian of the financial system of the nation to meet the challenges of today and prepare itself for tomorrow.

The bank supervision report, prepared and made public for the fourth consecutive year is, thus, an important achievement in shaping our regulation and supervision paradigm. The report contributes not only to enhance the policy of adequate transparency the NRB has adopted but also sets a benchmark for comparative analysis of compliance of NRB directives by the financial institutions of the country. I hope, this report will be well-received by all stakeholders.

Bijaya Nath Bhattarai
Governor

PREFACE

The Annual Banking Supervision Report 2005 is before you. The objective for the preparation of this report is twofold. First objective is to comply with mandatory provision of Nepal Rastra Bank, while the second and more important objective is to disclose the supervisory activities of Bank Supervision Department in the Year 2004/05. This report, at the same time, also sheds light on the overview and performance of the banking industry of Nepal during the year.

The supervision function is aimed at ensuring good health and stability of the banking system as well as enhancing the public credibility in the system. Risk-taking is a necessary element of a dynamic market-based economy. Banks, in order to increase their market share and revenue base, willingly or unwillingly endure some risks. The nature and extent of these risks could potentially bring a bank down on its knees. So, there is a need to balance the supervisory process between being either too intrusive or too contained. Accordingly, a key goal of supervision should be to encourage innovation and calculated risk-taking by banks, while ensuring that these processes are managed in such a way as to promote the safety and soundness of the banking system.

The banking industry is continuously evolving with introduction of new service delivery channels, new products and adoption of sophisticated technologies. The advancement in the information technology and the conducive global environment has fastened the pace of evolution of this industry too. With the adoption of sophisticated technologies, the dimension of banking and financial services has widened a lot. As such, the banks are now equipped with new and innovative service delivery channels offering a number of products on the fore. The banks now have more opportunities, but these are undoubtedly attached with plenty of risks. In light of the rapidly changing scenario, the conventional supervisory tools, techniques and methodology that may have been adequate over a decade ago are unable to meet the supervisory objectives for today's larger, more complex banks. Moreover, challenges of moving towards risk based supervision approach and the adoption and implementation of Basel II is looming large on the horizon. As such, capturing the dynamic environment to ensure domestic financial health and stability as well as sector efficiency calls for quality supervision. The onus is truly on the quality and efficiency of the supervisors. Training programs are being revamped, and training in risk assessment, management information systems and internal controls has been expanded to help supervisors upgrade their skills and knowledge.

During the year in question, majority of the banks have conducted their business in a satisfactory manner. There were few instances, which warranted supervisory intervention, but the overall performance of the banking system was commendable, despite the country's sluggish economy.

In pursuit of its role, the Department will continue to place emphasis on compliance with the requirements of the Relevant Acts and Prudential Regulations. In particular, attention will be directed towards strengthening corporate governance practices, as well as improvement in Risk Management practices in the banking sector. This helps in assessing a bank's strength today and also their potentiality to function well over time.

We hope that this report can provide valuable information for stakeholders and the general public.

Ravindra Prasad Pandey
Executive Director
Bank Supervision Department

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1.1 Introduction

Nepal Rastra Bank (NRB), the central bank of Nepal was established in April 26, 1956, under the NRB Act 2012. During the early period of the Bank's establishment, its effort was primarily focused on increasing the circulation of Nepalese currency throughout the country, developing the domestic banking system and stabilizing the exchange rates of Nepalese currency. It was only later, when the financial market began to expand, that the supervisory function of the Nepal Rastra Bank started to gain prominence.

The NRB Act 2012 had empowered Nepal Rastra Bank to conduct the supervision of financial institutions. This Act was subsequently replaced by NRB Act 2058 which has provided more autonomy, authority and accountability to the core central banking function, which undoubtedly includes the supervision function as well. Since then, the supervisory oversight and regulatory functions of the bank have been enhanced considerably.

After the institution of Nepal Rastra Bank, a Supervision Unit was established in NRB to execute the supervision function. Gradually as the supervisory function started to gain prominence, this unit was converted into "Division" in 2031 B.S., under the Banking Development and Credit Department and later in 2041 B.S. into a separate department named Inspection and Supervision Department. Today, there are two separate departments executing the supervision function of NRB. Bank supervision department is responsible for the inspection and supervision of all the commercial banks while Financial Institution Supervision Department oversees the inspection and supervision of all other Financial Institutions licensed by NRB.

1.2 Overview of the Financial Market

Till the early 1980s, the financial sector was not opened up for private sector. Only two commercial banks - Rastriya Banijya Bank and Nepal Bank Limited, that were government controlled, were functioning in Nepal. The economic reforms initiated by the Government more than one and half decade ago have changed the landscape of several sectors of the Nepalese economy. The Nepalese banking industry is no exception. As a result of this policy, large number of banks and financial institutions mushroomed across the country.

The statute requires all institutions accepting deposit from the public in Nepal to be licensed by Nepal Rastra Bank. The commercial banks are supervised by the Bank Supervision Department while the rest of these institutions are supervised by Financial Institution Supervision Department.

Table 1 : Number of Licensed Financial Institutions

S.N.	Type of financial Institutions	Number
1	Commercial Banks	17
2	Development Banks	26
3	Rural Development Banks	11
4	Finance Companies	60
5	Saving and Credit Co-operatives	20
6	Non-Government Organizations	47
Total		**181**

Source : Banking and Financial Statistics (Mid-July 2005, No.45)

1.3 Structure of the Banking Sector

The first conventional bank in Nepal was the Nepal Bank Limited, established in 1937 A.D. followed by Rastriya Banijya Bank in 1966 A.D. These two banks are the pioneers of the Nepalese Banking industry. These banks have the largest network and they have their operations even in remote areas of the country. Rastriya Banijya Bank is fully owned by the Government while the Government has controlling stake in Nepal Bank Limited. As the financial market was barred for private investors till the mid 1980s, these two banks were the only players in the banking industry.

The economic liberalization policy adopted in the mid 1980s brought about a surge in the banking industry. A large number of banks were established and the number continues to grow even today.

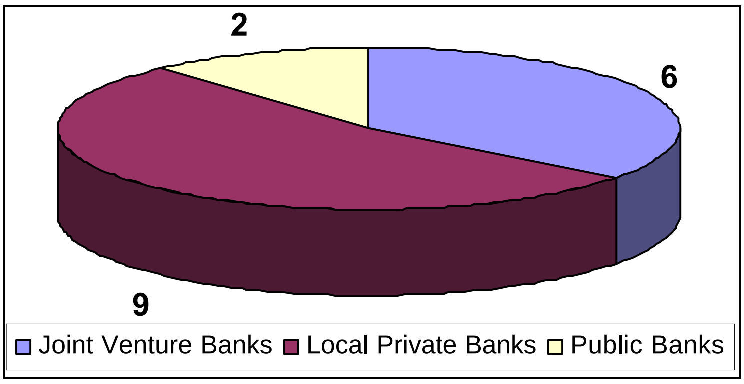
Table 2 : List of Commercial Banks in Nepal

S.N.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited **(NBL)**	1937/11/15	Kathmandu
2	Rastriya Banijya Bank **(RBB)**	1966/01/23	Kathmandu
3	NABIL Bank Limited **(NABIL)**	1984/07/16	Kathmandu
4	Nepal Investment Bank Limited **(NIBL)**	1986/02/27	Kathmandu
5	Standard Chartered Bank Nepal Ltd. **(SCBN)**	1987/01/30	Kathmandu
6	Himalayan Bank Limited **(HBL)**	1993/01/18	Kathmandu
7	Nepal SBI Bank Limited **(NSBI)**	1993/07/07	Kathmandu
8	Nepal Bangladesh Bank Limited **(NBBL)**	1993/06/05	Kathmandu
9	Everest Bank Limited **(EBL)**	1994/10/18	Kathmandu
10	Bank of Kathmandu Limited **(BOK)**	1995/03/12	Kathmandu
11	Nepal Credit and Commerce Bank Ltd. **(NCCBL)**	1996/10/14	Siddharthanagar
12	Lumbini Bank Limited **(LBL)**	1998/07/17	Narayangadh
13	Nepal Industrial & Commercial Bank Ltd. **(NIC)**	1998/07/21	Biratnagar
14	Machhapuchhre Bank Limited **(MPBL)**	2000/10/03	Pokhara
15	Kumari Bank Limited **(KBL)**	2001/04/03	Kathmandu
16	Laxmi Bank Limited **(LXBL)**	2002/04/03	Birgunj
17	Siddhartha Bank Limited **(SBL)**	2002/12/24	Kathmandu

The banks in Nepal have very unique characteristics. From an ownership standpoint, the commercial banks in Nepal can be broadly classified into two categories: Public banks and Private banks. The banks which are owned or controlled by the government are labeled as Public banks while the banks that are owned or controlled by the private sector are categorized as Private Banks. The Private Banks can be further regrouped into the Local Private banks and Joint-Venture Banks. The banks with the local private investment are Local Private Banks whilst the banks with the Investment of Foreign Institutions along with the local investment are Joint-Venture Banks.

In Nepal, we have 2 Public Banks and 15 Private Banks out of which 6 are Joint Venture banks. The financial health of the public banks was very poor and thus a reform program was initiated in these two banks under the Financial Sector Reform Project with the aid of the World Bank. Likewise, 2 of the private banks are placed under close monitoring and surveillance because of their poor financial position and serious lapses in corporate governance.

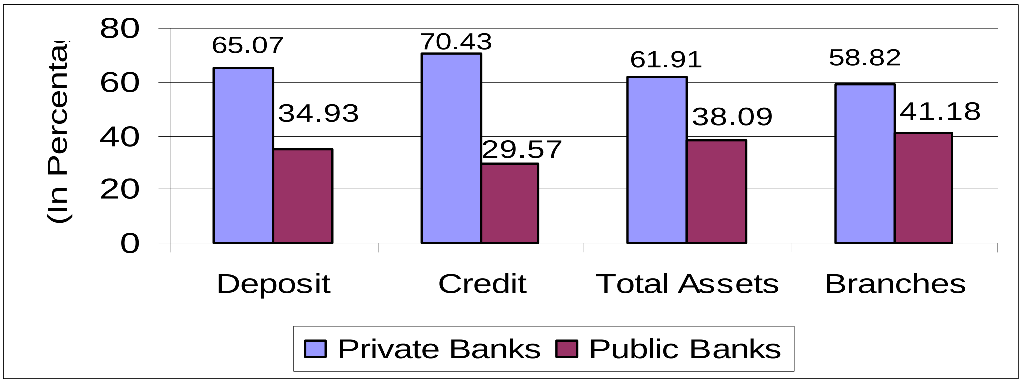
Chart 1 : Ownership of banks in Nepal



1.4 Concentrations in the Banking Sector

It has only been a couple of decades since the private banks came into existence in Nepal. But, their number has far out grown the number of public banks and is still in growing trend. Though the public banks in Nepal are far outweighed by the number of private banks, these two banks are still the largest banks in all aspects from deposit and credit mobilization to the number of branches in operation. But, the concentration in the two public banks is slowly but surely getting diluted every year. The concentration is clearly visible in the chart below.

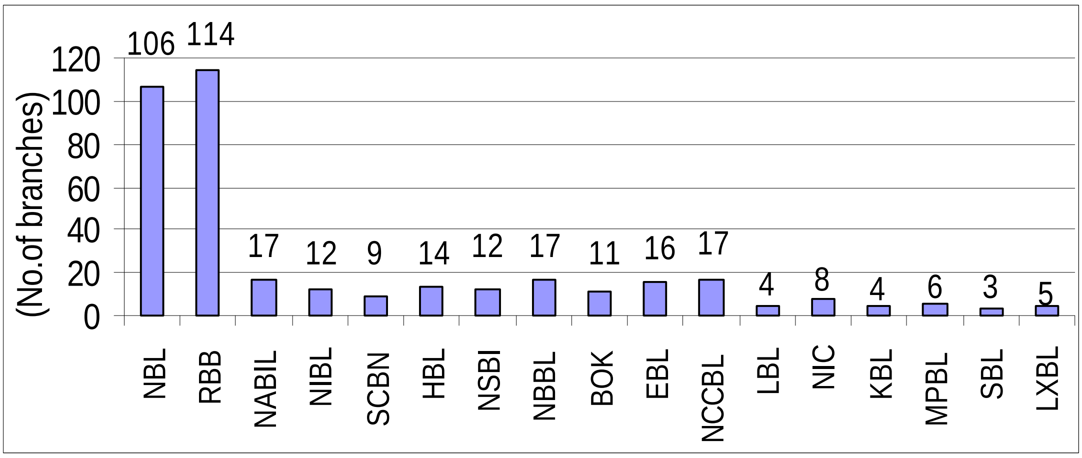
Chart 2 : Concentrations in the Banking Industry on Mid July 2005


(In Percenta
80
60
40
20
0
65.07
34.93
70.43
29.57
61.91
38.09
58.82
41.18
Deposit
Credit
Total Assets
Branches
Private Banks
Public Banks

1.5 Branch Network

The number of branches of Banks in Nepal has reached 375 by the Mid July 2005. The banks with the largest number of branches are Rastriya Banijya Bank and Nepal Bank Limited with 114 and 106 branches respectively. Earlier, both Nepal Bank Limited and Rastriya Banijya Bank used to have close to 200 branches each. They have had to close down some of their branches in the rural parts of country, because of the law and order situation of the country. But, the number of branches of the private banks is on the rise, as their proposed branches tend to be at urban and semi-urban cities, where the situation is a lot better.

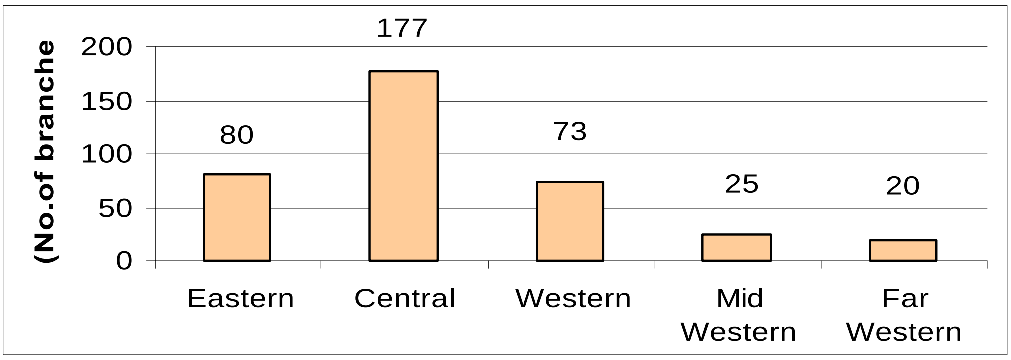
Chart 3 : Branch Network of the Nepalese Banks



Kathmandu, the capital, is the major economic hub of Nepal. Thus, most banks are looking to increase their number of branches in Kathmandu. Nepal Rastra Bank has continued to adopt a policy targeted towards extending the banking services to the maximum number of people. In this regard, banks willing to open a branch in Kathmandu have to open two branches outside Kathmandu. Still, large concentration of the branches is seen in Kathmandu. There are 67 bank branches in Kathmandu district itself out of a total of 375. In respect of the concentration of bank branches, other major centers include Birgunj, Biratnagar, Pokhara, Bhairahawa and Butwal.

Central region has the largest concentration of branches with some of the major economic centers like Kathmandu, Lalitpur and Birgunj followed by the Eastern and the Western region. The Mid-Western and Far-Western regions of Nepal have a total of 45 bank branches out of which 36 are from the two public banks.

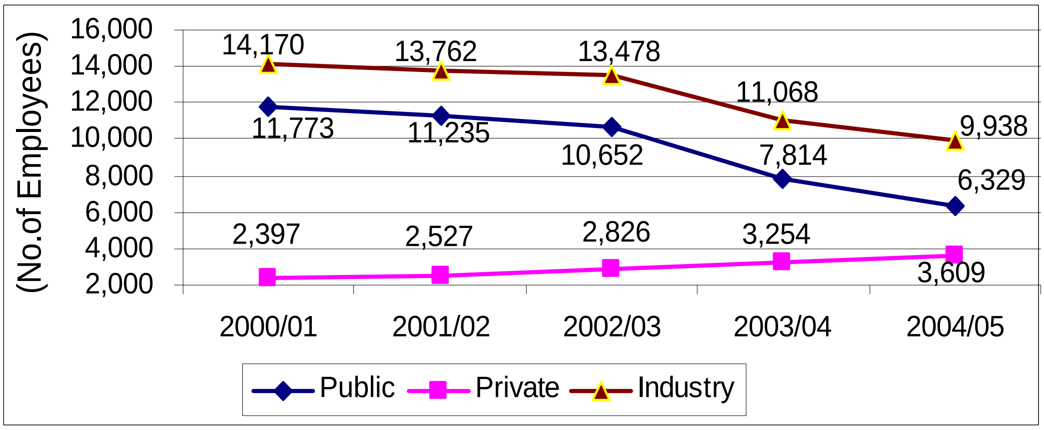
Chart 4 : Regional Concentration of Bank branches



1.6 Employment in the Banking Industry

As on Mid July 2005, the total number of employees in the banking industry is close to 10,000. The majority of the employment is generated by the two public banks, whose system and processes are still based largely on the manual system. Though, these banks have reduced their staff size almost in half since Mid July 2001, under the various phases of Voluntary Retirement Schemes initiated under the reform process, they still have a sizable force. The private banks, meanwhile, are steadily increasing their number of staff in direct alignment with the proliferation in the business. As a large part of their system and procedure are automated, the number of staffs employed by these banks is relatively small.

Chart 5 : Trend of Employment in the Banking Industry



1.7 Industry Trends

Banks are gradually starting to realize that, in today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they should continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks are therefore, looking to develop innovative products and services to maintain superior customer service levels while at the same time remaining profitable.

With the number of market players in the rise, the competition has been obviously growing in the banking industry. The most obvious effect of the rising competition can be seen in the interest rates offered by the banks. The banks, which some years ago, used to charge rates in the range of 15 to 20 percent, have dramatically reduced their interest rates to 8 to 12 percent, in order to remain competitive.

Banks are now gradually shifting towards IT based solutions to enhance service delivery in order to address customer concerns. More and more banks are embracing E-banking and provision of ATMs to reduce long queues in banking hall. In addition, some of the banks have launched mobile phone banking services which facilitates several account enquiry tools, including account balances, thereby, minimizing the need for customers to visit banking halls. This drive towards IT based solutions will continue to gather momentum in the future as banks will find it be very difficult to survive in the ever growing competition without some form of competitive advantage.

Another trend observed in banking industry in 2004/05 is the shift towards multiple banking relationship explored by large corporate houses. In order to remain competitive, Banks are seen to be increasingly encouraging business houses to transact with them. This has lead to a creation of large volume of unutilized limits with the bank and in order to get a large piece of the pie banks are increasingly accepting risks, which they otherwise would not have taken. The unyielding competition has also lead the banks to accept collaterals, that are more risky and unsecured. The volume of loans against the hypothecation of stocks, receivables and other assets are on the rise. In the absence of statute for registration of charges (hypothecation) in the current assets, the risk of over financing is eminent and banks are exposed to a higher degree of risk.

1.8 Highlights of the Banking regulation in 2004/05

Nepal Rastra Bank is committed to strengthen and ensure the stability and soundness of the banking system. In this process, NRB has continued to review the relevant legislations and regulations in 2004/05 in order to put in place up-to-date regulatory framework that meets international standards and resolves the issues of the banking industry.

A number of changes took place in the banking legislation and directives during the year 2004/05. The year saw revisions being made in the Bank and Financial Institution Ordinance (BAFIO) as well as in the NRB Act, 2058, two of the most binding documents of the banking industry. The substitute for the Commercial Bank Act, BAFIO could not be enacted as an Act, in the absence of the legislative body, thus requiring the document to be re-approved every six months. In this process, some of the lapses that were felt in the earlier document were duly addressed.

Under the existing structure of Nepal Rastra Bank, the directives applicable to the commercial banks are primarily issued from two departments-Bank and Financial Institutions Regulation Department and Foreign Exchange Management Department. The Foreign Exchange Management Department regulates the foreign currency transactions of the bank while the Bank and Financial Institutions Regulation Department covers the rest. The essence of the various circulars issued by these departments in the year 2004/05 is presented in the Appendix 2 and Appendix 3 of this report.

1.9 Basel II, concept and relevance in Nepalese context

Basel II aims to build on a solid foundation of prudent capital regulation, supervision, and market discipline, and to enhance further risk management and financial stability. It is fundamentally about better risk management and corporate governance on the part of banks, as well as improved banking supervision and greater transparency. It is also about increasing the stability of the global financial system, to the benefit not only of banks, but also consumers and businesses.

The new capital framework attempts to achieve these objectives with three mutually reinforcing pillars. The first pillar aligns minimum capital requirements more closely with banks' actual underlying risks. In concept, the first pillar is similar to the existing capital framework, in that, it provides a measure of capital relative to risk.

The second pillar – supervisory review process – allows supervisors to evaluate a bank's assessment of its own risks and determine whether that assessment seems reasonable. It is not enough for a bank or its supervisors to rely on the calculation of minimum capital under the first pillar. Supervisors should provide an extra set of eyes to verify that the bank understands its risk profile and is sufficiently capitalized against its risks.

The third pillar – market discipline – ensures that the market provides yet another set of eyes. The third pillar is intended to strengthen incentives for prudent risk management. Greater transparency in banks' financial reporting should allow marketplace participants to better reward well-managed banks and penalize poorly-managed ones.

Basel II was initially intended for the internationally active banks only. The framework allows each national supervisor to consider carefully the benefits of the new Framework in the context of its own domestic banking system and in developing a timetable and approach to implementation. This framework only acts as a guideline for countries like Nepal and its adoption is not mandatory. However, with a view to follow the international best practices and to promote a healthy and sound financial market, Nepal Rastra Bank is also moving towards the adoption of Basel II.

The complexity and sophistication of the Nepalese financial market doesn't warrant advanced approaches like the IRB Approach or the Standardized Approach. So, Nepal Rastra Bank is looking to start with the simplified standardized approach for credit risk, Basic Indicator Approach for Operational Risk and Net Open Exchange Model for the Market Risk.

In order to move forward with the implementation of Basel II, an Accord Implementation Group (AIG) has been set up, which is a working level committee and reports to the "New Capital Accord Implementation Preparatory Committee," a high level committee responsible for overseeing the implementation of Basel II in Nepal. The Accord Implementation Group consists of officers from Bank and Financial Institution Regulation Department, Bank Supervision Department and Financial Institution Supervision Department. Realizing the importance of the involvement of the stakeholders from the preliminary stage itself, members of the commercial and development banks have also been included in the Accord Implementation Group.

The Accord Implementation Group has finished with the explanation of the various discretionary provisions of Basel II and has also completed a Quantitative

Impact Study (QIS) of eight banks, based on the assumptions and approach finalized by the group itself. The impact study indicated a reduction in the risk weighted exposures in the credit risk of the banks. In order to substantiate the findings of the earlier QIS and to rationalize the assumptions, second QIS is envisioned in the near future. At the same time, the group has prepared a draft capital adequacy framework with detailed guidelines on each of the three pillars, based on the proposed approach, which has been circulated for suggestions and recommendations by the stakeholders. It is expected that this Capital Framework will come into effect by 2007/08.

2. Supervision of Banks

2.1 What is Supervision?

Simply stated, the exercise of the supervisor's responsibility for a third party is called supervision. Financial institutions' are supervised in most, if not all, countries. However, the nature of the supervision and its detailed application varies greatly from country to country depending upon, principally, the character of its industry, its size and complexity and the objectives and priorities.

2.2 Need for Supervision

Supervision is costly to carry out. So, why do it? Why not let the financial institution go about their business without interference? There are a number of reasons why supervision is carried out. The past has shown that although the cost of supervision is high, the cost of poor supervision is even higher. Some of the major validations behind the supervision are:

- To maintain stability and confidence in the financial system, thereby reducing the risk of loss to depositors and other stakeholders.
- To ensure that banks operate in a safe and sound manner and they hold capital and reserve sufficient to support the risks that arise in their business.
- To foster an efficient and competitive banking system that is responsive to the public's need for good quality financial services at a reasonable cost.

These are also the key objectives behind the supervision of banks in Nepal. The basic objective of supervision of Nepal Rastra Bank is to conduct a direct assessment of the overall condition of the banking institutions with regular review of the bank's financial position, system and controls, risk management practices and the compliance with the relevant regulatory requirements. The supervision also helps to facilitate the detection of frauds, malpractices, abuses of power by management and undesirable trends and imprudent practices such as deterioration in the quality of loan portfolio and insider lending.

Unfortunately, no amount or extent of banking regulation and supervision can ever prevent the occurrence of problem at banks. It is, however, the supervisor's responsibility to be proactive by assisting banks to identify the problems and to encourage banks proactively to take appropriate steps and actions in order to remedy the situation.

In his article entitled "Recent development in supervisory practice", published in November 1994 issue by the Bank of England Quarterly Bulletin, Mr.Brian Quinn, Executive Director of the Financial Stability Wing described the banks supervisor's task as "It is not the job of the supervisor or regulator to seek to eliminate losses or failure in financial institutions. To try to do so would be not only to court certain failure but would be wrong in principle. As I see it, it is our job to identify and, where possible, measure risks; to put in place a framework that provides a degree of protection to investors and depositors; and to satisfy ourselves that the managers of financial institutions are aware of the risks in their business and have put in place arrangements to control them."

It goes without saying that the Bank Supervision Department remains committed to the ongoing development and refinement of sound risk-management and corporate governance practices, as well as flexible supervisory structures, capable of adjusting to a rapidly changing financial environment.

2.3 Fundamentals of effective supervision

Like any other function, the effective supervision depends on a host of factors. Some of the factors which directly affect the effectiveness of supervision are:

- The abilities of the supervisors
- The resources devoted to supervision
- The supervisor's knowledge of the institutions, their management and business activities
- Up-to-date and Accurate information on the institution's activities
- The acceptance by institution's management that supervision is necessary and their willingness to co-operate
- The willingness and ability of the supervisors to impose their views should it be thought necessary.

2.4 Methods of Supervision

The different methods used by supervisors all over the world can be broadly classified into three broad categories. However, few if not none, rely entirely upon any one of them. These approaches have increasingly become as complements of each other rather than the alternatives. Bank Supervision Department, akin to most of the supervisory bodies, has been a using a combination of these various approaches to supplement its supervision process.

Reporting based systems

All supervisory systems rely to varying degrees upon the regular submission of statistical returns in order to monitor the financial health of supervised institutions. This type of system is also popularly known as off-site supervision. The range of financial data required and its frequency will vary according to the number and character of the prevalent banking industry. The quantity of data will also depend on the ability of the supervisors to absorb it and the resources given to supervision in a particular country. The supervisors' can all too easily get buried in a torrent of statistical returns and, as a result, miss critical trends or developments in the institutions being supervised. Thus, the range of statistics used must be regularly justified.

By its nature, off-site review and analysis can readily deal with matters (e.g. capital, liquidity, large exposures) which can be quantified, but is less well suited to qualitative issues such as management strength and operational risks. The effectiveness of a reporting based system must inevitably critically depend on the quality of the figures supplied. Inaccurate figures may hide serious problems and very out of date figures may be completely useless as an indicator of the current health of an institution and by the time it becomes obvious, it may be too late to do anything about it.

The inspection and supervision Byelaw, 2059 identifies the following key objectives of an off-site supervision of the Bank Supervision Department.

- To obtain regular information in respect of financial condition and health of the commercial banks.
- To identify potential problems of commercial banks in the absence of onsite inspection.
- To help and strengthen the quality of on-site inspection.
- To ascertain the compliance status to the applicable laws, regulations and directives on the basis of financial statements and other documents obtained from the commercial banks.

Examination-based system

The examination based system involves the on-site inspection of a bank. The scope of examination may vary from the verifications of returns to inspection of accounting procedures, management systems, assessment of the quality of the institution's management and other staff.

The conduct of thorough onsite examinations is costly in terms of staff and time. Partly for this reason, the frequency of examinations, where conducted, varies considerably. In some countries, examinations may be infrequent or even random depending upon the size, and the supervisor's assessment of the institution.

The objectives of on-site inspection conducted by Bank Supervision Department can be summarized as:

- To determine the commercial banks' financial position and the quality of its portfolios and operations so as to ensure that it is not operating against the interests of the depositors.
- To assess and appraise the competence and capability of the commercial bank's management and staff, as the quality of the institution's management will determine the soundness of its operation.
- To ascertain whether the bank is complying with applicable laws, regulations and monetary measures issued by the NRB.
- To evaluate the adequacy of the bank's records, systems, and internal controls.
- To test the accuracy and validity of the data submitted to the NRB by the Banks.

Systems relying on more informal methods

In systems relying on more informal methods considerable reliance may be placed on moral suasion. The supervisor tries to influence through persuasion the decisions of an institution's management and thus, indirectly, the performance and security of the concerned institution. Reliance is placed less on laid down rules or regulations having the force of the law, but on the willingness of management to follow guidelines set by, or advice given by, the supervisors. Such a system is only likely to be effective where individual institutions are persuaded that it is in their own best interests to follow such guidance. The professionalism of the supervisors will be crucial in this method of supervision. Institutions are unlikely to be guided if they suspect the quality of the advice given. Of course, such a system places considerable reliance upon the honesty and competence of the parties concerned. Invariably such a system will also need to include full back powers for the supervisors to enforce their will in critical situations. This type of informal enforcement system has not been considered effective in the Nepalese context, so far.

2.5 Determinant of Supervisory methods

So, the question arises, how do supervisors decide on the supervisory methods? As discussed above, basically there are two approaches, the off-site and the on-site. An off-site supervisory approach, which undertakes an assessment of the soundness of banks based exclusively on an analysis of information obtained from statutory returns submitted by the institutions or an on-site examination whereby the total effort of the supervisor with a view to concluding on the soundness of the banks, is directed at the execution of inspections at the premises of the bank are the two extreme forms of supervisory approaches.

The ideal approach could vary for supervisors operating in different environment. However, the optimal approach lies somewhere between the two extremes since neither approach is a substitute for the other. A mix of the two approaches would appear to yield the best results. The primary factor determining the optimal mix is the level of assurance gained by the supervisor from the system of checks and balances, otherwise known as the system of corporate governance. Higher, the level of assurance lower is the need for a full scale on-site examination and more reliance on an off-site supervision.

Table 3 : Determinant of Supervisory Approach

Level of Assurance Gained	**Resultant Approach**
No assurance, whatsoever	Supervisor cannot achieve the objective
Low level of assurance	Off-site supervision, supplemented by full on-site examination approach
Moderate, but not adequate, level of assurance	Off-site supervision, supplemented by on-site examination of identified problem areas, as well as high risk and material areas.
Adequate level of assurance	Off-site examination, supplemented by on-site examination of identified material areas

Bank Supervision Department has been using a combination of both these approaches to deliver effective supervision. In line with the Nepal Rastra Bank's policy of on-site examination of banks at least once a year, Bank Supervision Department has been conducting on-site examination of commercial banks, every year. At the same time, off-site supervision of banks is conducted all round the year. The off-site supervision and on-site inspection goes hand in hand but gradually, the onus is shifting towards the off-site supervision. The findings of an off-site supervision serve as the basis of an on-site examination and the returns submitted by the banks for off-site supervision are verified at the on-site examination. Thus, the importance of both forms of supervision cannot be undermined and this mixed approach of supervision is likely to continue in the forthcoming days as well.

2.6 Principles of Supervision

Every supervisory authority has their own set of principles which serve as the guiding force behind an effective supervision. Bank Supervision Department is no different. The department has tried to model its supervision on and around the principals propounded by the Basel Committee on Banking Supervision. The activities of the Department is largely guided by the following eight key operating principals -

Risk Focused Supervision

Risk focused supervision, in simple terms; means that in conducting bank examinations and other supervisory activities; we will seek to direct our attention and resources to the areas that we perceive pose the greatest risk to banks. Examinations must be carefully coordinated to reduce the unnecessary burden and to recognize the risks or issues in particular areas that may have implications for other areas of the organization. Furthermore, the focus is on assessing the processes used to identify, monitor and control risk, as opposed to detailed transaction testing. So, banks with proven ability to effectively manage the risk themselves get a reduced level of regulatory scrutiny and supervisory intervention.

Integrated Supervision

Integrated supervision refers to the implementation of one or a combination of different supervisory activities in a coordinated manner among various supervisory functions targeted towards achieving the best possible outcome. This kind of supervision is yet to take its root in Nepal. Yet, we have slowly started to use this form of supervision in practice. Bank Supervision Department carries out the peer group analysis by segregating the banks in various baskets, in accordance to their nature which helps to construe the tendencies and drift of various segments of the banking industry.

Coordinated Supervision

Bank Supervision Department is an arm of Nepal Rastra Bank entrusted with the responsibility of supervision of banks. This department has various divisions and units within itself. Besides that, there are various projects like the Accord Implementation Group, to supplement the implementation of Basel II in Nepal, that are commissioned in the department. Under the existing structure, Nepal Rastra Bank has a separate department to oversee the regulation aspect for the banks. In such a scenario, it is absolutely critical that the various functions within the department are well tuned to each other. Similarly, it is also vital that the supervisory activities are carried out in proper coordination with various departments of Nepal Rastra Bank and other government agencies.

Service and Outreach

Bank Supervision Department is committed towards promotion of sound and stable banking industry in Nepal and has been working tirelessly towards achieving this objective. The supervisory activities are primarily targeted towards promoting good governance supplemented by effective risk management practices. The primary responsibility for a banking organization's safe and sound operation lies with the bank itself. Despite this, Bank Supervision Department doesn't shy away from providing appropriate support and the technical competence for the advantage of the banks and the banking industry at large, as and when required. This support is in many forms like training sessions in various aspects of risk management and corporate governance, organization of seminars and interaction programs etc. The staffs of Bank Supervision Department have also been sharing ideas and providing suggestions to their counterparts in commercial banks to resolve the problem encountered by them.

Transparent and Clear Communication

Bank Supervision Department firmly believes in an open and transparent communication with various stakeholders like the banks, other departments of Nepal Rastra Bank and the public. It is essential that the communications between the department and the banks are honest and transparent to achieve the key objective of an effective supervision. The department's stance, in this regard, is also reflected in the practice of publishing the findings during the inspection of the banks, on the web.

Reduced Regulatory Burden

Bank Supervision Department is a firm believer in reduced regulatory and supervisory burden for banks with strong governance and risk management cultures. The department is gradually moving towards a risk focused approach, which in itself entails a reduced regulatory burden for the banks. However, at the same time, the department is dedicated to take supervisory action in case of non compliances or severe lapses in the control measures or risk management functions. Thus, the degree of regulatory burden is somewhat determined by the operations of the bank, itself and the behavior of the industry.

Use and Understanding of Technology

The level and span of the technology, as well as its sophistication, is ever growing in the banking industry. Thus, in order to keep abreast of the changing circumstances, it is crucial that supervisors are well adept in the use and understanding of the technology. The system and procedures of supervision are slowly, but surely, getting automated and Bank Supervision Department has been encouraging further use of the technology in its function by providing initiatives through trainings and other development opportunities to the supervisors.

Professional and Technical Competence

One of the foremost pre-requisites of an effective supervision is the competence of the supervisors. The supervisors need to display professionalism in their work and possess a certain level of competence to successfully discharge their responsibilities. The duties and responsibilities of the supervisors have been spelled out in the Inspection and Supervision Byelaw of Nepal Rastra Bank. The banking industry is in a dynamic stage and changes can be seen in the banking industry very frequently. So, the supervisors face a demanding challenge in terms of updating their knowledge regularly and acquiring new skills and competencies to keep abreast of the changes in the banking industry. Bank Supervision Department actively encourages the augmentation in skills of the supervisors through trainings, seminars and workshops on various aspects of supervision.

2.7 Methodology of Supervision

In the past, the business of bank supervision was focused on validating bank balance sheets, particularly the value of loan portfolios, which have been historically the principal source of problems for banks. By tracking the quality of loans and other assets, examiners could generally detect deterioration and other business problems. In the process, supervisors would go through the balance sheet, assuring themselves that a bank's assets and liabilities were essentially as stated and that its reserves and net worth were real. As a part of this process, there was a review of sound management practices, internal controls and internal audit activities, but that review was not the initial or primary focus.

The continuously evolving nature of banking products and services, have required the bank supervisors to transform their supervisory processes. Today, the supervisors worldwide are conscious of the fact that a supervisory process needs to strike a balance between either being too intrusive or too contained. The supervisory process that is too intrusive can hinder optimal asset allocation and stifle business innovation while at the same time they should, of course, be adequately prepared to deal with the problem situations as they arise. So, the risk focused supervision is gaining ground all over the world.

Complementing the risk focused approach to supervision are developments in the tools supervisor's use to identify and evaluate the bank's overall condition and competency of the management. CAMELS based inspection and supervision system is one of such developments. In this model, banks' operations are broadly classified into six areas; capital, assets quality, management, earnings, liquidity and sensitivity to market risk. Each of these areas of the bank is then assessed to evaluate their strength and weaknesses in solitude and in unison. The rationale behind the review of these areas is:

Capital: Capital is a source of financial support to protect an institution against unexpected losses, and is, therefore, a key contributor to the safety and soundness of the bank. Thus, capital of the bank is assessed in terms of whether the bank is operating with adequate capital funds in relation to its size of operations and the risks assumed, as well as the compliance with regulatory requirements.

Asset: The assets of the bank are assessed to evaluate the market or realizable values of the bank’s assets, particularly the loan portfolio. This aspect reviews the quality of the loan portfolio and the investment with due consideration to the provisions made by the bank. It also reviews the activities of bank management in terms of the development and implementation of various policies and the enactment of system of controls.

Management: The competence of the management is the key in evaluating the performance of the bank, as it is the management who is responsible to mobilize the resources of the bank and to create a sound control environment and risk management practices. Thus, this review is focused on appraising the competence, involvement and integrity of the management in the day to day administration of the bank, involvement in formulating policies and procedures and the implementation of systems and controls; and in ensuring the bank’s compliance with applicable laws and regulations.

Earnings: The earnings of the bank should be able to absorb normal and expected losses in a given period and provide a source of financial support by contributing to the institution’s internal generation of capital and its ability to access capital externally. The earnings are, thus, assessed to evaluate the current and future earning capability and the efficiency of the bank based on the existing asset and liability structure, as well as pricing and costs.

Liquidity: The objective of the review of this facet is to evaluate the bank’s liquidity in the light of its existing asset and liability mix, and in relation to the legal liquidity requirements. The review of the liquidity should incorporate the capacity of the bank to promptly meet the demand for payment on its obligation. Consideration should be paid to the overall effectiveness of the bank's asset and liability strategies and compliance with and adequacy of established liquidity policies.

Sensitivity: The sensitivity is assessed to determine the bank's ability to monitor and manage its exposure to market risk. The sensitivity to market risk reflects the degree to which changes in the interest rates, foreign exchange rates or equity prices can adversely affect a bank's earnings and capital.

Bank Supervision Department has been using the CAMELS based approach for the on-site examination of bank. Based on this methodology, the bank's operation's is assessed in respect of the components of CAMELS and the individual rating of the component and a consolidated rating is computed. The CAMELS rating ranges from 1 to 5, lower rating representing a better and well managed bank. The CAMELS rating of the banks is confidential and cannot be disclosed to external parties, not even to the concerned banks.

The bank's management cannot be assessed only in terms of the returns submitted by the bank. Thus, the off-site supervision cannot make use of the CAMELS rating. So, a separate rating has been devised for the off-site supervision which uses the components of CAMELS except for the "M" representing management, and the rating is, thus, labeled CAELS.

2.8 Assessment of compliance with Basel Core Principles

Nepal Rastra Bank has been adopting Basel Core Principles with an objective of an effective banking regulation and supervision. Basel Core Principles is intended to be a basic guideline for supervisory authorities worldwide to be applied to banking supervision in line with their own regulations. The principles cover basic elements of an effective supervision system. The principles have comprehensive coverage including preconditions for effective bank supervision, licensing and structure, requirement and prudential regulations, and method of ongoing supervision.

The implementation includes a review of the current supervisory system compared to the principles. It involves four categories of qualitative assessment system: compliant, largely compliant, materially non-compliant, and non-compliant. The core principles are broken down into the essential and additional criteria and the assessment is conducted on the basis of degree of fulfillment of the essential and additional criterion. The four categories of assessment entail:

Compliant:	All essential and additional criteria are met without any significant deficiencies.
Largely compliant:	Only minor shortcomings are observed and these are not seen as sufficient to raise serious doubts about the authority's ability to achieve the objective of that principle.
Materially non-compliant:	The shortcomings observed are sufficient to raise doubts about the authority's ability to achieve the objective of that principle.
Non-compliant:	No substantial progress towards compliance has been achieved.

The assessment of the compliance in terms of the Core Principles for effective banking supervision revealed the following

Table 4 : Assessment of compliance with Core Principles

S.N.	Category	Principle No.	Assessment			
			A	B	C	D
1	Preconditions for effective banking supervision	1		✓		
2	Licensing and structure	2-5	✓			
3	Prudential regulations and guidelines	6-15		✓		
4	Methods of ongoing bank supervision	16-20		✓		
5	Information Requirements	21	✓			
6	Formal authority of supervisor	22	✓			
7	Cross border banking	23-25				✓

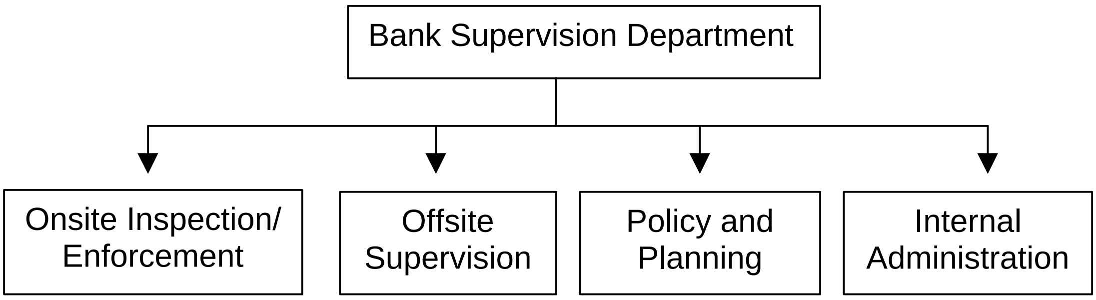
A: Compliant, B: Largely Compliant, C: Materially Non-compliant, D: Non-compliant

The detailed assessment of the core principles for effective bank supervision, in the context of NRB, is provided in detail in Appendix 4 of this report.

2.9 Organization of Bank Supervision Department

In order to discharge its obligations effectively, Bank supervision Department has divided its function into various divisions and units. The department comprises of on-site inspection/enforcement division, off-site supervision division, policy and planning unit and internal administration unit. Besides these, there are various projects in operation in the department relating to Basel II implementation and monitoring and surveillance of problematic banks.

Chart 6 : Organization of Bank Supervision Department



The responsibility of these divisions and units of the Bank Supervision Department are:

<u>Onsite/Enforcement</u>: This division is responsible to conduct the on-site examination of the banks in accordance with the annual plan of the department. The onsite examination can be a regular full scope corporate level examination or a targeted special inspection or even a follow up inspection. In order to create a flexible working structure, with an ability to respond quickly to the changes in the banking environment, the responsibility of the onsite examination and the enforcement has been designated to the same team. What it implies is, the same group of personnel responsible for conducting on-site examination is also responsible for ensuring that the directions of Nepal Rastra Bank are adhered to by the banks. However, the banks being examined and enforced might be different.

Off-site Supervision: This division carries out the off-site surveillance of all the commercial banks, operating in Nepal. The core objective of this function is to conduct periodic financial review of the banks in order to identify the potential problems and to gauge the compliance to prevailing laws and statute as well as to support the on-site function of the department. In order to pursue its objectives through systemic development, the Department has devised an off-site supervision manual which has been put into effect. The supervision manual provides guidelines on the objectives, procedures and prescribed documents of the off-site supervision.

Policy and Planning: This unit of the department is responsible for the formulation and periodic review the annual plan of the department, in context with the practices of the international supervisory agencies. This unit is also responsible for coordinating the interaction programs, seminars, and workshops in issues relevant to the supervision function, with participation from the external stakeholders, as well. The supervisory function of Nepal Rastra Bank is in the stage of evolution and thus it is crucial that a relation with international supervisory agencies be maintained. This relationship is likely to bring into the fore new techniques and developments in the field of supervision. The policy and planning unit is entrusted to maintain such relationship and to notify the department of new developments in the international arena, on a periodic basis.

Internal Administration: There is a separate internal administration unit within the Bank Supervision Department. The unit is responsible for the personnel related matters like placement within the department, leave records, payment of salaries and other benefits. This unit also overlooks the supply of office equipments and stationery in the department in liaison with the General Services Department of NRB.

2.10 Human Resource Issues

The major pre-requisite of an effective supervision is the competence of the supervisor. In this context, the significance of competencies of the supervisors in supervision function cannot be overstated. The importance of a competent supervisor is more pronounced in the context of the continuously evolving banking industry. The Bank Supervision Department has realized this facet of supervision and has been providing opportunities for the supervisors to update and upgrade their skills and knowledge. Bank supervisors have participated in trainings and seminars organized by international agencies like Financial Stability Institute and SEACEN centre Fund during 2004/05. Bank Supervision Department will continue its effort in developing the necessary capacity, to enable the supervisors to cope with the increasing challenges of supervising the banking industry.

Besides the departmental chief, the departmental strength in terms of the human resources consists of 2 directors, 28 officers, 13 non-officers and 6 support staffs.

The list of trainings and seminars participated by the supervisors' in the year 2004/05 is presented in Appendix 5 of this report.

3 Supervisory Activities of 2004/05

3.1 Annual Bank Supervision Action Plan

In accordance with the provisions of the Inspection and Supervision Byelaw, a bank supervision action plan was formulated for the year 2004/05. The activities of the department were defined in accordance with the responsibility of the various divisions and units. In order to develop professionalism and accountability, the annual action plan was much more detailed and specific, this time around. The inspection dates, period of inspection, report preparation and submission dates of on-site examination were determined in advance, in accordance with the size and previous history of the banks. Similarly, the dates of submission of reports of off-site supervision and the enforcement activities were also specified.

Nepal Rastra Bank has adopted a policy of on-site examination of all commercial banks once a year. In accordance with this strategy, the full scope corporate level examination of all commercial banks was envisioned in the annual supervision action. Due to the nature and underlying principle of special inspection, it could not be incorporated in the Annual Plan as they are supposed to be carried out as and when necessary.

Table 5 : Annual Action Plan of Bank Supervision Department for 2004/05

S.No.	*Work Plan*
1	**On-site Inspection**
1.1	Corporate level inspection of all commercial banks.
1.2	Targeted inspection of Damak, Jaleshwor, Bharatpur and Tansen branch of Rastriya Banijya Bank.
1.3	Targeted inspection of Dhulabari, Malangawa, Narayangadh, Nepalgunj, Palpa and Duhabi branch of Nepal Bank Limited.
2	**Off-site Supervision**
2.1	Preparation of quarterly consolidated offsite supervision report incorporating financial analysis and compliance to prevailing directives and regulations, within the specified timeframe.
2.2	Preparation of annual offsite supervision reports of all commercial banks.
3	**Enforcement**
3.1	Enforcing the directions given by Nepal Rastra Bank during on-site examination or off-site supervision
3.2	Monitoring implementation status of directions given by Nepal Rastra Bank during on-site examination or off-site supervision
3.3	Preparation of quarterly enforcement reports reflecting implementation status of each bank within the specified deadline.
4	**Policy, planning Unit**

4.1	Publication of annual report of Bank Supervision Department.
4.2	Coordinate Capacity Building Programs (such as seminar, workshops, interaction program and trainings etc.)
4.3	Preparation of Annual Bank Supervision Action Plan for 2005/06

The Bank Supervision Department was able to achieve all activities premeditated in the Annual Supervision Action Plan of 2004/05 but for the corporate level inspection of four commercial banks and annual accounts clearance of Rastriya Banijya Bank Ltd.

A special follow up inspection, however, was conducted in Nepal Bangladesh Bank Ltd. and Nepal Credit and Commerce Bank Ltd. to gauge whether any material positive changes had taken place, since the previous inspection. The annual accounts of Rastriya Banijya Bank could not be cleared, because of the failure of the bank to submit the required documents.

3.2 Corporate Level On-site Inspection

There were corporate level on-site examinations in 13 banks during the year 2004/05; against the scheduled number of 17 banks. The corporate level inspection of Nepal Bank Limited and Rastriya Banijya Bank could not be conducted because of unforeseen delays in the implementation of the earlier inspection reports. Nepal Rastra Bank was contemplating supervisory action in Nepal Bangladesh Bank Ltd. and Nepal Credit and Commerce Bank Ltd. to resolve the serious issues observed in the earlier inspection, and thus their full scale on-site examination could not be completed. The work load of the on-site examination was distributed in three respective quarters.

Table 6 : Distribution of corporate level on-site examination in 2004/05

Quarters	First	Second	Third
Banks	• Laxmi Bank • Bank of Kathmandu • Standard Chartered Bank • Himalayan Bank • Everest Bank • Siddhartha Bank	• Machhapuchhre Bank • Nepal Industrial & Commercial Bank • Nepal Investment Bank	• NABIL Bank • Kumari Bank • Nepal SBI Bank • Lumbini Bank
No.of Bank	6	3	4

During the on-site examination of these banks, several forms of discrepancies were identified in terms of compliance with NRB directives, BAFIO and other relevant Acts and statutes. Similarly, lapses were observed in the areas of corporate governance and risk management practices. Bank Supervision Department has issued both specific and general directions to the bank in order to resolve the shortcomings observed in the inspection reports, in accordance with the authority bestowed on the department, by the prevailing statute.

The major shortcomings and lapses observed, in the banks, during the on-site examination of 2004/05 are as follows:

Laxmi Bank Limited

1. The time interval between two consecutive Board Meetings exceeded the time frame of two months, as defined by the provisions of the BAFIO.
2. The Chief Executive Officer of the bank was placed as a permanent invitee to the Audit Committee, against the provision of directive on corporate governance.

Bank of Kathmandu Limited

1. The accrued interest receivable which was not recovered was recognized as income through capitalization, rather than being suspended, according to the NRB directive.
2. The minutes of the meeting of the Board of Directors was in a much summarized form and didn't contain adequate information.
3. The appendices of the Employee Rules of the bank have not been approved and implemented by the Board of Directors as required by the Employee Rules.
4. The Annual General Meeting of the bank approved the benefit of the services of a servant, cook and a gardener for the Managing Director. However, the amount of expenses to be allowed for the same wasn't specified and the bank has provided a fixed sum of Rs.14,500. The bank has also provided the services of two security guards to the Managing Director.

Standard Chartered Bank Nepal Limited

1. The chairman of the Board of Directors was involved in the capacity of the member of the Audit Committee, which is not desired in respect of a good Corporate Governance.
2. The annual internal audit plan was approved by the Chief Executive Officer rather than by the Audit Committee, according to the provisions of NRB directive on Corporate Governance.

Himalayan Bank Limited

1. The bank's capital fund is deficient by Rs.102.80 million
2. The requirement of at least three representatives from Category "A" to be present in a board meeting, as required by Memorandum of Association is contradictory to the provisions of Company Act 2053.
3. The time interval between two consecutive Board Meetings exceeded the time frame of two months, as defined by the provisions of the BAFIO.
4. The bank had adversely classified loans and advances and subsequently there was a shortfall in the loan loss provision by Rs.25.60 million.
5. The bank doesn't have set procedures to distinguish trading income and revaluation income.

6. The Letter of Credit transactions of the bank are not audited and reported to NRB every six months, as required by circular issued by NRB.
7. The bank has not clearly demarcated the front office and back office operations in the treasury indicating lapses in the internal control system.

Everest Bank Limited

1. The bank had adversely classified loans and advances of Rs.198 million and subsequently there was a shortfall in the loan loss provision by Rs.163.50 million.
2. The bank's capital fund was deficient after adjustment for the additional loan loss provision.
3. The director of the bank is found to be directly involved in the daily functioning of the bank.
4. The meeting of the board of director was not regular as per the provisions of the BAFIO.
5. The bank has not conducted the review of the investment portfolio on a half yearly basis as per the directives of NRB.

Siddhartha Bank Limited

1. The total number of Board meeting in the year amounted to 7 against the statutory requirement of 12.
2. A director of the bank and member of the bank's Credit Committee was also found to be a member of the Audit Committee, which is not desired in respect of a good Corporate Governance.
3. The bank had adversely classified loans and advances and subsequently there was a shortfall in the loan loss provision by Rs.56.40 million.
4. The Letter of Credit transactions of the bank were not audited every six months as required by NRB's circular issued by Foreign Exchange Department.

Machhapuchchre Bank Limited

1. The bank had adversely classified loans and advances and subsequently there was a shortfall in the loan loss provision by Rs.6.70 million.
2. The staffs responsible for the front office operations of treasury department were also found to be involved in the back office operations indicating lapses in internal control system.
3. The head of the treasury department and the Assistant General Manager of the bank were approving placements and foreign currency dealings, which were beyond their prescribed authorities.
4. The bank had an investment in the equity capital of Himalayan Distillery which was being valued at cost/market price. The company had been recurrently occurring losses for the last three years, resulting in negative net worth and failure to distribute dividends and thus, the valuation of investment was not ideal.

Nepal Industrial and Commercial Bank Limited

1. Almost all of the authorities are centralized with the Chief Executive Officer of the bank which might be detrimental for the development and long term stability of the bank.
2. Bank has been sanctioning/renewing some loans without obtaining the credit information against the NRB directives.
3. Despite the provision of the BAFIO in relation to the salary and benefits of the director to be governed by the Memorandum of Association (MOA), the MOA isn't specific in this matter and has delegated the authority to the board.
4. It was found that some of the loans were regularized through enhancement in the facilities.

Nepal Investment Bank Limited

1. Some of the directions of the earlier inspection report were not complied with, though the Board of Directors meeting no.239 had committed for the same.
2. Board of Directors meeting no.240 had decided to grant three months salary as cash prize and increase 10 percent in the salary of Chief Executive Director. It was also decided to increase the salary of Chief Executive Director by Rs.100,000 thereby increasing it to Rs.600,000. This decision was not in accordance with the provision of Memorandum of Article of the bank, which requires facilities of directors to be decided upon by the bank's Annual General Meeting.
3. The time interval between two consecutive board meetings exceeded the time frame of two months, as defined by the provisions of the BAFIO.
4. Bank had provided loans to shareholders (Mercantile Group and Panchakanya Group), who control more than 1 percent of the total shares of the bank, in violation of the provisions of BAFIO.
5. The bank had adversely classified loans and advances and subsequently there was a shortfall in the loan loss provision by Rs.26.40 million.

Nabil Bank Limited

1. The bank had extended loans and advances to Dabur Nepal and Jyoti Group in excess of the bank's Single Obligor Limit.
2. The total deposit of Nepal Telecom amounted to 16.61 percent of total deposits of the bank, which is a significant concentration.
3. The credit policy guidelines of the bank required a credit manual to be prepared to determine the process and procedures of loan sanction. The bank, however, was yet to formulate such a document.
4. The fund in capital adjustment account was unlikely to be sufficient to raise capital to Rs.1 billion. Furthermore, the bank didn't have any alternate plan to raise the capital to the prescribed limit, in case where plow back of profit was not sufficient.

Kumari Bank Limited

1. The capital fund of the bank was deficient by Rs.32.60 million.
2. The bank has adversely classified loans and advances and subsequently there was a shortfall in the provision by Rs.43.76 million.
3. The bank had not prepared a credit write off policy and credit operation manual.
4. The bank didn't have the practice of accounting for the additional loan loss provision on a quarterly basis, in accordance with the NRB directives.
5. The bank had been found to be honoring cheques even by overdrawing the concerned accounts.
6. The returns submitted by the bank to NRB in relation to total deposit, other liabilities, interest income and interest expenses varied from the financial statements of the bank.
7. The quarterly financial position published by the bank varied with the financial position of the bank and even the format prescribed by Nepal Rastra Bank is not adhered to.

Nepal SBI Bank Limited

1. The amount which was not recovered in relation to the draft forgery case continued to be disclosed in the agency accounts, despite the chances of its recovery, being very slim.
2. The bank had extended loans and advances to Amatya Group and Golchha Group in excess of the bank's Single Obligor Limit.
3. The bank had adversely classified loans and advances and subsequently there was a shortfall in the loan loss provision by Rs.56.40 million.
4. The bank had lack of competent human resources in the branches for analysis of credit. Also, the lack of adequate staff in the credit departments of the branches was hindering the regular monitoring and inspection activities.
5. Bank had been following the practice of reviewing/renewing the loans of unit rather than the reviewing/renewing facilities of the entire group.

Lumbini Bank Limited

1. The bank's financial position as on 2061 Poush end was poor. Bank's core capital was negative and bank had suffered an operational loss of Rs.22.30 million and net loss of Rs.32.20 million.
2. The bank had adversely classified loans and advances of Rs.424.80 million and subsequently there was a shortfall in the loan loss provision by Rs.329.60 million.
3. The bank had recognized an income of Rs.32.20 million through the capitalization of interest against the Nepal Rastra Bank's directives on income recognition.
4. Despite the provision of the BAFIO in relation to the salary and benefits of the director to be governed by the Memorandum of Association (MOA), the MOA isn't specific in this matter and has delegated the authority to the board.

5. Bank had a high concentration of deposits. Two of the depositors accounted for the 41.87 percent of the total deposits of the bank.
6. The bank's liquid assets, including the investment in government security, amounted to 15.60 percent of the total deposit indicating high liquidity risk.
7. The bank had regularly failed to comply with the provisions of internal policies in respect of credit operations, personnel policies etc.
8. The bank didn't have their defined internal policies in terms of Assets Liability Management, Information Technology, Banking Operation, Credit Administration etc.
9. Bank had failed to conduct its portfolio review and internal audit of Letter of Credit transactions on a half yearly basis, as required by the NRB directives.

3.3 Special On-site Inspection

During the year 2004/05, Bank Supervision Department conducted 6 special on-site examinations, one each on six banks, relating to various matters. The objectives and findings of these inspections were as mentioned hereunder:

Everest Bank Limited

A complaint was received that the bank had provided loan to entities that were directly related to its directors. An investigation was carried out which concluded that the complaint was true and the bank, indeed, had provided loan to an entity, directly related to the Chairman of the board and another member of the board of director of the bank, against the norms of directive on Corporate Governance and Article 48 of the Bank and Financial Institution Ordinance.

In this regard, the bank was directed to:

1. Recover the loan within Mid August 2005.
2. To issue a letter of warning to the Chairman, as per provisions of Nepal Rastra Bank Act, 2058 Section 100 (2) (Ka)
3. To issue a letter of warning to the Director, as per provisions of Nepal Rastra Bank Act, 2058 Section 100 (2) (Ka)
4. To issue a letter of warning to the approving authority, as per provisions of Nepal Rastra Bank Act, 2058 Section 100 (2) (Ka)

Bank of Kathmandu Limited

A complaint was received that a director of the bank had provided a personal guarantee in respect of the borrower of the same bank, thus disqualifying him from his position. An enquiry into the matter concluded that the concerned director had terminated his involvement with the borrowing company, before he was appointed as the director of the bank. The loan had already been settled and, thus, his personal guarantee has already been void. So, no supervisory action was deemed required in this matter.

Laxmi Bank Limited

Following the merger of Hisef Finance with Laxmi Bank Ltd., the bank was allowed to operate banking transaction from the Hattisar branch, but, only for the existing customers of Hisef Finance. In the course of implementation of the onsite examination report of Laxmi bank, a special inspection was conducted to verify whether the bank had indeed complied with this conditional authorization. During the inspection, it was found that besides the transactions of existing clientele of Hisef Finance, Hattisar branch was being used for the functions relating to IT, shares, Treasury and Board affairs of the bank.

Nepal Bangladesh Bank Limited

A full scale corporate inspection of the bank was conducted in 2003/04, which brought to the fore, disturbing revelations in various aspects of bank operations. The reply of the bank management, in respect of these findings, preached about various positive developments in the bank, since the inspection. Thus, in order to verify the management's response, a special follow up inspection was carried out in 2004/05. Some of the major observations of this inspection are mentioned hereunder:

- The loan extended to borrowers that were related to NB Group had increased to Rs.1.43 billion in mid October 2004, which was an increase of Rs.489 million since mid October 2005.

- Bank had further extended loans to various parties (Kshemadevi Trading, Saugat Trading Concern and Manaslu Investment) that are related to NB Group, without adequate analysis and evaluation.

- Bank had recovered loans of Rs.105.94 million from Jen Shrestha and Saugat Trade Concern. The findings of the inspection lead to believe that the loan had been settled from the proceeds of fresh loans disbursed on behalf of other companies related to NB Group. Moreover, bank had provided a waiver of Rs.8.66 million in respect of penal and compound interest in the settlement of the loan.

- Nepal Rastra Bank had directed the bank to immediately initiate recovery the loan extended to Balaju Apparels and Balaju Textiles. However, nothing concrete had been done in this regard.

- In the earlier onsite inspection, Bank Supervision Department had raised serious concerns about the cheques that were purchased on year ends, but were not sent for collection to the drawee bank. The bank, vide its response, had committed not to repeat such mistakes and even assured to punish the concerned employees, if such situations arose in the future. But, again, it was observed that the purchased cheque of Harisiddhi Brick was sent for collection only after three and half months.

- With regard to lending to fictitious companies, bank had stated that six of those companies were located in Sanepa. But, their offices could not be located in the on-site examination with the bank's officials.
- Nepal Rastra Bank had directed the bank to bring the exposures within the Single Obligor Limit of the bank. Bank had responded by stating that it had instructed the management to do the same. But, it was observed that the exposure of one such party, National Hydropower had, in fact, increased.

Based on the observations of the inspection report, the following supervisory action was undertaken:

1. A deposit ceiling of Rs.12.90 billion was levied on the bank.
2. A recovery schedule, targeted towards the recovery of loans provided to borrowers related to NB Group, was enforced as a part of the capital plan.
3. Bank was restricted to issue bonds.
4. Bank was placed under close surveillance and was required to submit various additional returns, at specific time intervals, to monitor its performance.

Nepal Credit and Commerce Bank Limited

A full scale corporate inspection of the bank was conducted in 2003/04, which brought to the fore, disturbing revelations about various aspects of bank operations. The reply of the bank management, in respect of these findings, preached about various positive developments in the bank, since the inspection. Thus, in order to verify the management's response, a special follow up inspection was carried out in 2004/05. Some of the major observations of this inspection are mentioned hereunder:

- The earlier on-site inspection identified cases where loans were provided to fictitious companies. Bank had responded that they were not fictitious companies and some of these loans were already recovered and some were regular.
- In order to settle the loans of the fictitious companies, loans were shown to be recovered in cash while the same amount was disbursed in loan accounts of other borrowers related to NB Group.
- The bank had replied that fictitious cheques purchased and loans were recovered. However, during the inspection, it was, again, observed that bank had provided loans to fictitious companies without adequate analysis and evaluation. Bank had also issued several financial guarantees on behalf of these companies.

Based on the observations of the inspection report, the following supervisory action was undertaken:

1. A deposit ceiling of Rs.6.65 billion was levied on the bank.
2. A ceiling was prescribed in the lending activities of the bank. Bank could only provide funded loans up to a maximum of Rs.30 million and non-funded facility up to Rs.60 million. In case of Trust Receipt loan, the prescribed ceiling was Rs.50 million.
3. Bank was restricted to issue bonds.
4. A recovery schedule, targeted towards the recovery of loans provided to borrowers related to NB Group, was enforced as a part of the capital plan.
5. Bank was placed under close surveillance and was required to submit various additional returns, at specific time intervals, to monitor its performance.

Large borrowers

The on-site inspection and off-site supervision of the banks indicate growing tendencies of concentration of large exposures in the hands of few groups of borrowers. The banks, in order to get a large piece of the cheese were pursuing these borrowers with discounted rates and relaxation in terms of the security requirements. This has gradually lead the large number of borrowers exploring multiple banking facilities. The risk exposure of the banks, meanwhile, has increased because of compromises in the collateral security and the ever growing bargaining strength of these borrowers. Thus, a special inspection was conducted in all of the banks to gather information on these large borrowers. This inspection was conducted with a view to ascertain the consolidated exposure of these large borrowers, their utilizations, interest rates, collateral arrangements etc. The inspection was also designed to serve as a prelude for the envisioned regulation on multiple banking.

3.4 Off-site Supervision

Cash Reserve Ratio

Banks are required to maintain a minimum cash reserve ratio of 5 percent of total deposit liabilities denominated in local currency, except for margin deposits. Banks, who fail to maintain such reserves, were levied financial penalties, the rate of which escalates every time there is a non-compliance. During the year 2004/05, following banks were penalized in terms of non compliances of cash reserve ratio.

Table 7 : Penalty for non-compliance of Cash Reserve Ratio in 2004/05

Banks	Quarter I	Quarter II	Quarter III	Quarter IV	Total
KBL	796.44	-	-	-	796.44
NSBI	-	-	-	52,766.15	52,766.15

RBB	-	-	-	119,896.80	119,896.80
Total	**796.44**	**-**	**-**	**172,662.95**	**173,459.39**

Priority and deprived Sector Lending

With regards to directed lending, banks were required to direct 4 percent of total loan portfolio in the priority sector and 3 percent in the deprived sector, for the year 2004/05. The failure to meet such an obligation resulted in the financial penalty for the bank, computed as the product of shortfall amount and the highest published rate of the bank, commensurate to the applicable time period. During the year 2004/05, following banks were penalized in terms of non-compliance of directed lending.

Table 8 : Penalty for non-compliance of Directed Lending in 2004/05

Banks	Quarter I	Quarter II	Quarter III	Quarter IV	Total
LBL	323,437.50	-	-	-	323,437.50
NBBL	1,074,872.50	2,975,472.50	2,557,620.00	-	6,607,965.00
NCCBL	132,421.25	722,063.75	1,477,405.00	1,445,287.50	3,777,177.50
SBL	-	1,770.00	-	-	1,770.00
Total	**1,530,731.25**	**3,699,306.25**	**4,035,025.00**	**1,445,287.50**	**10,710,350.00**

Annual Accounts Clearance

Banks are required to obtain clearance from Nepal Rastra Bank prior to publishing their annual accounts. In this process, an off-site surveillance of the banks' is conducted based on the various documents like the final accounts submitted by the banks, preliminary audit report, management reply, long form audit report and the preceding on-site examination report. The bank's financial position, compliance of the relevant statutes and issues raised by the external auditors are analyzed at length to determine whether any supervisory intervention is required. If the need for a supervisory intervention is felt, direction is issued to that effect and the direction issued in this regard is to be disclosed in the Annual report, itself.

Annual accounts of 16 banks were cleared during 2004/05, the only exception being RBB. The annual accounts of Rastriya Banijya Bank could not be cleared because of failure of the bank to submit the obligatory documents.

The major issues raised by the statutory auditors and the compliance issues observed, during the annual accounts clearance, in 2004/05 were as follows:

Standard Chartered Bank Nepal Limited

1. The gross Non Performing assets ratio of the bank as on Mid July 2005 was 2.69 percent rather than their presentation of 1.50 percent.

Everest Bank Limited

1. The time interval between two consecutive board meetings of the bank was more than two months, against the provisions of BAFIO.

2. The balance sheet of the bank discloses the number of paid-up shares to be 3,150,000 while the individual shareholder's list discloses it to be 3,145,271. After the issue of the fraction shares, the total number of paid-up shares would be 3,152,848.
3. Bank had not formulated a loan write off policy.
4. Bank had not published the list of unclaimed dividends, as per the BAFIO.
5. Bank had proposed an issue of bonus shares for Rs.66.32 million in 2004/05 but the amount had been disclosed under proposed dividend.

<u>Laxmi Bank Limited</u>

1. The land and building of Hisef Finance had not yet been transferred in favor of Laxmi Bank, despite the completion of the merger.
2. Bank had not initiated steps to divest the investment in Nepal Housing and Merchant Finance.

<u>Nepal Industrial and Commercial Bank Limited</u>

1. The resource allocated to the internal audit department of the bank was inadequate in terms of the nature and volume of transactions of the bank.

<u>NABIL Bank Limited</u>

1. The total number of meeting of board of directors in the year 2004/05 was only 10, against the statutory requirement of 12.
2. Bank had not published the list of the unclaimed dividends and dormant accounts, as per the BAFIO.

<u>Kumari Bank Limited</u>

1. The procedure to be followed in respect of loan recovery was not specified in the bank's credit policy guidelines.
2. Bank was directed to classify the loan of Everest Floriculture as doubtful. The bank had earlier replied that it had complied with the directive but on Mid July 2005, it was observed that the provision has been brought down to 25 percent.
3. According to the NRB directives, banks can only include the loan loss provision created in respect of Pass loan in the supplementary capital. The bank had included the loan loss provision in respect of restructured and rescheduled accounts amounting to Rs.4.03 million in the supplementary capital, as well.

<u>Bank of Kathmandu Limited</u>

1. The resource allocated to the internal audit department of the bank was inadequate in terms of the nature and volume of transactions of the bank. As this department also has been made responsible for NRB reporting and other tasks, the work of the department has not been effective.

<u>Nepal Investment Bank Limited</u>

1. Bank had not submitted a copy of the Bi.Bi.Ni.Fo.No.3 to Nepal Rastra Bank on a daily basis.

2. According to the NRB directives, banks can only include the loan loss provision created in respect of Pass loan in the supplementary capital. The bank had included the loan loss provision in respect of restructured and rescheduled accounts amounting to Rs.2.02 million in the supplementary capital, as well.

Nepal SBI Bank Limited

1. The resource allocated to the internal audit department of the bank was inadequate in terms of the nature and volume of transactions of the bank.
2. Bank had not published the list of the unclaimed dividends and dormant accounts, as per the BAFIO.
3. There was a shortfall in the loan loss provision created by the bank.

Himalayan Bank Limited

1. There was a shortfall of Rs.18.19 million in the loan loss provision of the bank, in respect of classification of loans extended to Everest International and Standard Tanning Industries.

Lumbini Bank Limited

1. There was a shortfall of Rs.99.30 million in the loan loss provision created by the bank.
2. The credit appraisal system of the bank was poor. This along with the poor credit administration and monitoring has lead to the increase in the Non Performing assets and Non Banking assets.
3. The documentation in respect of Banking Operation, Treasury, Loan Administration and Monitoring, Security Documentation, IT had not been formulated.
4. Four depositors of the bank account for 51.80 percent of total deposits of the bank thereby resulting in higher liquidity and interest rate risk.
5. According to the NRB directives, banks can only include the loan loss provision created in respect of Pass loan in the supplementary capital. The bank had included the loan loss provision in respect of restructured and rescheduled accounts amounting to Rs.29.40 million in the supplementary capital, as well.

Siddhartha Bank Limited

1. The audit committee of the bank had not fulfilled its responsibility outlined by the directives on Corporate Governance in terms of periodic review of the financial position of the bank, formulation of audit program etc.
2. The credit policy guidelines of the bank, didn't comprise some very crucial elements like the types of facility, valuation of collateral, the forms of acceptable security etc.
3. The financial rule of the bank was silent on accounting policies, budgeting, write off of assets, safeguarding of assets etc.
4. The time interval between two consecutive board meetings of the bank was more than two months, against the provisions of BAFIO.
5. The bank had not developed an internal audit manual.

Nepal Bank Limited

1. Bank had not updated and submitted a list of dormant accounts to NRB since Mid July 2004.

2. The net debit pending amount towards statement is Rs.1.86 billion and the net debit pending towards ledger is Rs.40.80 million. Thus, the total net debit pending of the bank amounts to Rs.1.90 billion, which might have an adverse effect on the Bank balance stipulated in the books.
3. Bank didn't follow the uniform practices towards accounting for depreciation. The bank also had not identified the obsolete and damaged assets and written them off.
4. Bank had purchased a loan of Arihanta Apparels from Himalayan Bank and this loan had been disclosed as a loan to Himalayan Bank rather than the borrower itself.
5. The outstanding amount of loans provided to Golchha group, Amatya group and Nepal Food Corporation were in excess of the Single Obligor Limit of the bank.

<u>Nepal Bangladesh Bank Limited</u>

1. The review of the individual borrowers' loan loss provision identified shortfall in the loan loss provision by Rs.190.80 million, besides the shortfall of Rs.516.50 million identified by the on-site examination.
2. An on Mid July 2005, the bank had recognized an interest income of Rs.117.20 million without the cash recovery.
3. The bank had not created a provision on investment made in NB Insurance Co., despite its market value being lower than the face value.
4. The investment in shares of other licensed financial institution requires provision for the full value of the investment. The bank, however, had not created a provision for the investment in shares of Nepal Credit & Commerce Bank Ltd.
5. The bank had also not created a provision towards the cheque forgery case of Rs.1.80 million of its Putalisadak branch.
6. The credit management of the bank was very poor. The bank had made payments by overdrawing the current accounts and loans were provided on adhoc basis. The loan monitoring was very weak and bank had not obtained the security documents as prescribed by the Credit Policy Guidelines.
7. The bank had not conducted the internal audit of Letter of Credit transactions on a half yearly basis, as per the directives.
8. The balance of AIR and other assets as per General Ledger was different from the individual ledgers.
9. Bank had not followed the NRB directive on Non Banking Assets, which requires it to be valued at lower of the outstanding amount or the market value and the write off of the deficit amount of outstanding, in case of lower market value.

<u>Nepal Credit and Commerce Bank Limited</u>

1. There was a shortfall of Rs.106.50 million in the loan loss provision, according to the NRB directives.
2. The review of the individual borrowers' loan loss provision identified shortfall in the loan loss provision by Rs.6.27 million

3. Bank had invested in shares of another licensed financial institution. However, the bank had failed to create a provision of Rs.16.80 million towards the same, according to NRB directives.
4. The credit management of the bank was very poor. The bank had provided loans on ad-hoc basis, the stock statements were not obtained and verified at regular intervals, essential documentation like the insurance policies were not obtained and loans were constantly extended, without proper justification and evaluation.
5. The branches of the bank hadn't maintained proper records of fixed assets and their physical verification had not been conducted. There were pending items in the agency and inter branch accounts, which were pending for a long time and bank had been maintaining the vault balance, in excess of the insured amount.
6. According to the NRB directives, banks can only include the loan loss provision created in respect of Pass loan in the supplementary capital. The bank had included the loan loss provision in respect of restructured and rescheduled accounts, as well.

3.5 Enforcement Activities

The enforcement division is responsible for ensuring that the directions of the Nepal Rastra Bank in respect of the on-site examination and off-site supervision are adhered to by the banks. In this regard, a continuous follow up was conducted and efforts were made to ensure that the bank had, in fact, complied with the direction issued by Nepal Rastra Bank. The enforcement reports were also submitted within the specific time frame prescribed by the Annual Supervision action Plan.

3.6 Policy Planning Activities

Annual Supervision Action Plan

The policy and planning unit formulated an Action Plan for the upcoming year 2005/06. The significant difference from the earlier Annual Plan was the abolishment of branch level inspections of Nepal Bank Limited and Rastriya Banijya Bank. Earlier, the corporate level inspections of Nepal Bank Limited and Rastriya Banijya Bank, were not conducted at regular intervals. So, in order to keep a track of the affairs of these banks, branch level inspections were carried out. Now, as the corporate level inspections of these banks are being conducted at regular intervals, it was deemed that, there was no longer a need for branch level inspections.

The policy planning unit also conducted a periodic review of the Annual Supervision Action Plan of 2004/05 and the report was executed in accordance with the Inspection and Supervision Byelaw.

Seminars, Interaction Programs

Bank Supervision Department conducted the following seminars and interaction programs, related to the supervisory function, during the year 2004/05.

Table 9 : List of Interaction Programs organized in 2004/05

S.N.	Subject
1	Interaction program with the chief of Audit Committee and Internal Audit Department of the commercial banks on the role of an audit committee and an effective internal control system
2	Interaction program with Security board, Office of the Registrar of Companies and Nepal Stock Exchange in joint coordination with the Bank and Financial Institution Regulation Department and Finance Management Department on various aspects of Company Act, Security and Commission Act etc.
3	Orientation program on International Convergence of Capital Measurement and Capital Standards (Basel II) for the Supervisors and Regulators of Nepal Rastra Bank.
4	Interaction program on International Convergence of Capital Measurement and Capital Standards with the Board of Directors of the commercial banks.
5	Interaction program on the off-site manual, which has been formulated and implemented for the off-site supervision, with the Bank Supervisors
6	Interaction program with the Board of Directors of all the commercial banks in various relevant issues.

4. Performance of the Banking Sector in 2004/05

4.1 Assets of the banking industry

The total assets of the bank increased by 12.48 percent in the year 2004/05 (previous year 13.44). Both the public banks and the private banks posted similar growth rate in the year in question. In context of the Nepalese economy, the growth rate of assets of the banks has to be classified as commendable.

The increase in the total assets is mainly on account of the increase in the loan portfolio of the banks, which has increased by approximately Rs.21 billion in the year 2004/05. The increase is 16.53 percent on the previous year. The loan portfolio of the public banks has more or less remained the same, while the private banks have posted an increase of Rs.20.48 billion during the period.

Table 10. : Total Assets of the Banking Industry

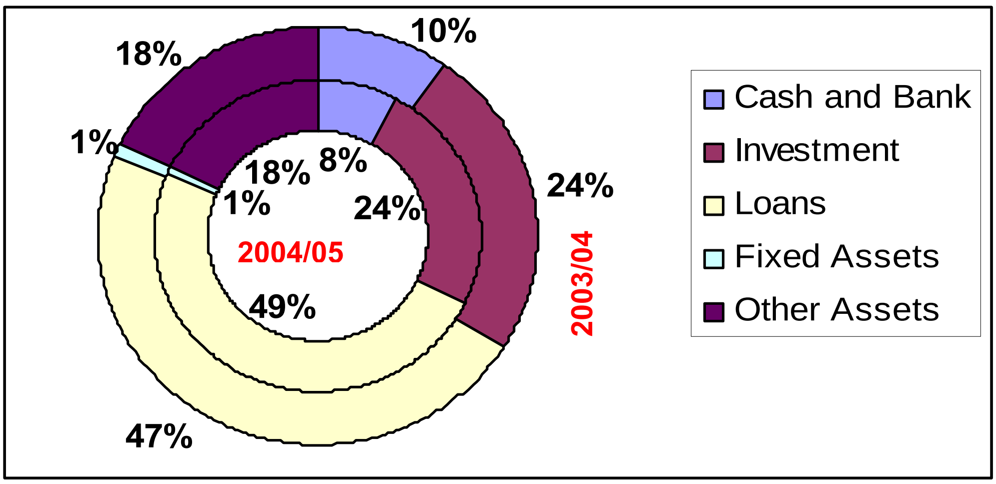
(Rs.In billions)

Banks	2004/05	Change %	2003/04	Change %	2002/03
Public	126.09	12.03	112.55	4.54	107.66
Private	175.28	12.80	155.39	20.89	128.54
Industry	**301.37**	**12.48**	**267.94**	**13.44**	**236.2**

4.2 Composition of Assets

The assets of the banking industry comprises of various assets, but is dominated by loans, which accounts for almost half of the total assets. The dominance of loans in the total assets is followed by other assets and investment, in that order. As on mid July 2005, the proportion of loans, investment and other assets to total assets was 49 percent, 18 percent and 24 percent respectively.

Chart 7 : Composition of Assets on Mid July 2004 and 2005



4.3 Composition of Liabilities

The bank's liability consists of various forms of liability, primarily of capital and reserves, deposits and borrowings. The deposits of Rs.226.03 billion remained the main source of funding for the banking sector. As evident from the following table, the huge volume of negative reserves of the public banks has negated the reserves of the entire banking industry.

The year on year comparison with 2003/04 indicates a positive change in the liabilities of the banking sector. The banks have been able to mobilize an additional deposit of Rs.19.35 billion during the year and even the reserves of the public banks and the banking industry has changed favorably. The negative reserves of the public banks and the banking industry has been reduced by Rs.2.83 billion and Rs.2.89 billion respectively during the year 2004/05.

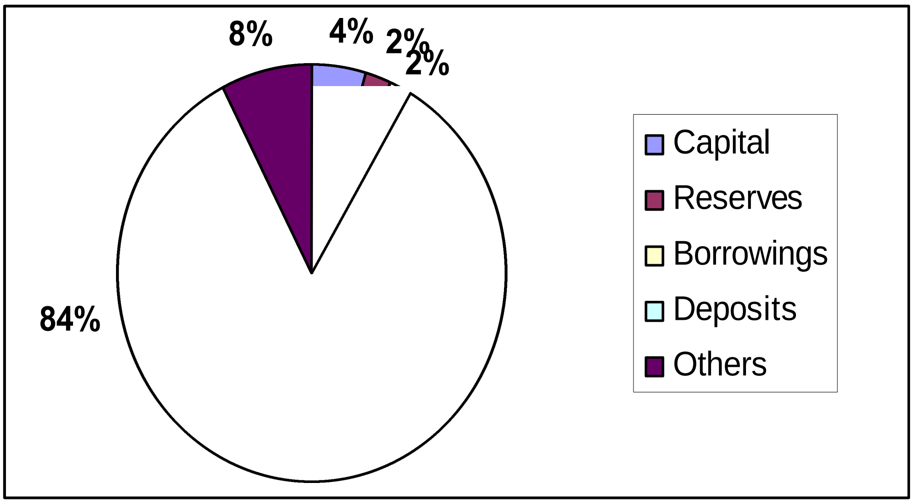
Table 11 : Composition of Liabilities on Mid July 2005

(Rs.In billions)

Liabilities	Private	Public	Industry
Capital	7.87	1.55	9.42
Reserves	4.02	-29.18	-25.16
Borrowings	2.92	5.46	8.38
Deposits	147.08	78.95	226.03
Others	13.38	69.30	82.68
Total	**175.28**	**126.09**	**301.37**

Because of the negative reserves of the public banks the composition of the liabilities of the public banks and the banking industry, as well is, affected. The analysis of the composition of liabilities of the private banks indicates a concentration of 84 percent in the form of deposits while the capital, reserves and borrowings account for 4 percent, 2 percent and 2 percent respectively.

Chart 8 : Composition of Liabilities of Private banks on Mid July 2005



4.4 Capital

The consolidated capital of the Nepalese banking industry has shown positive trend during the review period. The capital has improved by Rs.6.34 billion in 2004/05. However, due to the large volume of negative reserves of the public banks, the capital base is still is a long way from being satisfactory.

Table 12 : Capital of the Banking Industry

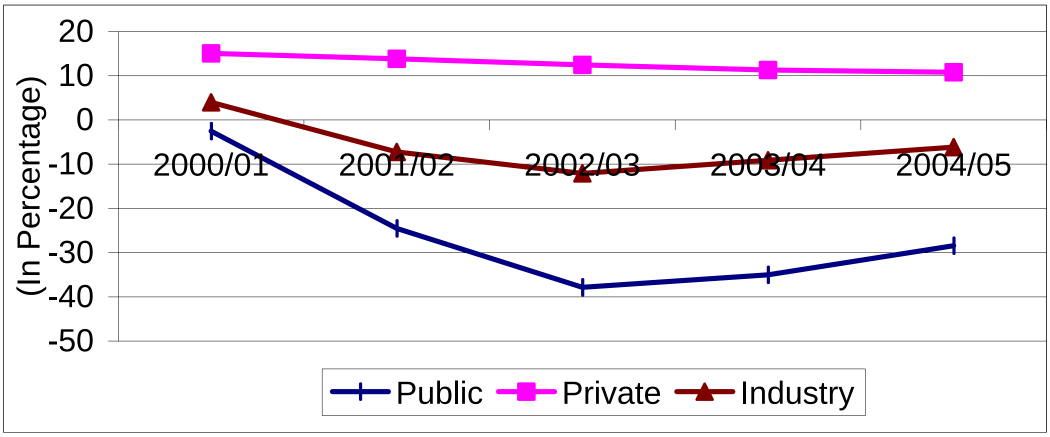
(Rs.In billions)

Banks	2004/05	change %	2003/04	change %	2002/03
Private	13.88	32.70	10.46	16.61	8.97
Public	-27.80	-9.51	-30.72	-5.68	-32.57
Industry	**-13.92**	**-31.29**	**-20.26**	**-14.15**	**-23.60**

The capital adequacy position of the private banks is satisfactory. However, because of continuous large increase in the risk assets of these banks, their capital adequacy ratio is declining.

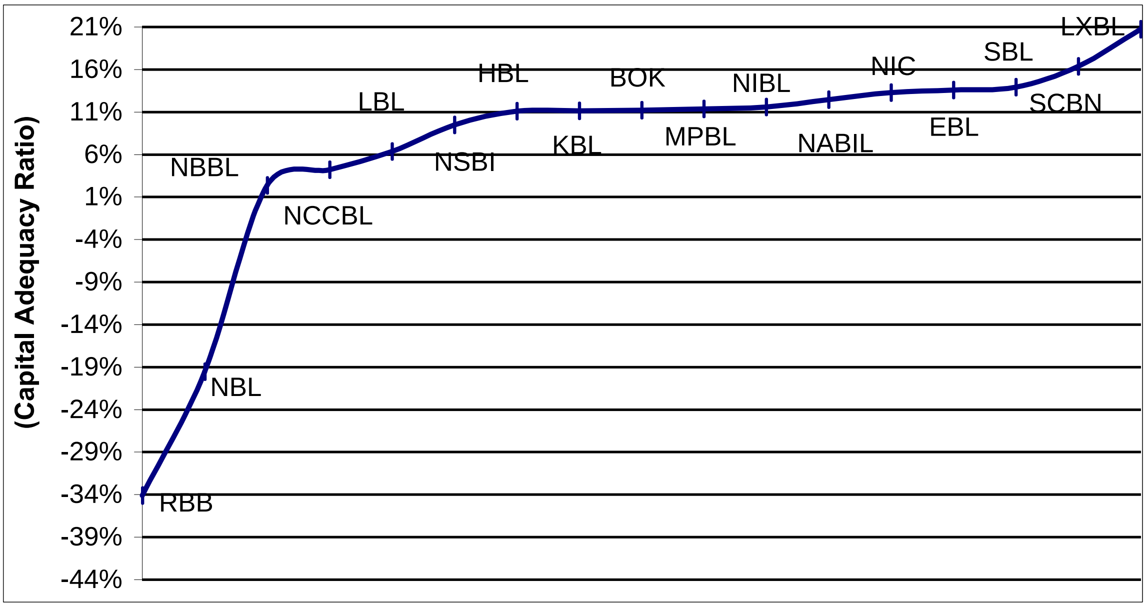
It is the public banks that are responsible for the ruining the capital base of the entire banking industry. The public banks due to their inherent problems had suffered massive losses in the past, which are reflected in their negative reserves. Although, these banks have started to improve their financial condition, it is a far cry from an acceptable standard. The public banks, due to their size, have a relatively significant degree of sensitivity to the entire industry's performance and their improvement has been echoed in the improvement of the entire industry's capital.

Chart 9 : Movements in the Capital Adequacy Ratio



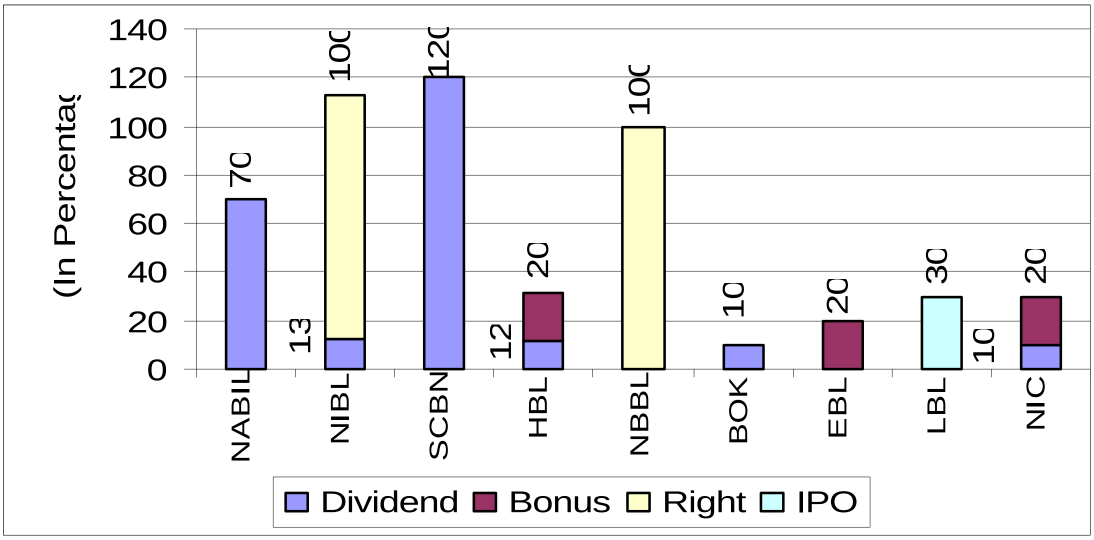
The review of the individual banks capital adequacy, as on Mid July 2005, reflects that most of the banks have complied with the statutory capital adequacy ratio of 11 percent. The banks with non-compliance are Rastriya Banijya Bank (-34.12%), Nepal Bank Ltd. (-19.54%), Nepal Bangladesh Bank Ltd. (2.38%), Nepal Credit & Commerce Bank Ltd. (4.20%), Lumbini Bank Ltd.(6.35%) and Nepal SBI Bank Ltd. (9.47%)

Chart 10 : Capital Adequacy of Banks on Mid July 2005



The capital of the Nepalese banking industry has depicted a favorable trend during 2004/05. There are various reasons for this improvement. The banks, during the period, on an average have performed well and some of them have raised capital from the market, which improved the overall capital position of the industry. All banks, except for three private banks were able to post handsome profits. Some banks were able to distribute cash dividends and bonus shares to its shareholders. At the same time, some banks raised finance from the market through issue of right shares while Lumbini Bank raised equity capital through initial public offering during the year.

Chart 11: Cash Dividend, Bonus Share, Right Share & IPO of Banks in 2004/05

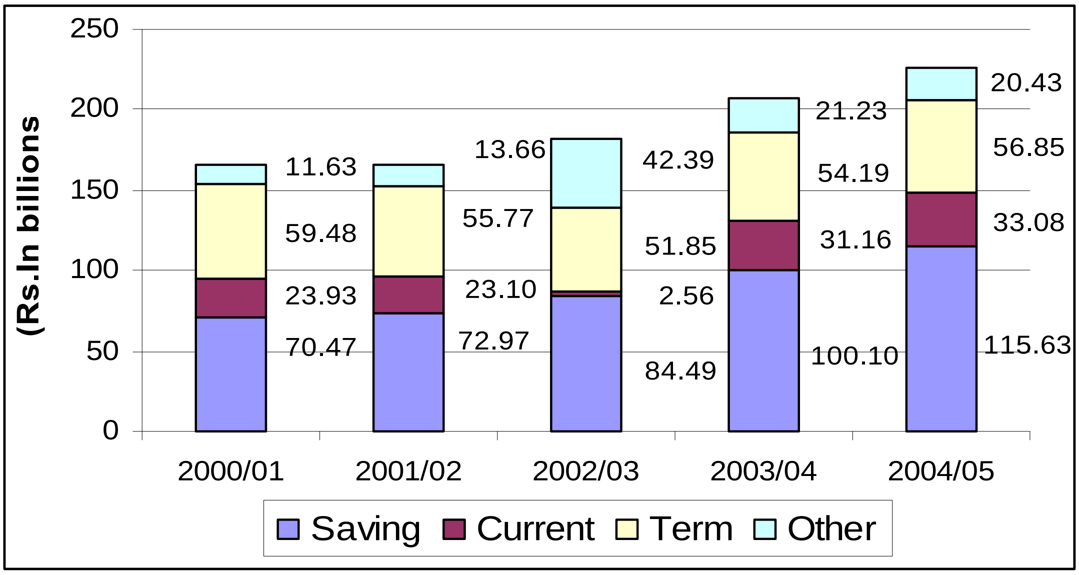


4.5 Deposit

The total deposit of the banking sector was approximately Rs.226 billion as on Mid July 2005. The deposits have increased by 9.34 percent in 2004/05 as compared to 14.01 percent in 2003/04. Out of total increase of Rs.19.31 billion in 2004/05, an increase of Rs.15.53 billion is on account of the savings deposit alone.

The deposit of the banking industry has been, historically, dominated by the savings deposit and term deposits. The year ending Mid July 2005 is no different. The savings deposit account for 51.16 percent of total deposits followed by term deposits, which contributes 25.16 percent.

Chart 12 : Deposit Mix of the Banking Industry



4.6 Loans and Advances

The total loans and advances extended by the banking industry on Mid July rose by Rs.21.31 billion as compared to previous year. The loans and advances of the public banks have remained more or less the same for the last two years, while the private banks have enhanced their portfolio by more than Rs.37 billion resulting in the dilution of the concentration of public banks. However, the two public banks are still the two largest individual banks in Nepal, in respect of the size of their loan portfolio.

Table 13 : Loans and advances of the Banks

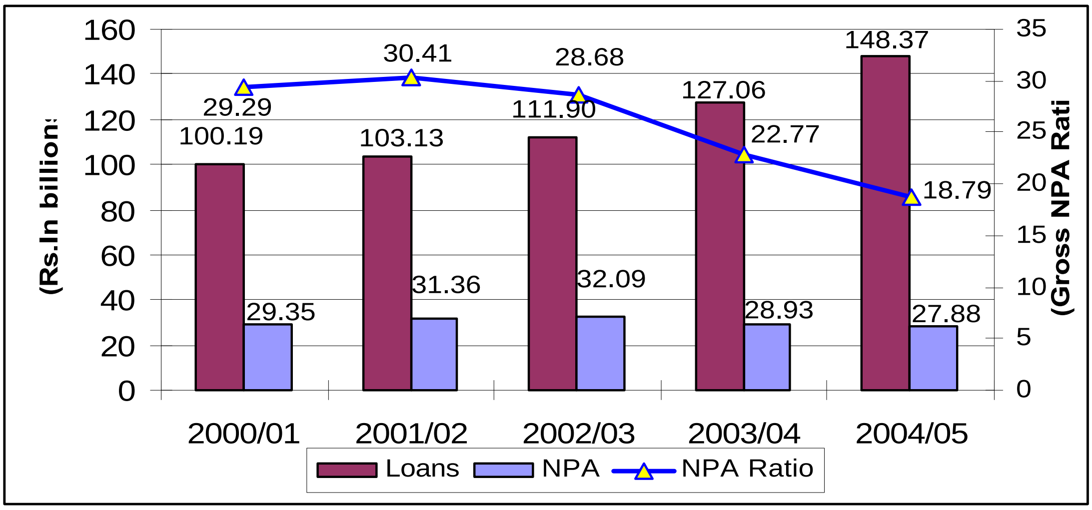
(Rs.In billions)

Banks	2004/05	change %	2003/04	change %	2002/03
Private	104.50	24.38	84.02	25.10	67.16
Public	43.87	1.93	43.04	-3.80	44.74
Industry	**148.37**	**16.77**	**127.06**	**13.55**	**111.90**

The Nepalese Banking system is riddled with a significant amount of Non Performing assets (NPA). The total volume of NPA as on Mid July 2005 was

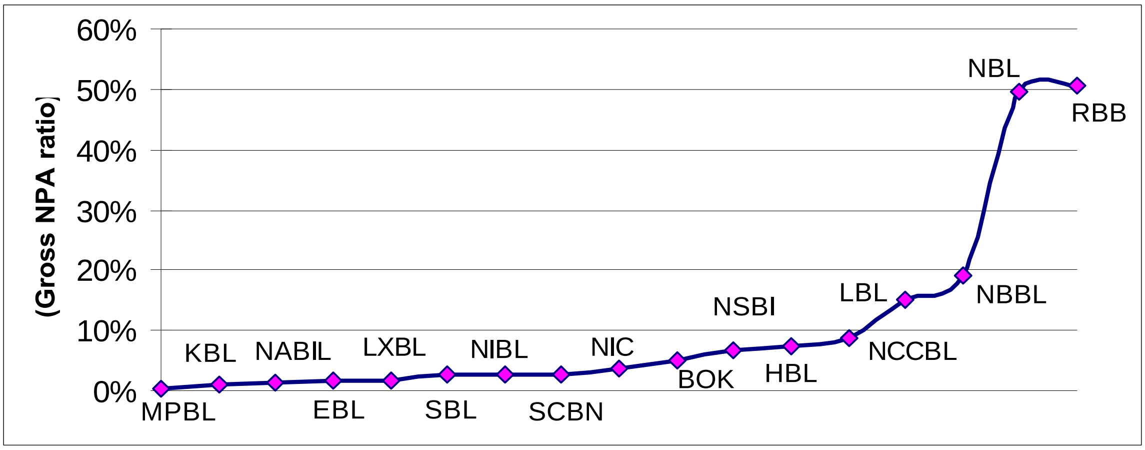
Rs.27.88 billion, which was 18.79 percent of loans and advances. The NPA has declined by Rs.3.16 billion in 2003/04 and by a further Rs.1.05 billion in 2004/05. It is clearly evident from the following picture that the volume of Non Performing assets is on the decline while the total loans are continuously increasing, thus resulting in a favorable proportion of Non Performing assets. The NPA ratio, however, is still a long way from being at a satisfactory level.

Chart 13 : Total Loans, Non Performing Assets and the NPA ratio



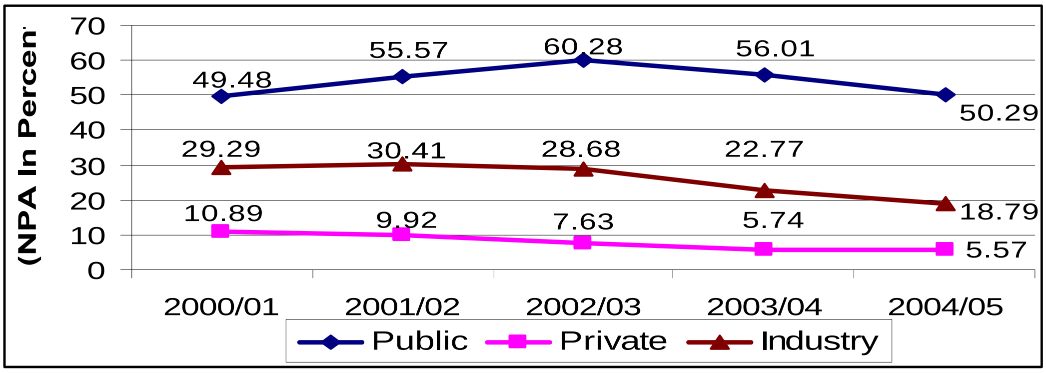
With regard to quality of the loan portfolio of the individual banks, RBB was the worst closely followed Nepal Bank Limited. Among the private banks, it was Nepal Bangladesh Bank, Lumbini Bank and Nepal Credit & Commerce who had the largest proportion of NPA in their portfolio, while the lowest and the best NPA ratio belonged to Machhapuchhre Bank Limited.

Chart 14 : Non Performing Assets of Banks on Mid July 2005



The volume of Non Performing assets is largely on account of the portfolio of the public banks. The volume of NPA, thus, needs to be broken down into the public banks and private banks, to better understand the reasons for the existing levels of NPA. The NPA ratio of the public banks is still towering above 50 percent, though it has shown signs of improvement in the last couple of years. Meanwhile, the NPA ratio of the private banks on Mid July 2005 was 5.57 percent. This ratio has almost often been within the range of 10 percent and has been going downhill in the last five years. The declining volume of NPA in both the banks has reflected in a better NPA ratio of the industry, which has come down from a appalling 30.41 percent in 2001/02 to 18.79 percent as on Mid July 2005.

Chart 15 : NPA ratios of Public and Private Banks

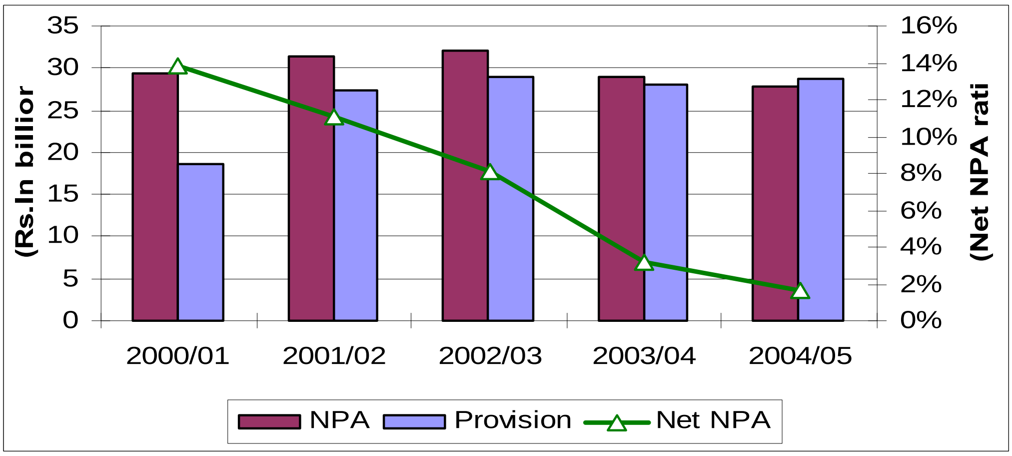


Nepal Rastra Bank has prescribed a provision on all loan accounts of the banks, which escalates as the quality of the loan deteriorates. The banks are required to create loan loss provisions on the gross value of outstanding loans, rather than on the net loans, and they are not allowed the relaxation in terms of the value of the collaterals.

The banks, thus, have to create provisions in accordance to the quality of their loan portfolios. So, the public banks with large volumes of Non Performing assets have large provisions in their balance sheets while the provisions of the private banks are relatively lower. The Nepalese banking industry has somewhat shielded itself, from the large volume of NPA through creation of loan loss provisions. While the gross NPA ratio is still at alarming levels, the net NPA ratio is very minimal.

The large volume NPA has traditionally been a problem in public banks. After a reform program was initiated in these banks, the volume of NPA, both gross as well as net has come down, significantly. The fact is also reflected in the following chart, where a wide gap between NPA and provision can be observed on Mid July 2001. This gap has narrowed down since 2000/01 and as on mid July 2005, the total provision of the banks has eclipsed the total loans of the industry.

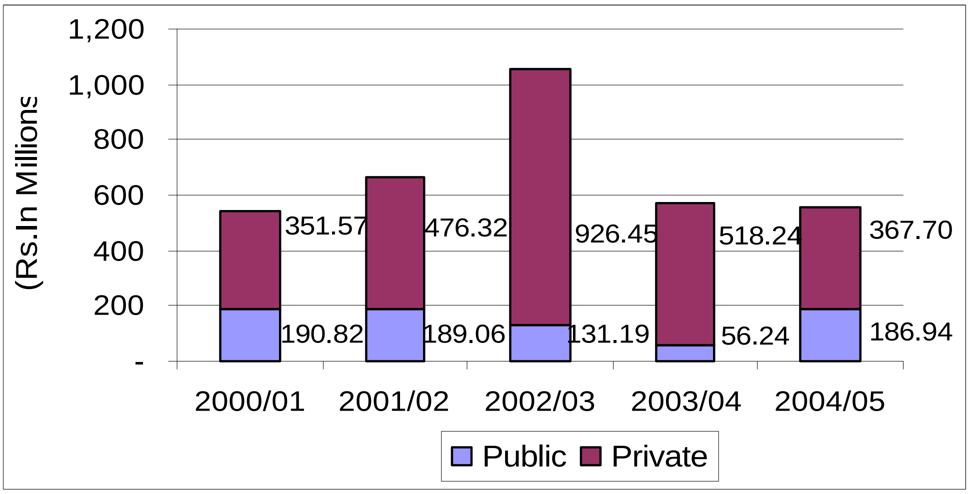
Chart 16 : NPA, Loan Loss Provision and Net NPA



4.7 Non Banking Assets

The assets that are taken over by the bank towards the recovery in respect of the default by the borrower, are classified as Non Banking Assets. The total amount of such assets on Mid July 2005 was Rs.554.64 million, a decrease of Rs.19.84 million from the previous year. The large chunk of these assets relate to the private banks, which is also a reflection of better recovery procedures in these banks in relation to the public banks.

Chart 17 : Composition of Non Banking Assets of the industry

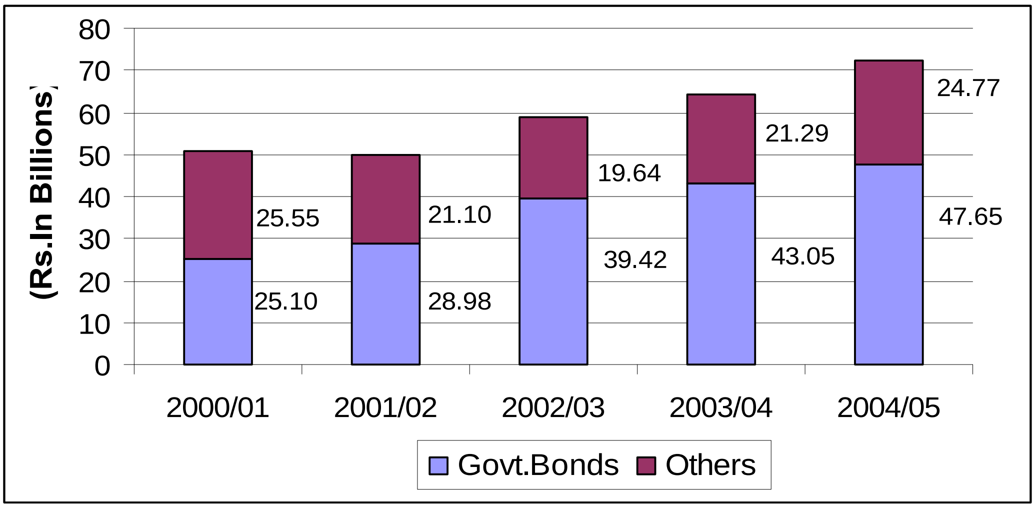


4.8 Investment

The investment activities of the Nepalese banks can be classified as limited. The banks have been predominantly investing in the government securities like the treasury bills and government bonds. This investment in government securities is for the liquidity benefit it offers. The other areas of investment include inter-bank placement and investment in shares and debentures.

The total investment portfolio of the banks has been steadily increasing for the last few years and the increase has been due to increasing investment in government security. Investment in other areas, except government bonds have basically remained the same over the years, while there has been a large increase in the investment in government security. This phenomenon has continuously propelled the proportion of investment in government security to the total investment, upward.

Chart 18 : Investment portfolio of banks



4.9 Earnings

The total earnings of the banking industry in 2004/05 was Rs.20.11 billion, which is an increase of Rs.1.25 billion from the previous year. The increase in the total revenue is an outcome of the increase in the interest income. In line with the increase in the revenue, the net profit of the banking industry has also improved by Rs.760 million during the year. All banks, except for Lumbini Bank, Nepal Bangladesh Bank and Nepal Credit and Commerce Bank managed to earn profits, during the year. Out of these, Nepal Bangladesh Bank had the worst performance with a loss of Rs.749.54 million followed by Lumbini Bank with loss of Rs.196.77 million. The public banks, which had alarming losses only a couple of years ago, had the distinction of being the two best banks in terms of profitability.

Till 2002/03, the Nepalese banking industry was unprofitable because of the performance of two public banks. However, their performance after the reform process has provided favorable results in terms of their profitability and the profitability of the industry, as a whole. The banks have managed to achieve profitability through higher interest income and minimization of costs. Their performance has increased the interest spread of the entire banking industry.

Table 14 : Revenue and Profitability of the industry

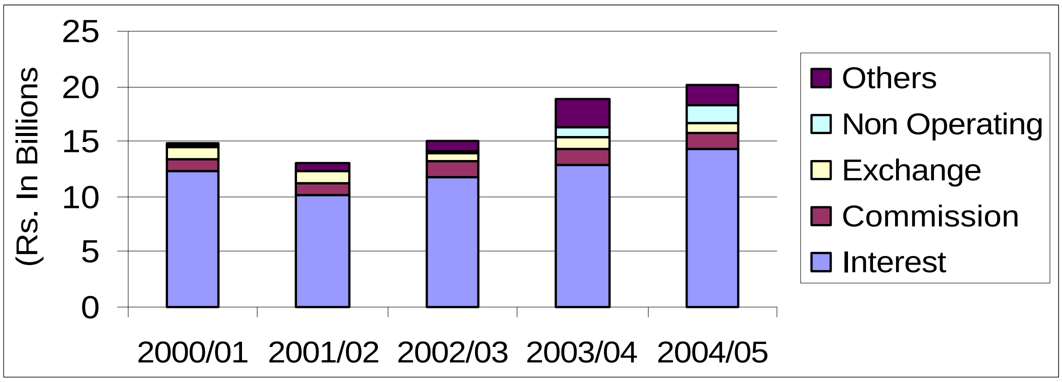
(Rs. In billions)

Indicator	2004/05	2003/04	2002/03	2001/02	2000/01
Revenue	20.11	18.86	15.08	13.01	14.82
Net Profit	4.47	3.71	-3.31	-9.43	-7.84
Int.Spread (%)	4.02	4.06	3.93	3.15	3.23

The revenue of the banks is dominated by the interest income which contributes close to three quarters of the total revenue of the banks. During 2004/05, the total interest income of the banks was Rs.14.24 billion out of total revenue of Rs.20.11

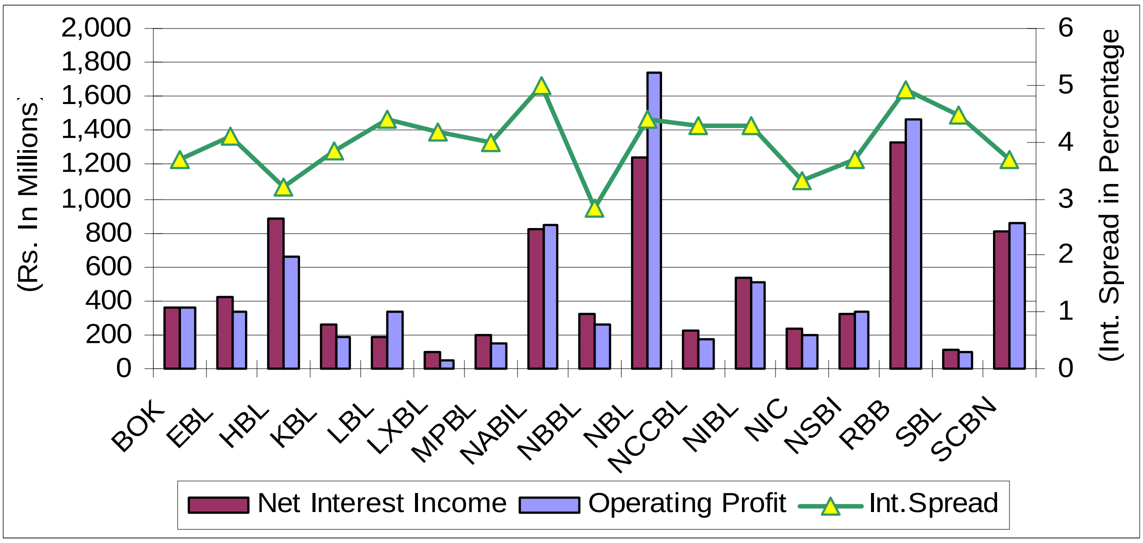
billion, which amounts to 70.81 percent. Besides, the interest income, other major source of income is other income, non operating income and commission and discount income.

Chart 19 : Components of Revenue



The backbone of profitability is the net interest income of the banks, computed as the surplus of interest income over the interest expenses. All of the banks, during 2004/05, have been able to attain positive net interest income. The banks have also been able to post an operating profit, which is an effective measure of efficiency of bank operations. The maximum weighted average interest of a bank, during the year was 5.01 percent while the lowest was 2.84 percent.

Chart 20 : Operating Efficiency of banks during 2004/05



4.10 Liquidity

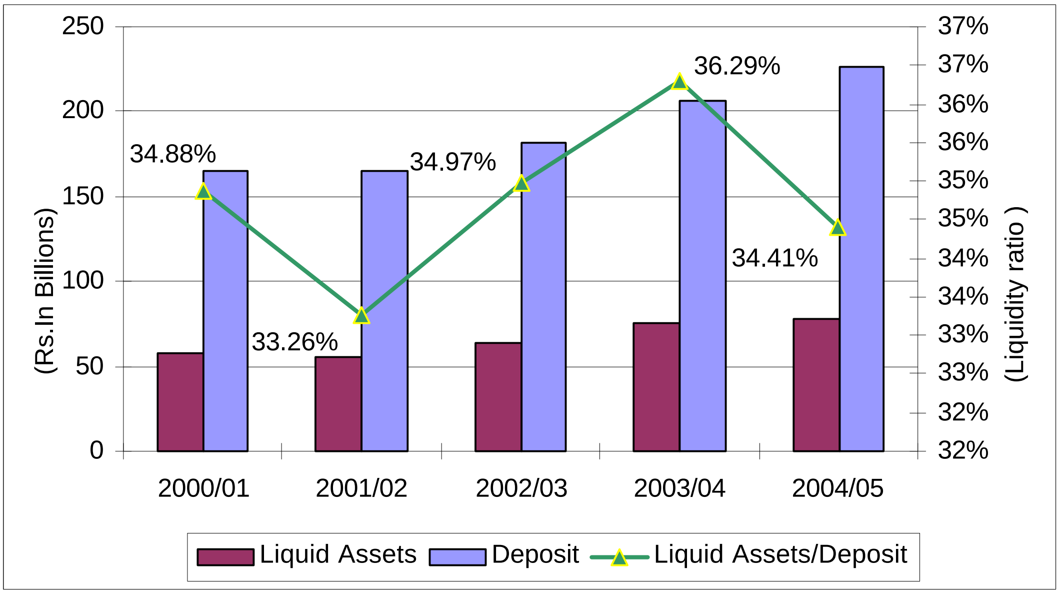
The banks should be able to honour the demand for payment by its depositors and other stakeholders. In order to do so, banks maintain certain volume of liquid assets, the size and volume determined by the bank's size of operations and the past trends. The banking industry's liquid assets (including the investment in government security) have registered a growth of 3.68 percent in 2004/05. The growth in the deposit liabilities and total assets of the industry, during the same period, has been 9.34 percent and 12.48 percent respectively. The proportion of liquid assets to total assets and total deposits, as on Mid July 2005, is 25.81 percent and 34.41 percent respectively.

Table 15 : Movement in the Liquid Assets of the banks

(Rs.In billions)

	2004/05	Change %	2003/04	Change %	2002/03
Liquid Assets	77.77	3.68	75.01	18.31	63.40
Deposit	225.99	9.34	206.68	14.01	181.29
Total Assets	301.37	12.48	267.94	13.44	236.20

Chart 21 : Liquidity position of the Nepalese banking industry



5. Issues and Challenges of Supervision

5.1 Corporate Governance

The examination of banks has revealed that in every bank there are few cases of lapses in the corporate governance, the only difference is in the gravity of the matter. An effective control system and strong corporate governance are the basic foundations of a sound and stable bank. Realizing the importance of this facet, NRB has issued a directive on corporate governance which states the minimum guidelines in respect of the role and responsibility of director and employees, role of audit committee and the activities prohibited for the banks etc. However, it is the responsibility of the director and the senior management to build on the minimum guidelines and observe its adherence. It is high time that the board of directors and the senior management of the bank realize that the observance of good corporate governance is a lot more than just abiding by the provisions of Nepal Rastra Bank's directives and also entails following the norms in its essence.

5.2 Electronic Banking

Technological innovations have made business processes easier and more accessible. The fusion of computers, the internet and other technologies has removed distances between entities. The banking industry has been involved in re-engineering its processes that were hitherto manually and mechanically driven, through the use of Information Technology. As a result of these developments, the supervisor faces considerable challenges, and there is a growing need to change the supervisory methodology and the procedures. Likewise, there is a need for a guideline on the electronic banking facilities being offered by the banks.

5.3 Risk based Supervision

Supervisory authorities all over the world are gradually moving towards adopting risk based supervision. Though, Bank Supervision Department has been adopting this approach, its use has been limited and the supervisory procedures are, at large, based on conventional approaches. There is now a growing stress to adopt a more risk focused comprehensive approach, which is likely to contribute positively in the supervisory function. This approach would be more focused, responsive and tailored to the specifications of the bank and would facilitate the objective of delivering effective supervision.

5.4 Implementation of Basel

Nepal Rastra Bank is committed to adopt international best practices. In this juncture NRB is preparing for adoption of International Convergence of Capital Measurement and Capital Standards, better known as Basel II. The journey towards adoption of the Basel II is very challenging in various aspects like the availability of resources, the effectiveness of internal control systems and corporate governance and risk management practices adopted by the banks. This will require a lot of effort and determination from the banks and changes will be inevitable in various areas like information system, service delivery process, development of human resources. In a nutshell, banks will have to change the way they do their business. The adoption of Basel is no less challenging for the supervisors as well. The supervisory agency will require lot of well versed personnel in areas of risk management and the supervisory procedure and methods will need to be revamped. Despite all these challenges, Nepal Rastra Bank is committed to promote sound and stable banking industry in Nepal and Basel II is the way to go forward.

5.5 Frequent changes and Ambiguity in directives

Nepal Rastra Bank has a separate department to look into the regulation aspects of banks. The directives and circulars applicable to the banks, under the prevailing organizational structure, are primarily issued from Bank and Financial Institutions Regulation department and Foreign Exchange Management department. Some of the directives and circulars issued contain some ambiguous provisions, which are vague and lack in clarity. In such cases, Banks tend to portray a meaning that best suits their needs and these kinds of directions are difficult to enforce. Similarly, frequent changes to the directions have also made the supervision aspect more challenging. Although, mechanisms are in place to include the supervisory perspective in the development of regulation, the degree of coordination needs to be amplified in the future to supplement the supervisory activity.

5.6 Regulation on Multi-banking

The recent examination and supervision of banks revealed a tendency of large borrowers to simultaneously transact with a large number of banks. The number of players in the industry is on the rise and banks are facing stiff competition from their rivals. In such a scenario, it is only commonsensical that banks are marketing aggressively to get a large piece of the pie. This competition has greatly aided the large business and corporate houses. The rates and charges on the facilities are steadily declining and banks are head over heels to fulfill their request in anticipation of better and fruitful relationship, even in the advent of higher risk. These borrowers tend to have large volume of unutilized limits with a large number of banks and are very demanding on the banks. Consequently, the banks are gradually accepting collaterals that they, otherwise, would not have even considered. These proceedings have highlighted the immediate need for a regulation in multi banking, which would instill a discipline on the market.

5.7 Revenue audit

The examination and supervision of banks have revealed that some of the banks are indulged in the practices of window dressing to shield their actual position. The examination of few banks has disclosed the large volume of adversely classified loans and recognition of income against the provisions of NRB directives. Some, of the banks are even following the practices of under providing, especially at year ends to inflate their profits. This has made the need for revenue audit of banks, more pronounced. Bank Supervision department is deliberating on this issue and necessary steps will be taken to resolve this issue.

5.8 Restructured and Rescheduled accounts

Nepal Rastra Bank has issued guidelines in respect of the restructured and rescheduled accounts. This guideline has specified the qualifying criterion for the reschedule and restructure of loan accounts and their provisioning requirements. A large number of banks have been using this guideline to restructure/reschedule their problematic accounts and escaping with lower amount of loan loss provisions. The guideline has made it clear that, besides the fulfillment of various conditions the borrower has to settle a certain proportion of interest dues to be eligible for restructure or reschedule. The banks, meanwhile, tend to ignore about these qualifying criterions and restructure or reschedule the accounts, solely on the basis of interest recovery. The banks also tend to immediately reduce the provision on such accounts, despite the gestation period of two years prescribed by this guideline. A large number of non-compliance in respect of this provision has been perceived and a need for the revision of this guideline has been experienced to make it more enforceable.

5.9 Registration of charges

Earlier, borrowers used to provide immovable properties as collateral security for the facilities. The banks, then without stiff competition, also used to demand high quality of collaterals from the borrowers. Now, as the competition is rising, the borrowers are more assertive and the nature of security provided by them is movable. The volume of loans extended against the security of hypothecated assets is growing at a rapid pace. The borrowers availing such kind of facility tend to provide a written document stating that the goods are hypothecated to so and so bank. However, there is no concrete evidence that they are indeed hypothecated to the said bank as, in Nepal, there is no legal provision regarding the registration of charges, unlike in other countries. In the present context, the borrower is also able to obtain finance from two or more than two banks, against the same security. This scenario has been multiplying the risk exposure of the banks and is detrimental to the interest of the stakeholders and has the potential to derail the objective, of sound and stable banking system, envisioned by Nepal Rastra Bank. Thus, something needs to be done about the establishment of said procedures to instill discipline in the market, eliminate the possibility of malpractices and mitigate the risk of the banks.

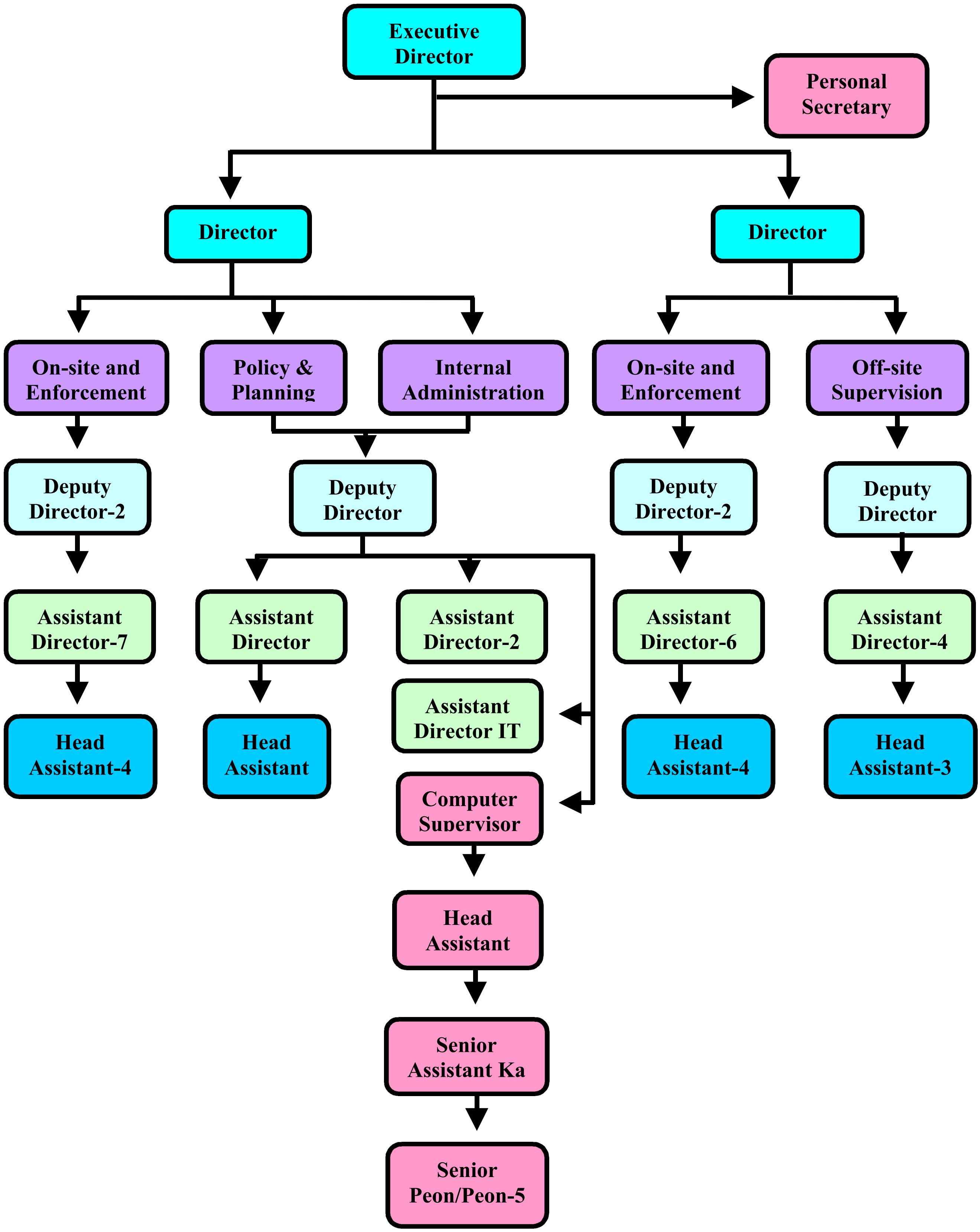
5.10 International Financial reporting Standards

The challenge of ensuring compliance with the international financial reporting standards is intense. Nepal Rastra bank, by statute, is responsible to guide the accounting policies and procedures of all banks and financial institutions operating in Nepal. In line with the international developments, it is important that Nepal Rastra Bank makes sure that the provisions of international financial reporting standards are being followed, except in areas where local regulation prevails. Besides, the accounting standards, it is also essential that the disclosure requirements of the banks are adequate and in compliance with international financial reporting standards.

5.11 Capacity building

The major pre-requisite of an effective supervision is the competence of the supervisor. The banking industry is continuously evolving and in order to deliver an effective supervision in such a scenario, it is vital that supervisors are competent and adept in their work. The dynamic state of banking epitomizes the importance of the competency and skills of the supervisor. Realizing this, Bank Supervision Department has been providing various prospects for honing the skills of the supervisors through participations in trainings, seminars both at national and international levels. The capacity building is a continuous exercise and efforts should be made to ensure that supervisors are not just adept to meet the challenge of today, but for tomorrow as well.

Appendix 1: Organizational Structure of Bank Supervision Department



Appendix 2: Synopsis of circulars issued by Bank and Financial Institutions Regulation Department in the year 2004/05

1. Ref : Provision on Rescheduled and Restructured Accounts, Date of Issue : 16.07.2004

With reference to loan loss provision to be created in respect of rescheduled and restructured accounts for the Year 2003/04, Banks and Financial Institutions will have to create a loan loss provision of 1 percent as applicable to Pass Loan on the accounts that are restructured or rescheduled with the recovery of all due interests. But the Banks and Financial Institutions availing this facility shall not be allowed to distribute dividends to the shareholders from the profits arising out of this waiver.

2. Ref : Cash Reserve Ratio, Date of Issue : 22.07.2004

In accordance with the provisions of the Monetary Policy, the rate of cash reserve ratio to be maintained by the Banks has been revised to 5 percent for the year 2004/05. All the procedural aspects as per the earlier directive of Nepal Rastra Bank shall remain in place.

3. Ref : Refinance, Date of Issue : 22.07.2004

The interest rate for the refinance loan to be provided to Bank and Financial Institution has been revised. The new interest rate for the sick industries rehabilitation program will be 1.50 percent while the rate for the refinance loan to be provided to Rural Development Banks and for refinance of Export loan and Agricultural loan to be provided in local currency shall be 3 percent.

4. Ref : Capital Adequacy, Date of Issue : 22.07.2004

The capital adequacy ratio to be maintained by the Banks and Financial Institutions for the year 2004/05 was 12 percent. However, because of the prevailing difficult circumstances, the capital adequacy ratio for the year 2004/05 has been reduced to 11 percent.

5. Ref : Investment in Shares of Financial Institutions, Date of issue : 23.07.2004

Banks and Financial Institutions were required to divest their investment in shares of other Banks and Financial Institutions by Mid July 2004. In this regard, the investment in shares which were not divested by Mid July 2004 and whose divestment is not restricted by statute shall require a provision of 100 percent in the year 2004/05.

6. Ref : Banking Transaction on Public Holidays, Date of issue : 08.10.2004

The earlier provision of requiring a pre-approval from Nepal Rastra Bank for conducting banking transaction in the public holidays and beyond the normal banking hours has been repealed. The banks can now conduct such kind of banking transactions under pre-intimation to Nepal Rastra Bank.

7. Ref : Loan write off guidelines, Date of issue : 11.03.2005

Bank and Financial Institutions have been given the minimum guidelines to be incorporated in the formulation of the loan write off byelaw of the respective banks. Some of the major guidelines are:

- Banks should develop criteria to identify the loans that are unrecoverable and should formulate the byelaw for the write off of these accounts with the approval of the board.
- Banks may write off loans which fall under the Loss loan category as per NRB directives with 100 percent loan loss provision. However, all loans with past dues of more than 5 years and with 100 percent provision should be compulsorily written off.
- The borrower and other related parties to the loan must be included in the Blacklist of Credit Information Centre.
- Banks should maintain separate and updated information in relation to the loans written off.
- Banks should establish a separate unit for the recovery of written off loans and banks should continue their efforts for the recovery of such written off loans.
- Banks should disclose the details of the loans written off during the year in its annual accounts. They should also submit the details of such loans to the Bank Supervision Department and Credit Information Centre within 15 days from the date of Fiscal year end.

8. Ref : Cash Reserve Ratio, Date of issue : 27.04.2005

The procedure for calculation of the cash reserve ratio as defined by circular of 28.07.2003 has been amended. The new methodology will be based on seven days a week and the basis will be the average weekly deposit of four weeks prior to that date. The average weekly deposit and the cash reserve will be calculated as the sum of the deposits of the bank and their balance with Nepal Rastra Bank for the week (Sunday to Saturday) and divided by the number of days, independently. Banks are now required to submit the required information within a fortnight from the end of the week. All other procedural aspects in relation to CRR calculation and penalties remain the same.

9. Ref : Addendum to Provision requirements in respect of Rescheduled Restructured accounts, Date of issue : 10.05.2005

In case of restructure and reschedule of loans of industries, recommended by the Sick Industries Interim Investigation and Recommendation Committee of the Ministry of Industry, Commerce and Supply, with the recovery of minimum 12 percent of interest and completion of other formalities, banks will only have to create a provision of 25 percent. But, where the interest recovery has been less than 12 percent, banks will have to create provisions as per the existing regulation.

10. Ref : Disclosure of PAN, Date of Issue : 28.05.2005

Banks should arrange to disclose the PAN of Individuals/Firm/Companies with registration in the VAT, in the Credit Application itself.

11. Ref : Refinance rate, Date of Issue : 30.05.2005

The rate of the refinance for export loans funded in foreign currency was revised to 3.25 percent with effect from 30.05.2005 with all the procedural aspects and the conditions remaining the same.

12. Ref : Blacklisting, Date of issue : 31.05.2005

The previous directive on blacklisting issued on 04.06.2004 was retracted and a new one was issued. The directive has made the credit information, in respect of loans and advances above a sum of Rs.2.50 million, mandatory. The new directive is more stringent and it makes a distinction between the willful and non-willful defaulters. This directive also has provisions to blacklist the valuator and to recommend for the action against the Chartered Accountants who certify the false documents of the borrowers. The directive also has provisions to recommend for the seizure of passport of blacklisted borrowers.

The new directive covers various areas like procedure to be followed for inclusion in the blacklist, restriction on the sanction of loans and facilities, conditions for inclusion in the blacklist, identification of individuals, firm, Company and other Organized Institutions qualifying for Blacklist, conditions where names can be taken off the Blacklist etc.

Appendix 3: Synopsis of the circulars issued by Foreign Exchange Management Department

1. Ref : Limited Foreign Exchange Facilities, E.Pra.No.325, Date of Issue : 23.07.2004

Banks were allowed to directly provide foreign currency exchange up to USD 500 to Nepalese individuals or institutions. This limit has been increased to USD 1,000 without changing the procedural aspects and qualifying criteria as specified in E.Pra.No.277.

2. Ref : Cancellation of Custom Cheques, E.Pra.No.327, Date of Issue : 22.07.2004

In respect of the Letter of Credit payable in convertible currency, banks may themselves cancel the cheques issued in lieu of custom charges after a meticulous review of the copy of Pragyapan Patra, revenue receipt and Bi.Bi.Ni.Fo.No.4. duly certified from the custom office.

3. Ref : Extension of Advance Payment Certificate, E.Pra.No.328, Date of Issue : 23.07.2004

Banks are authorized to extend the validity of the advance payment certificate (6 months at a time) if the goods, as specified in the advance payment certificate cannot be exported within the specified time frame and the period of issue of such certificate is below 3 years.

4. Ref : Refund , E.Pra.No.329, Date of Issue : 23.07.2004

Earlier, banks had to obtain an approval from Nepal Rastra Bank for refunding the amount deposited in the banks agency accounts in excess of USD 2,000 which remain unpaid. This circular, now, allows the banks to refund such amounts without the approval of Nepal Rastra Bank.

5. Ref : Payment in foreign currency, E.Pra.No.330, Date of Issue : 23.07.2004

The E.Pra.circular No.271 restricted the foreign currency accountholders in effecting payment in foreign currency in Nepal, by debiting their account. However, from now on, such payment will not be restricted in cases where the beneficiary is a government entity.

6. Ref : Opening of Accounts in Non Banking Entities, E.Pra.No.331, Date of Issue : 23.07.2004

Banks may open their accounts in non-banking entities in foreign countries for the purpose E-Commerce and E-payment transaction, without the approval of Nepal Rastra Bank.

7. Ref : Investment in Foreign Currency, E.Pra.No.332, Date of Issue : 23.07.2004

The E.Pra.Circular No.271 required that foreign currency deposit mobilized by the banks could be invested only in foreign currency assets with a maturity of less than 1 year. This provision has been revoked and banks are now free to determine the maturity of the assets.

8. Ref : Deposits in the USD accounts, E.Pra.No.333, Date of Issue : 23.07.2004

The USD cash being brought to Nepal Rastra Bank is being deposited to the concerned bank's USD account after deduction of 2 percent. From now onwards, all other convertible currency deposits shall be converted to USD using the prevailing buying rate of USD and the proceeds will be credited in the bank's USD account after a deduction of 2 percent. As accounts denominated in other convertible currencies will no longer be needed, such accounts should be closed by Mid August 2004.

9. Ref : Credit Cards, E.Pra.No.334, Date of Issue : 23.07.2004

Some new provisions have been added to the E.Pra circular No.276 regarding credit cards. The new provisions organizes debit card in the same category as credit cards. The customers may, now, use their exchange facilities through credit cards and banks may issue cards under prevailing laws up to USD 5,000 with condition for settlement in the same currency.

10. Ref : Foreign Currency Bank Guarantee, E.Pra.No.335, Date of Issue : 23.07.2004

Banks may issue guarantees in convertible foreign currencies without the approval of Nepal Rastra Bank on behalf of travel agencies in favor of foreign airlines for their agency, money transfer companies in favor of principal companies for advance payment and on behalf of the procurer for goods and services for which the payment has to be made in foreign currency.

11. Ref : Inter Bank Lending in INR, E.Pra.No.336, Date of Issue : 23.07.2004

Banks may now carry out inter bank lending-borrowing transactions in Indian Rupees as well.

12. Ref : Birgunj Dry Port, E.Pra.No.337, Date of Issue : 28.07.2004

According to the E.Pra.circular No.250, importers need to specify the custom points at the time of application and six custom points were identified for the purpose. Now, the dry port of Birgunj has come into operation and the import as well as export with the third countries can be carried out through this point.

13. Ref : Exchange Facilities to various entities, E.Pra.No.338, Date of Issue : 11.08.2004

Banks may directly provide exchange facilities to various institutions like Ministries of the Government of Nepal, Nepal Army, Nepal Police, Armed Police Force, Nepal

Electricity Authority, Radio Nepal, Nepal Oil Corporation, Nepal Tourism Board etc. for various purposes like import of goods and machineries, membership fees, consultancy fee, technical service fee etc. under stipulated conditions. Some of these conditions include submission of documentary evidence to justify the expense, payment through draft, telex transfer or letter of credit directly to the beneficiary etc.

14. Ref : Foreign Currency Accounts for remittance companies, E.Pra.No.339, Date of Issue : 26.08.2004

The remittance companies licensed from Nepal Rastra Bank are eligible to open foreign currency accounts in which they may only deposit remittances, received from the foreign banks. The companies may sell off these foreign currencies to the local commercial banks. The banks should routinely transfer the foreign currency deposits to local currencies, in case these deposits remain in the foreign currency account for more than seven days.

15. Ref : Import from India in Foreign Currency, E.Pra.No.340, Date of Issue : 13.09.2004

In respect of the import of goods from India in Foreign currency, E.Pra.Circular No.250 warranted that the "Bill of Export for duty free goods" should be compulsorily submitted with the form number and date of either the AR-4/AR-4A or of Nepal Invoice along with the commercial invoice. From now on, if the form number and date of AR-4/AR-4A or Nepal Invoice is specified, the submission of "Bill of Export for goods under claim for duty drawback" is also eligible for making payment in the foreign currency.

16. Ref : Foreign Currency Transaction on Holidays and beyond office hours, E.Pra.No.341, Date of Issue : 11.10.2004

Banks may carry out foreign currency transactions on public holidays and even before and after the normal office hours on other days without the approval of Nepal Rastra Bank.

17. Ref : Euro and GBP Accounts, E.Pra.No.342, Date of Issue : 14.10.2004

Earlier, banks could only operate an USD account at Banking Office of Nepal Rastra Bank. According to this circular, the banks may now operate a EURO and a GBP account as well, but only for inter bank foreign currency clearing purposes.

18. Ref : Restriction on Imports, E.Pra.No.344, Date of Issue : 02.12.2004

A restriction has been imposed on the import of unprocessed meat and eggs of various forms of birds, including chicken and duck, from all Asian countries but India, Sri Lanka and Bhutan. The ban includes other unprocessed poultry commodities as well.

19. Ref : Business Credibility Information, E.Pra.No.346 Date of Issue : 19.04.2005

Banks can now directly make payment in respect of service charges for the Business Credibility Information, after deduction of applicable advance tax, provided that the beneficiary is an institution situated in foreign country and there is a documentary evidence to support the charges.

20. Ref : Exchange Facilities to students traveling abroad, E.Pra.No.347, Date of Issue 13.04.2005

Banks can now provide foreign exchange facilities in respect of educational expenses to students planning to pursue their studies abroad, without the approval from Nepal Rastra Bank. The students planning to study abroad on their own expenses and requiring exchange facilities should submit a recommendation letter from Ministry of Education and Sports along with the supporting documentary evidences to justify their request for exchange. The payment should be made available via Telex Transfer/Demand Draft/Swift directly in favor of the concerned institution. However, in case of living expenses, the students will continue to require an approval from Nepal Rastra Bank.

Appendix 4: Assessment of compliance with Core Principles for Effective Banking Supervision

1. **Preconditions for effective banking supervision. (Principle No. 1)**

   The first principle stresses the necessity of a target framework and transparent, attainable and consistent liability for all institutes involved in banking supervision. This principle shows the necessity of a legal framework to supervise banks and information exchange among respective institutions.

   Nepal Rastra Bank is an autonomous body and NRB Act, 2058 has recognized Nepal Rastra Bank as the supervisory authority for all the licensed financial institutions operating in Nepal, which, of course, includes the commercial banks. This Act clearly lays down the powers and duties of Nepal Rastra Bank as a supervising agency. The BAFIO serves the purpose of the banking law, which defines the scope of operations of the financial institutions. Meanwhile, the inspection and supervision Byelaw has been enacted to define the duties, authorities and responsibility of the supervisors as well as the procedural aspects of inspection and supervision.

   Most of the essential criteria of this principle have been met and thus the compliance is assessed to be **"Largely Compliant."** The non-compliance of this principle relates to the legal protection of the supervisors. The statute is yet to provide legal protection from personal and institutional liability for supervisory actions taken in good faith in the course of performing supervisory duties.

2. **Licensing and structure. (Principles no. 1-5)**

   These principles focus on the process of licensing, ownership and the business coverage of banks and related banking groups. The supervision system has to be based on a banking licensing system to identify the institutions to be monitored, especially on the use of the word BANK in running their businesses, which needs to be limited to avoid confusion amongst the public. The licensing system has to include basic assessment covering aspects of: ownership, management and the operational scheme. Supervisors have to be able to review the acquisition of a bank.

   Nepal Rastra Bank has defined set procedures and rules in respect of the Bank licensing, change in the ownership of the bank, branch opening etc. The BAFIO has categorized all the financial institution in four categories: A to D and defined their scope of operations. "A" class financial institution refers to the commercial banks, "B" refers to Development banks, "C" refers to finance companies and "D" refers to institutions dealing in microfinance. Likewise, a direction has been issued which requires all financial institutions, except commercial banks, to disclose the term Financial Institution in their name.

   Thus, the compliance of assessment in respect of this core principle is assessed to be **"Compliant."**

3. **Prudential regulations and requirements (Principles no.6-15).**

These principles stress the need to identify different types of risk encountered by banks and methods to ensure that these risks are well monitored and controlled. The development and maintenance of prudential guidance is an integral part of the process. The guidance has to cover capital adequacy, loan loss provision, asset concentration, liquidity, risk management and internal control that can be either quantitative or qualitative. Internal control has to cover procedures intended to prevent crime in banks.

Detailed directives have been issued to banks in respect of minimum capital requirements, loan loss provision, single obligor limit, accounting policies, corporate governance, black listing, consortium financing, investment etc. Risk management policies and internal control systems of commercial banks are thoroughly reviewed at the time of inspection to assess the adequacy of risk management policies and procedures. At the same time due attention is paid to the compliance status of the directives issued by the NRB and the attitude of the management towards the compliance.

The weaknesses observed in the banks, in terms of compliance, risk management and internal control system are highlighted in the Inspection reports and specific directions are given to resolve these lapses. Thus, it can be concluded that the assessment in terms of this category can be classified as **"Largely Compliant."**

4. **Methods of ongoing bank supervision (Principles no. 16-20).**

These principles state the need for both on-site and off-site supervision of banks. Off-site supervision includes analyses of the reports and conditions of a bank and the affiliated entity based on consolidation as well as individually. The importance of both independent data validation and the need to interact with bank management to ensure a bank’s operations are fully understood is stressed here.

Bank supervision department uses both onsite and offsite supervision to deliver effective supervision of the banks. Standard forms have been designed to collect the necessary financial information from the banks with specific timeframe. The information collected from the banks are analyzed to assess the financial position of the bank as well as to identify the potential problems that may arise at a future date. The data provided by the bank are verified at the time of onsite examination in order to establish the accuracy and reliability of data.

Bank Supervision Department has also been extensively using the work of an external auditor in assessing the bank's financial position and risk management practices. Nepal Rastra Bank has also recently started a limited version of consolidated supervision of banks, under which special attention is being paid to a group of banks and financial insitutions relating to a same group.

So, it is assessed that the compliance of Principle 16-19 is categorized as **"Largely Compliant."**

5. **Information requirements (Principle no. 21).**

Each bank has to maintain an appropriate record generated from consistent accounting policy to enable the supervisor to obtain objective understanding on the financial condition and profitability of the bank. Each bank also has to issue periodic financial reports describing their conditions objectively.

Banks are required to publish their various information including the financial position and interest rates on a quarterly basis. Likewise, the banks are required to publish their annual accounts with extensive disclosures in the statutory formats prescribed by NRB. Earlier, the requirements for periodical returns were not complied by two banks in a timely manner. But, there has been a noticeable improvement in this aspect.

The accuracy and reliability of the data submitted or published by the bank is verified during the onsite examination and it is also ensured that bank follows consistent accounting policy and there are adequate justification and disclosures in case of the bank, adopting a different accounting policy.

Thus, the compliance of this core principle is assessed to be **"Complaint."**

6. **Formal authority of supervisor (Principle no. 22).**

The supervisor should have appropriate authority to take corrective actions, if a bank fails to fulfill prudential standards, or if the importance of a depositor is threatened.

The statutes, NRB Act, 2058 and BAFIO, have clearly laid down the authority of the supervisors. The supervisors are authorized to take/recommend corrective measures when the prudential regulations are violated or the depositors' interests are compromised. So, the compliance of this Principle is assessed to be **"Compliant."**

7. **Cross-border banking (Principles no. 23-25).**

These principles evaluate the role of home and host supervisors and stress the need for consolidated supervision and the authority to exchange information with other supervisory authorities.

Nepal doesn't yet have any foreign bank branches and neither the Nepalese banks have their presence abroad, thus far. However, steps are being taken to prepare for the regulation and supervision of the foreign bank branches as Nepal is looking to open its market for the foreign bank branches by 2010 A.D. In the present context, the assessment of this category has to be **"Non-Compliant."**

Appendix 5: Trainings and Seminars for Bank Supervisors in 2004/05

S.N.	Programme	Organizer	No.of Participant
1	Adequacy of the Existing Level of Capital Implied by Basel	SEACEN	1
2	Anti Money Laundering	International Monetary Fund	1
3	APEC Financial Regulation	Asian Development Bank	1
4	Bank Supervision and Regulation	SEACEN	1
5	Central Banking	BTC	2
6	Central Banking Orientation	BTC	4
7	Computer Exposure	BTC	1
8	Computer Operation	BTC	1
9	Conference of Directors of Supervision of APEC countries	SEACEN	1
10	Corporate Governance	Financial Stability Institute	1
11	Electronic Banking and Technology Risk Supervision	SEACEN	1
12	Financial Markets and New Financial Instruments	SEACEN	1
13	Inaugural MAS Regional Banking Supervisor's Training	Monetary Authority of Singapore	1
14	Inspection and Supervision	BTC	3
15	International Conference of Banking Supervisors	Banco De Espana	1
16	Monetary and Fiscal Management	BTC	1
17	Practical Techniques for Management and Measurement of Operational Risk	Financial Stability Institute	1
18	Regional Seminar for Bank Supervisors and Regulators	SEACEN- Financial Stability Institute	1
19	Remittance	International Money Express	1
20	Research Methodology	BTC	1
21	Risk Based Supervision	BTC	4
22	Risk Modelling and Basel II	SEANZA- Financial Stability Institute	1
23	Seminar for Senior Bank Supervisors	SEACEN & Nepal Rastra Bank	3
24	Seminar on Market and Liquidity Risk	Financial Stability Institute	1
25	Structural Changes in the Financial Sector	SEACEN	2

Appendix-6: Excerpts of Audited Financial Statements of Commercial Banks

1. Nepal Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	380,383	380,383	380,383	380,383	380,383
Reserves and Surplus	-6,734,898	-9,934,258	-10,211,515	-9,394,908	-7,805,928
Deposit	35,618,590	34,264,847	35,014,000	35,735,045	35,934,163
Borrowing	211,171	213,264	52,010	-	1247,065
Bills Payable	87,431	120,145	141,311	31,427	417,788
Other Liabilities	12,029,066	14,515,463	14,440,302	17,409,934	16,871,683
Total Liabilities	**41,591,743**	**39,559,844**	**39,816,491**	**44,161,881**	**47,045,154**
Assets					
Cash Balance	1,782,946	1,665,104	1,416,545	1,010,231	1,069,614
Bank Balance	4,483,850	4,962,013	3,178,624	4,850,838	5,089,724
Money At call	1,649,468	1,543,599	81,540	751,995	550,000
Investment	6,776,326	7,151,381	12,447,699	11,004,820	14,199,216
Loan and Advances	11,918,937	8,638,438	7,971,097	8,881,824	8,218,909
Fixed Assets	146,938	139,641	137,795	195,047	187,085
Other Assets	14,833,278	15,459,668	14,583,191	17,467,126	17,730,606
Total Assets	**41,591,743**	**39,559,844**	**39,816,491**	**44,161,881**	**47,045,154**
Expenses					
Interest Expenses	1,834,965	1,713,203	1,585,600	1,025,533	748,953
Staff Expenses	871,448	1,227,851	1,541,829	1,848,846	1,305,249
Office Expenses	158,624	158,492	225,923	299,060	382,710
Exchange Loss	-	-	-	-	-
Non Operating Expenses	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	2,192,591	2,114,436	16,290	-	4,250
Provision for NBA	-	-	-	18,522	-
Provision for Staff Bonus	-	-	-	78,932	-
Provision for Income Tax	-	-	-	-	-
Total Expenses	**5,057,628**	**5,213,982**	**3,369,642**	**3,270,893**	**2,441,162**
Income					
Interest Income	2,383,195	1,526,989	2,200,314	1,825,041	1,987,119
Commission and Discount	234,183	241,007	280,137	231,916	188,421
Exchange Income	133,982	183,620	42,661	71,815	1,369
Non operating Income	120,591	124,759	131,818	645,528	1,451,459
Other Income	7,768	66,311	462,981	1,206,984	542,924
	2,879,719	**2,142,686**	**3,117,911**	**3,981,284**	**4,171,292**
Net Profit/(Loss)	**-2,177,909**	**-3,071,296**	**-251,731**	**710,391**	**1,730,130**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	-17.51%	-27.03%	-29.75%	-25.91%	-19.54%
Capital Fund to Risk Weighted Assets	0.00%	-19.67%	-28.25%	-24.97%	-19.54%
Non-Performing Loan to Total Loan	50.80%	56.27%	60.47%	53.74%	49.64%
Net Profit To Gross Profit	-14833.87%	320.98%	106.92%	87.94%	99.75%
Weighted Average Interest Spread	3.31%	0.88%	2.94%	3.16%	4.40%
Net Interest Income (Rs. in million)	548	-186	615	800	1,238
Return on Assets	-5.24%	-7.76%	-0.63%	1.61%	3.68%
Credit to Deposit	57.33%	56.19%	51.79%	50.20%	46.94%
Liquid Assets to Total Assets	35.19%	38.58%	42.27%	38.96%	38.23%
Liquid Assets to Total Deposit	41.09%	44.55%	48.07%	48.15%	50.06%

2. Rastriya Banijya Bank

(Rs.In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	1,172,300	1,172,300	1,172,300	1,172,300	1,172,300
Reserves and Surplus	-11,550,356	-18,623,655	-23,563,206	-22,610,203	-21,371,738
Deposit	40,773,660	38,993,290	39,402,273	40,866,767	43,016,063
Borrowing	146,926	156,167	161,950	79,966	4,217,812
Bills Payable	24,453	19,784	16,421	24,486	39,718
Other Liabilities	22,664,019	23,251,338	25,561,913	25,523,004	43,317,860
Total Liabilities	**53,231,002**	**44,969,224**	**42,751,651**	**45,056,320**	**70,392,015**
Assets					
Cash Balance	921,094	850,186	1,019,318	1,007,240	1,621,786
Bank Balance	4,167,783	3,676,460	2,716,731	6,011,850	3,931,408
Money At call	-	-	740,000	100,000	-
Investment	5,656,931	4,159,474	4,626,218	3,117,026	8,415,882
Loan and Advances	19,798,277	13,689,748	11,679,489	10,831,084	27,000,932
Fixed Assets	397,096	402,563	479,022	391,803	393,081
Other Assets	22,289,821	22,190,793	21,490,873	23,597,317	29,028,926
Total Assets	**53,231,002**	**44,969,224**	**42,751,651**	**45,056,320**	**70,392,015**
Expenses					
Interest Expenses	2,571,375	2,347,083	2,103,431	1,494,845	1,004,722
Staff Expenses	1,385,300	758,690	3,248,985	905,805	810,582
Office Expenses	324,802	242,720	244,831	230,229	234,349
Exchange loss	17,076	-	-	-	-
Non operating expenses	15	19	91	-	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	5,915,719	5,842,505	1,590,647	10,706	50,934
Provision for NBA	-	-	-	-	86,481
Provision for Staff Bonus	-	-	-	83,208	-
Provision for Income Tax	-	-	-	-	-
Total Expenses	**10,214,287**	**9,191,017**	**7,187,985**	**2,724,793**	**2,187,068**
Income					
Interest Income	2,833,517	1,744,740	2,044,055	2,235,881	2,328,821
Commission and Discount	157,590	214,520	211,484	309,803	287,753
Exchange Income	89,107	78,200	2,857	15,740	13,612
Non operating Income	14,268	7,114	6,760	147,086	44,266
Other Income	36,555	78,190	84,234	1,056,384	835,510
Total Income	**3,131,037**	**2,122,764**	**2,349,390**	**3,764,894**	**3,509,962**
Net Profit/(Loss)	**-7,083,250**	**-7,068,253**	**-4,838,595**	**1,040,101**	**1,322,894**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	-17.03%	-35.30%	-45.52%	-43.27%	-34.12%
Capital Fund to Risk Weighted Assets	0.00%	-28.02%	-44.28%	-42.12%	-34.12%
Non-Performing Loan to Total Loan	48.49%	55.07%	60.15%	57.64%	52.99%
Net Profit To Gross Profit	606.69%	576.65%	148.97%	91.72%	90.59%
Weighted Average Interest Spread	1.60%	-0.90%	0.90%	3.39%	4.91%
Net Interest Income (Rs. in million)	262	-602	-59	741	1,324
Return on Assets	-13.31%	-15.72%	-11.32%	2.31%	2.33%
Credit to Deposit	67.14%	69.34%	67.53%	61.43%	62.77%
Liquid Assets to Total Assets	20.03%	19.16%	20.15%	22.28%	21.10%
Liquid Assets to Total Deposit	26.15%	22.09%	21.86%	24.56%	27.87%

3. Nabil Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	491,654	491,654	491,654	491,654	491,654
Reserves and Surplus	571,192	654,773	822,532	990,028	1,165,984
Deposit	15,839,008	15,506,428	13,447,661	14,119,033	14,586,609
Borrowing	-	417,298	961,461	229,660	17,062
Bills Payable	69,697	67,753	108,944	173,499	119,753
Other Liabilities	799,100	491,346	730,373	741,612	805,268
Total Liabilities	**17,770,651**	**17,629,252**	**16,562,625**	**16,745,486**	**17,186,330**
Assets					
Cash Balance	208,483	318,159	187,777	286,886	146,353
Bank Balance	604,423	733,661	956,991	683,600	413,028
Money At call	522,550	31,368	670,204	918,733	868,428
Investment	7,704,309	8,199,515	6,031,176	5,835,948	4,267,233
Loan and Advances	7,732,637	7,437,895	7,755,950	8,189,993	10,586,170
Fixed Assets	248,666	237,639	251,915	338,126	361,235
Other Assets	749,583	671,015	708,612	492,200	543,883
Total Assets	**17,770,651**	**17,629,252**	**16,562,625**	**16,745,486**	**17,186,330**
Expenses					
Interest Expenses	578,364	462,079	317,348	282,948	243,544
Staff Expenses	147,356	147,439	210,583	180,840	199,516
Office Expenses	122,795	134,317	166,200	150,759	190,299
Exchange loss	-	-	-	-	-
Non operating expenses	-	50	-	-	-
Bad debts written off	-	441,525	51,574	81,821	31,133
Loan loss Provision	165,767	-	-	1,052	4,207
Provision for NBA	-	-	-	-	239,150
Provision for Staff Bonus	52,597	44,116	66,364	71,941	84,198
Provision for Income Tax	181,995	137,950	199,145	201,763	-
Total Expenses	**1,248,874**	**1,367,476**	**1,011,214**	**971,124**	**992,047**
Income					
Interest Income	1,266,704	1,120,184	1,017,872	1,001,617	1,068,747
Commission and Discount	97,144	114,337	144,406	135,958	128,883
Exchange Income	159,514	154,219	144,075	157,324	184,879
Non operating Income	1,909	-	86,946	92,781	72,241
Other Income	14,979	250,374	34,151	38,755	55,934
Total Income	**1,540,250**	**1,639,114**	**1,427,450**	**1,426,435**	**1,510,684**
Net Profit/(Loss)	**291,376**	**271,638**	**416,236**	**455,311**	**518,637**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	6.50%	10.53%	11.45%	12.12%	11.35%
Capital Fund to Risk Weighted Assets	10.46%	13.86%	13.05%	13.56%	12%
Non-Performing Loan to Total Loan	16.01%	7.14%	5.54%	3.35%	1.32%
Net Profit To Gross Profit	42.12%	30.34%	56.76%	56.08%	61.29%
Weighted Average Interest Spread	4.50%	4.02%	4.51%	4.46%	5.01%
Net Interest Income (Rs. in million)	688	658	701	719	825
Return on Assets	1.64%	1.54%	2.51%	2.72%	3.02%
Credit to Deposit	52.56%	50.31%	60.34%	60.55%	75.05%
Liquid Assets to Total Assets	22.89%	29.52%	32.63%	33.21%	22.35%
Liquid Assets to Total Deposit	25.69%	33.56%	40.18%	39.39%	26.34%

4. Nepal Investment Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	169,985	169,984	295,293	295,293	587,738
Reserves and Surplus	299,108	353,485	343,250	433,755	592,435
Deposit	4,256,210	4,174,763	7,922,767	11,524,679	14,254,574
Borrowing	120,000	98,500	6,829	361,500	350,000
Bills Payable	5,182	6,823	31,634	57,836	15,008
Other Liabilities	166,684	170,335	414,477	582,433	474,309
Total Liabilities	**5,017,169**	**4,973,890**	**9,014,250**	**13,255,496**	**16,274,064**
Assets					
Cash Balance	71,497	61,523	200,971	315,383	374,266
Bank Balance	375,196	277,401	725,566	911,540	966,215
Money At call	-	-	40,000	310,000	140,000
Investment	1,970,278	1,822,162	1,705,241	3,862,483	3,934,189
Loan and Advances	2,318,830	2,564,424	5,772,141	7,130,125	10,126,056
Fixed Assets	33,974	35,883	191,116	249,788	320,592
Other Assets	247,394	212,497	379,215	476,177	412,746
Total Assets	**5,017,169**	**4,973,890**	**9,014,250**	**13,255,496**	**16,274,064**
Expenses					
Interest Expenses	163,426	130,436	189,214	326,202	354,549
Staff Expenses	33,988	41,720	61,288	89,749	97,004
Office Expenses	80,177	84,648	108,039	149,479	182,915
Exchange loss	-	-	-	-	-
Non operating expenses	25	-	-	-	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	45,282	75,188	30,335	78,767	140,409
Provision for NBA	-	-	-	12,325	-
Provision for Staff Bonus	10,428	8,679	18,906	25,719	37,075
Provision for Income Tax	37,440	21,010	53,332	78,802	101,529
Total Expenses	**370,766**	**361,681**	**461,114**	**761,043**	**913,481**
Income					
Interest Income	349,755	326,224	459,510	731,403	886,800
Commission and Discount	16,204	16,198	40,812	55,747	93,551
Exchange Income	49,835	42,856	50,834	87,980	102,518
Non operating Income	-	3,104	488	1,768	6,192
Other Income	11,380	30,404	26,288	36,816	56,567
Total Income	**427,174**	**418,786**	**577,932**	**913,714**	**1,145,628**
Net Profit/(Loss)	**56,408**	**57,105**	**116,818**	**152,671**	**232,147**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	13.10%	15.47%	7.88%	7.22%	8.52%
Capital Fund to Risk Weighted Assets	0.00%	17.21%	8.85%	11.18%	11.58%
Non-Performing Loan to Total Loan	8.29%	4.80%	1.98%	2.47%	2.69%
Net Profit To Gross Profit	37.72%	35.25%	53.25%	43.84%	45.42%
Weighted Average Interest Spread	4.04%	4.24%	4.80%	5.98%	4.30%
Net Interest Income (Rs. in million)	186	196	270	405	532
Return on Assets	1.12%	1.15%	1.30%	1.15%	1.53%
Credit to Deposit	57.07%	65.00%	74.74%	63.68%	73.33%
Liquid Assets to Total Assets	14.88%	11.33%	15.16%	26.69%	21.07%
Liquid Assets to Total Deposit	17.54%	13.49%	17.25%	30.70%	24.06%

5. Standard Chartered Bank Nepal Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	339,549	339,549	339,549	374,640	374,640
Reserves and Surplus	772,474	895,930	1,029,359	1,121,099	1,207,775
Deposit	15,430,051	15,835,748	18,755,634	21,161,442	19,335,095
Borrowing	1,666,713	684,724	79,164	78,283	55,926
Bills Payable	35,208	51,400	54,842	59,024	56,298
Other Liabilities	838,946	635,754	741,955	847,571	1,141,506
Total Liabilities	**19,082,941**	**18,443,105**	**21,000,503**	**23,642,059**	**22,171,240**
Assets					
Cash Balance	187,660	257,845	198,755	187,705	195,459
Bank Balance	773,392	567,420	1,313,550	1,835,459	915,658
Money At call	2,612,005	2,061,964	1,657,910	2,218,599	2,259,691
Investment	9,559,176	9,275,885	10,357,679	11,360,328	9,702,553
Loan and advances	5,407,093	5,364,006	5,695,824	6,693,862	8,420,869
Fixed Assets	121,807	101,066	191,711	136,234	71,413
Other Assets	421,808	814,919	1,585,074	1,493,492	605,597
Total Assets	**19,082,941**	**18,443,105**	**21,000,503**	**23,642,059**	**22,171,240**
Expenses					
Interest Expenses	474,401	299,860	255,154	275,809	254,126
Staff Expenses	102,121	126,510	128,328	134,685	148,586
Office Expenses	224,847	190,942	311,013	279,693	256,649
Exchange loss	-	-	-	-	-
Non operating expenses	-	18,362	15,530	10,756	-
Bad debts written off	872	509	-	-	-
Loan loss Provision	100,451	75,049	2,340	23,516	30,082
Provision for NBA	-	-	-	-	-
Provision for Staff Bonus	85,478	72,145	76,084	85,955	88,683
Provision for Income Tax	243,428	184,231	208,222	235,793	258,944
Total Expenses	**1,231,598**	**967,608**	**996,671**	**1,046,207**	**1,037,070**
Income					
Interest Income	1,227,219	1,013,636	1,001,360	1,042,175	1,058,677
Commission and Discount	187,279	163,463	215,201	198,947	184,830
Exchange Income	214,861	228,100	232,522	273,050	266,865
Non operating Income	344	-	-	-	2,957
Other Income	32,726	41,616	54,520	69,835	62,945
Total Income	**1,662,429**	**1,446,815**	**1,503,603**	**1,584,007**	**1,576,274**
Net Profit/(Loss)	**430,831**	**479,207**	**506,932**	**537,800**	**539,204**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	11.61%	13.92%	12.31%	14.14%	14.25%
Capital Fund to Risk Weighted Assets	0.00%	17.39%	14.21%	15.99%	16.36%
Non-Performing Loan to Total Loan	5.23%	4.84%	4.13%	3.77%	2.69%
Net Profit To Gross Profit	50.03%	59.08%	63.88%	60.90%	63.36%
Weighted Average Interest Spread	4.65%	4.19%	4.11%	3.76%	3.70%
Net Interest Income (Rs. in million)	753	714	746	766	805
Return on Assets	2.26%	2.60%	2.41%	2.27%	2.43%
Credit to Deposit	36.82%	35.97%	31.99%	31.63%	43.55%
Liquid Assets to Total Assets	43.93%	47.02%	47.11%	51.56%	47.69%
Liquid Assets to Total Deposit	54.34%	54.76%	52.75%	57.60%	54.69%

6. Himalayan Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	300,000	390,000	480,429	536,250	643,500
Reserves and Surplus	420,591	468,115	582,704	782,271	915,190
Deposit	17,636,848	18,619,375	21,007,379	22,010,333	24,814,012
Borrowing	79,527	534,012	645,840	659,006	506,048
Bills Payable	25,919	55,576	46,727	64,382	68,399
Other Liabilities	407,919	605,356	592,144	709,783	915,735
Total Liabilities	**18,870,804**	**20,672,434**	**23,355,223**	**24,762,025**	**27,862,884**
Assets					
Cash Balance	149,959	462,777	397,189	274,235	286,530
Bank Balance	1,285,216	801,896	1,582,019	1,726,949	1,727,941
Money At call	4,057,655	352,350	150,100	368,900	441,081
Investment	4,083,160	9,157,106	10,175,435	9,292,103	11,692,341
Loan and Advances	**8,537,666**	**8,913,724**	10,001,850	11,951,869	12,442,710
Fixed Assets	201,679	318,844	229,871	299,643	295,822
Other Assets	555,469	665,737	818,759	848,326	976,459
Total Assets	**18,870,804**	**20,672,434**	**23,355,223**	**24,762,025**	**27,862,884**
Expenses					
Interest Expenses	734,518	578,133	554,128	491,543	561,964
Staff Expenses	85,575	101,538	120,146	152,509	178,589
Office Expenses	141,116	155,786	177,132	211,047	277,375
Exchange loss	-	-	-	-	-
Non operating expenses	-	-	-	-	-
Bad debts written off	-	-	-	-	88,253
Loan loss Provision	134,320	166,506	202,873	186,226	55,709
Provision for NBA	-	-	-	10,988	
Provision for Staff Bonus	48,336	38,783	40,003	46,730	59,879
Provision for Income Tax	154,323	114,023	147,896	157,522	213,692
Total Expenses	**1,298,188**	**1,154,769**	**1,242,178**	**1,256,565**	**1,435,461**
Income					
Interest Income	1,326,378	1,148,998	1,201,234	1,245,895	1,446,468
Commission and Discount	96,065	101,704	102,561	123,929	132,816
Exchange Income	119,261	104,601	109,599	112,420	137,301
Non operating Income	2,303	2,451	10,760	3,299	2,795
Other Income	31,220	32,038	30,154	34,076	41,300
Total Income	**1,575,227**	**1,389,792**	**1,454,308**	**1,519,619**	**1,760,680**
Net Profit/(Loss)	**277,039**	**235,023**	**212,130**	**263,054**	**325,219**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	4.67%	6.99%	7.14%	7.66%	8.42%
Capital Fund to Risk Weighted Assets	0.00%	12.33%	11.03%	10.62%	11.10%
Non-Performing Loan to Total Loan	15.17%	8.35%	10.08%	8.88%	7.44%
Net Profit To Gross Profit	45.12%	42.40%	35.18%	39.59%	49.69%
Weighted Average Interest Spread	4.05%	3.53%	3.33%	3.25%	3.19%
Net Interest Income (Rs. in million)	592	571	647	754	885
Return on Assets	1.47%	1.14%	0.91%	1.06%	1.17%
Credit to Deposit	51.12%	51.33%	51.62%	58.70%	54.21%
Liquid Assets to Total Assets	40.89%	22.57%	26.24%	23.43%	28.44%
Liquid Assets to Total Deposit	43.76%	25.05%	29.17%	26.36%	31.95

7. Nepal Bangladesh Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	238,163	357,252	359,925	359,925	719,852
Reserves and Surplus	356,959	269,251	324,008	296,653	-485,276
Deposit	8,600,813	9,534,219	10,580,648	12,807,376	12,125,578
Borrowing	-	287,500	68,319	67,225	-
Bills Payable	41,554	42,729	63,929	150,924	41,662
Other Liabilities	420,723	611,282	535,783	575,870	875,334
Total Liabilities	**9,658,212**	**11,102,233**	**11,932,612**	**14,257,973**	**13,277,150**
Assets					
Cash Balance	242,812	364,618	309,790	352,153	300,849
Bank Balance	756,159	1,394,687	589,723	1,084,320	1,100,918
Money At call	397,633	100,000	100,000	-	-
Investment	691,085	1,008,642	2,168,923	2,699,166	2,411,720
Loan and Advances	7,074,912	7,632,418	7,247,978	8,648,744	7,787,690
Fixed Assets	91,699	91,509	80,734	191,178	189,307
Other Assets	403,912	510,359	1,435,464	1,282,412	1,486,666
Total Assets	**9,658,212**	**11,102,233**	**11,932,612**	**14,257,973**	**13,277,150**
Expenses					
Interest Expenses	515,848	552,743	597,881	625,362	547,943
Staff Expenses	50,746	61,362	69,897	76,624	95,884
Office Expenses	67,446	77,198	101,404	113,762	161,344
Exchange loss	-	-	-	-	-
Non operating expenses	-	4,149	-	-	22,393
Bad debts written off	-	23	-	-	-
Loan loss Provision	130,483	269,346	261,875	282,484	905,153
Provision for NBA	-	-	-	118,249	-
Provision for Staff Bonus	31,548	11,198	21,277	11,071	-
Provision for Income Tax	85,180	35,000	120,000	97,000	100,000
Total Expense	**881,251**	**1,011,019**	**1,172,334**	**1,324,552**	**1,832,717**
Income					
Interest Income	810,051	850,525	1,013,712	1,095,501	876,508
Commission and Discount	123,911	108,840	109,046	105,058	92,998
Exchange Income	102,097	69,706	56,300	56,160	39,671
Non operating Income	5,856	-	-	7,324	-
Other Income	38,089	47,732	64,771	63,152	73,997
Total Income	**1,080,004**	**1,076,803**	**1,243,829**	**1,327,195**	**1,083,174**
Net Profit/(Loss)	**198,753**	**65,784**	**71,495**	**2,643**	**-749,543**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	5.94%	5.75%	6.22%	4.65%	1.51%
Capital Fund to Risk Weighted Assets	0.00%	9.92%	8.11%	5.61%	3.02%
Non-Performing Loan to Total Loan	8.34%	15.77%	12.73%	10.81%	19.04%
Net Profit To Gross Profit	44.57%	17.25%	15.06%	0.52%	-293.24%
Weighted Average Interest Spread	4.87%	4.67%	4.74%	4.47%	2.84%
Net Interest Income (Rs. in million)	294	298	416	470	329
Return on Assets	2.06%	0.59%	0.60%	0.02%	-5.65%
Credit to Deposit	85.56%	84.79%	75.25%	75.31%	79.39%
Liquid Assets to Total Assets	17.18%	24.77%	25.48%	28.16%	27.22%
Liquid Assets to Total Deposit	19.29%	28.85%	28.73%	31.35%	29.81%

8. Nepal SBI Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	143,935	424,893	425,157	426,876	431,866
Reserves and Surplus	94,610	135,454	144,695	199,761	257,147
Deposit	6,612,290	5,572,470	6,522,817	7,198,327	8,654,774
Borrowing	126,906	558,792	65,826	117,178	469,629
Bills Payable	88	88	-	-	31,123
Other Liabilities	95,829	329,444	407,832	498,264	500,834
Total Liabilities	**7,073,658**	**7,021,141**	**7,566,327**	**8,440,406**	**10,345,373**
Assets					
Cash Balance	148,518	166,621	269,659	161,222	143,750
Bank Balance	1,774,230	1,453,341	1,063,875	703,205	579,995
Money At call	390,000	-	-	-	123,112
Investment	522,932	599,056	1,207,275	1,907,521	2,607,680
Loan and Advances	3,945,565	4,299,250	4,468,719	5,143,662	6,213,879
Fixed Assets	68,280	65,588	71,034	62,350	66,452
Other Assets	224,133	437,285	485,765	462,446	610,505
Total Assets	**7,073,658**	**7,021,141**	**7,566,327**	**8,440,406**	**10,345,373**
Expenses					
Interest Expenses	271,798	288,580	291,820	255,919	258,430
Staff Expenses	24,959	26,648	33,731	32,510	37,582
Office Expenses	59,544	60,750	77,365	82,180	90,629
Exchange loss	-	-	-	-	-
Non operating expenses	-	1,652	2,093	570	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	94,633	67,551	84,173	109,560	193,243
Provision for NBA	-	-	-	9,165	-
Provision for Staff Bonus	5,590	6,319	7,673	12,170	13,910
Provision for Income Tax	37,823	16,029	20,305	48,680	67,807
Total Expenses	**494,347**	**467,529**	**517,160**	**550,754**	**661,601**
Income					
Interest Income	444,559	399,631	469,740	493,598	578,372
Commission and Discount	30,624	36,579	29,962	30,667	42,568
Exchange Income	28,269	42,535	18,510	30,616	32,357
Non operating Income	-	-	-	-	1,443
Other Income	3,385	29,627	47,696	56,725	64,248
Total Income	**506,837**	**508,372**	**565,908**	**611,606**	**718,988**
Net Profit/(Loss)	**12,490**	**40,843**	**48,748**	**60,852**	**57,387**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	8.68%	12.11%	10.48%	9.58%	8.87%
Capital Fund to Risk Weighted Assets	0.00%	14.30%	12.33%	11.07%	13.57%
Non-Performing Loan to Total Loan	3.93%	1.05%	2.20%	1.72%	1.63%
Net Profit To Gross Profit	47.45%	49.43%	47.87%	45.06%	50.94%
Weighted Average Interest Spread	3.98%	3.65%	2.61%	3.98%	4.10%
Net Interest Income (Rs. in million)	148	187	213	341	420
Return on Assets	1.36%	1.29%	1.17%	1.49%	1.41%
Credit to Deposit	65.57%	73.98%	75.42%	75.59%	78.24%
Liquid Assets to Total Assets	36.72%	33.66%	34.01%	34.20%	30.81%
Liquid Assets to Total Deposit	41.26%	40.75%	40.91%	40.75%	36.84%

9. Everest Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	220,859	399,319	455,000	455,000	455,000
Reserves and Surplus	98,535	131,591	157,825	225,319	314,617
Deposit	4,574,509	5,466,609	6,694,964	8,063,902	10,097,691
Borrowing	80,000	81,767	-	-	300,000
Bills Payable	11,625	2,129	22,101	22,027	17,778
Other Liabilities	154,251	535,483	722,319	842,323	607,040
Total Liabilities	**5,139,779**	**6,616,898**	**8,052,209**	**9,608,571**	**11,792,126**
Assets					
Cash Balance	108,103	177,211	136,659	128,757	192,590
Bank Balance	716,130	425,274	1,002,910	503,047	857,399
Money At call	240,080	86,130	-	187,445	570,000
Investment	901,722	1,693,037	1,653,978	2,535,658	2,128,932
Loan and Advances	2,936,589	3,948,478	4,908,461	5,884,124	7,618,670
Fixed Assets	55,146	93,383	109,591	118,374	134,068
Other Assets	182,009	193,385	240,610	251,166	290,467
Total Assets	**5,139,779**	**6,616,898**	**8,052,209**	**9,608,571**	**11,792,126**
Expenses					
Interest Expenses	236,708	257,051	307,639	316,366	299,566
Staff Expenses	24,629	32,187	37,368	48,530	60,597
Office Expenses	57,278	79,030	93,585	101,571	129,067
Exchange loss	-	-	-	-	-
Non operating expenses	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	33,502	34,729	45,746	81,780	88,927
Provision for NBA	-	-	-	2,237	-
Provision for Staff Bonus	11,340	14,154	15,099	23,457	28,080
Provision for Income Tax	32,351	38,433	41,714	67,551	81,914
Total Expenses	**395,808**	**455,584**	**541,151**	**641,492**	**688,151**
Income					
Interest Income	385,016	443,821	520,173	657,249	719,298
Commission and Discount	30,557	36,773	61,504	74,331	78,130
Exchange Income	37,096	45,414	32,208	27,794	27,078
Non operating Income	1,395	1,141	1,249	1,867	2,974
Other Income	11,449	13,783	20,198	23,818	31,479
Total Income	**465,513**	**540,932**	**635,332**	**785,059**	**858,959**
Net Profit/(Loss)	**69,705**	**85,348**	**94,181**	**143,567**	**170,808**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	8.68%	12.11%	10.48%	9.58%	8.87%
Capital Fund to Risk Weighted Assets	0.00%	14.30%	12.33%	11.07%	13.57%
Non-Performing Loan to Total Loan	3.93%	1.05%	2.20%	1.72%	1.63%
Net Profit To Gross Profit	47.45%	49.43%	47.87%	45.06%	50.94%
Weighted Average Interest Spread	3.98%	3.65%	2.61%	3.98%	4.10%
Net Interest Income (Rs. in million)	148	187	213	341	420
Return on Assets	1.36%	1.29%	1.17%	1.49%	1.41%
Credit to Deposit	65.57%	73.98%	75.42%	75.59%	78.24%
Liquid Assets to Total Assets	36.72%	33.66%	34.01%	34.20%	30.81%
Liquid Assets to Total Deposit	41.26%	40.75%	40.91%	40.75%	36.84%

10. Bank of Kathmandu Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	233,650	463,581	463,581	463,581	463,581
Reserves and Surplus	93,523	56,604	115,552	187,164	257,157
Deposit	5,713,492	5,723,290	6,170,712	7,741,644	8,942,748
Borrowing	100,000	-	498,236	912,150	6,000
Bills Payable	9,943	12,565	35,144	38,709	19,874
Other Liabilities	51,326	100,606	161,592	153,095	167,770
Total Liabilities	**6,201,934**	**6,356,646**	**7,444,817**	**9,496,343**	**9,857,130**
Assets					
Cash Balance	171,167	193,069	157,400	139,220	161,470
Bank Balance	953,061	490,577	535,311	643,662	579,051
Money At call	291,998	127,387	30,350	272,321	328,874
Investment	419,816	667,459	1,816,149	2,477,409	2,598,253
Loan and Advances	4,127,047	4,613,697	4,542,700	5,646,698	5,912,579
Fixed Assets	102,014	94,219	93,642	83,625	95,231
Other Assets	136,831	170,238	269,265	233,408	181,672
Total Assets	**6,201,934**	**6,356,646**	**7,444,817**	**9,496,343**	**9,857,130**
Expenses					
Interest Expenses	310,484	285,006	276,705	286,297	241,639
Staff Expenses	30,171	50,155	51,682	47,726	53,823
Office Expenses	66,701	78,981	89,547	85,829	99,190
Exchange loss	-	-	-	-	-
Non operating expenses	1,156	-	-	-	
Bad debts written off	-	-	-	-	-
Loan loss Provision	62,694	127,490	82,612	88,774	133,917
Provision for NBA	-	-	-	12,489	-
Provision for Staff Bonus	10,373	2,985	13,571	20,516	22,699
Provision for Income Tax	28,007	17,594	40,014	57,172	64,763
Total Expenses	**509,586**	**562,211**	**554,131**	**598,803**	**616,549**
Income					
Interest Income	465,030	473,297	496,809	567,096	607,096
Commission and Discount	46,222	47,872	60,746	77,708	72,352
Exchange Income	63,058	48,646	67,444	64,046	72,115
Non operating Income	-	930	23	15,460	49
Other Income	626	740	11,237	1,966	4,467
Total Income	**574,936**	**571,485**	**636,259**	**726,276**	**756,079**
Net Profit/(Loss)	**65,350**	**9,274**	**82,128**	**127,473**	**139,530**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	5.64%	9.91%	10.44%	10.14%	10.23%
Capital Fund to Risk Weighted Assets	0.00%	13.99%	12.05%	11.18%	11.22%
Non-Performing Loan to Total Loan	7.59%	8.11%	8.67%	6.66%	4.99%
Net Profit To Gross Profit	39.27%	5.89%	37.62%	41.60%	38.66%
Weighted Average Interest Spread	3.17%	3.80%	3.33%	3.41%	3.69%
Net Interest Income (Rs. in million)	155	188	220	281	365
Return on Assets	1.05%	0.15%	1.10%	1.34%	1.42%
Credit to Deposit	75.01%	85.44%	78.69%	77.61%	69.13%
Liquid Assets to Total Assets	27.69%	21.30%	30.00%	36.09%	32.63%
Liquid Assets to Total Deposit	30.05%	23.65%	36.20%	44.27%	35.96%

11. Nepal Credit and Commerce Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	350,000	350,000	490,000	595,000	693,554
Reserves and Surplus	-95,799	-492,976	-411,176	-407,767	-437,707
Deposit	3,772,788	3,708,972	4,294,098	5,987,701	6,630,943
Borrowing	-	-	19,747	13,500	-
Bills Payable	5,390	8,568	21,613	16,568	5,893
Other Liabilities	351,503	520,621	418,323	455,786	592,603
Total Liabilities	**4,383,882**	**4,095,185**	**4,832,605**	**6,660,788**	**7,485,286**
Assets					
Cash Balance	113,078	167,540	236,403	209,687	151,354
Bank Balance	345,519	378,555	433,863	760,698	511,348
Money At call	469,790	263,723	113,019	54,448	47,944
Investment	313,662	283,227	411,832	573,984	400,337
Loan and Advances	2,686,590	2,320,272	2,997,258	4,271,634	5,419,735
Fixed Assets	93,699	109,537	114,098	122,025	124,027
Other Assets	361,544	572,331	526,132	668,312	830,541
Total Assets	**4,383,882**	**4,095,185**	**4,832,605**	**6,660,788**	**7,485,286**
Expenses					
Interest Expenses	261,011	275,859	255,911	314,272	315,800
Staff Expenses	12,301	17,708	23,088	33,470	39,222
Office Expenses	52,912	40,881	52,548	67,525	76,595
Exchange loss	-	-	-	-	6,663
Non operating expenses	-	-	-	-	1,869
Bad debts written off	-	27,047	-	-	-
Loan loss Provision	39,372	387,524	37,431	81,055	148,299
Provision for NBA	-	-	-	43,536	17,280
Provision for Staff Bonus	4,370	-	9,474	672	-
Provision for Income Tax	18,599	-	3,470	2,637	15,885
Total Expenses	**388,565**	**749,019**	**381,922**	**543,167**	**621,613**
Income					
Interest Income	345,888	307,707	437,180	486,826	541,855
Commission and Discount	25,878	14,819	17,034	33,679	37,866
Exchange Income	32,267	19,909	477	1,233	10,552
Non operating Income	-	39	-	750	49
Other Income	5,263	9,368	9,031	24,088	26,134
Total Income	**409,296**	**351,842**	**463,722**	**546,576**	**616,456**
Net Profit/(Loss)	**20,731**	**-397,177**	**81,800**	**3,409**	**-5,157**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	6.20%	-4.07%	1.90%	2.85%	3.48%
Capital Fund to Risk Weighted Assets	0.00%	2.33%	6.51%	3.42%	5.51%
Non-Performing Loan to Total Loan	18.93%	40.11%	20.63%	12.72%	8.64%
Net Profit To Gross Profit	24.96%	-2283.41%	61.89%	2.60%	-2.93%
Weighted Average Interest Spread	4.27%	4.32%	4.76%	4.37%	4.29%
Net Interest Income (Rs. in million)	85	32	181	173	226
Return on Assets	0.47%	-9.70%	1.69%	0.05%	-0.07%
Credit to Deposit	76.59%	77.60%	79.09%	78.78%	90.66%
Liquid Assets to Total Assets	25.69%	24.65%	22.73%	23.07%	13.83%
Liquid Assets to Total Deposit	29.85%	27.22%	25.58%	25.67%	15.61%

12. Lumbini Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	350,000	350,000	350,000	350,000	500,000
Reserves and Surplus	-63,318	-161,291	-72,151	-53,512	-254,991
Deposit	2,097,492	2,646,106	2,959,745	3,777,605	4,031,221
Borrowing	-	121,472	90,000	164,719	-
Bills Payable	7	7,675	10,684	4,574	60,517
Other Liabilities	65,023	97,688	101,890	120,818	158,154
Total Liabilities	**2,449,204**	**3,061,650**	**3,440,168**	**4,364,204**	**4,494,901**
Assets					
Cash Balance	63,773	98,616	83,853	114,709	103,231
Bank Balance	237,902	433,771	249,712	416,423	315,782
Money At call	-	-	50,000	30,000	-
Investment	248,868	269,871	382,750	558,187	535,184
Loan and Advances	1,735,951	2,085,332	2,441,639	2,980,398	3,167,724
Fixed Assets	36,330	36,526	37,240	40,079	48,345
Other Assets	126,380	137,534	194,974	224,408	324,635
Total Assets	**2,449,204**	**3,061,650**	**3,440,168**	**4,364,204**	**4,494,901**
Expenses					
Interest Expenses	118,804	170,499	186,484	197,322	193,475
Staff Expenses	20,188	24,169	29,470	36,396	37,084
Office Expenses	28,971	37,861	41,181	48,022	50,384
Exchange loss	-	-	-	-	-
Non operating expenses	217	2	-	1,175	2,289
Bad debts written off	-	-	-	-	109
Loan loss Provision	41,407	150,781	-20,239	61,630	303,412
Provision for NBA	-	-	-	11,745	-
Provision for Staff Bonus	-	-	9,904	4,489	-
Provision for Income Tax	-	-	-	21,764	35,196
Total Expenses	**209,587**	**383,312**	**246,800**	**382,543**	**621,949**
Income					
Interest Income	157,430	266,378	308,680	361,240	384,598
Commission and Discount	5,358	8,260	13,034	14,382	13,935
Exchange Income	4,090	4,997	6,560	18,503	12,294
Non operating Income	-	-	-	-	0
Other Income	6,574	5,704	7,665	7,058	14,349
Total Income	**173,452**	**285,339**	**335,939**	**401,183**	**425,176**
Net Profit/(Loss)	**-36,135**	**-97,973**	**89,139**	**18,640**	**-196,773**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	13.47%	6.45%	8.68%	7.54%	5.68%
Capital Fund to Risk Weighted Assets	0.00%	12.89%	11.37%	8.71%	6.35%
Non-Performing Loan to Total Loan	15.54%	19.32%	11.70%	7.36%	15.23%
Net Profit To Gross Profit	-685.41%	-185.53%	113.11%	15.76%	-58.11%
Weighted Average Interest Spread	4.00%	4.23%	4.18%	4.74%	4.39%
Net Interest Income (Rs. in million)	39	96	122	164	191
Return on Assets	-1.48%	-3.20%	2.59%	0.43%	-4.38%
Credit to Deposit	85.16%	86.37%	88.60%	85.31%	91.41%
Liquid Assets to Total Assets	20.84%	20.66%	19.14%	22.78%	18.55%
Liquid Assets to Total Deposit	24.34%	23.90%	22.25%	26.32%	20.68%

13. Nepal Industrial and Commercial Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	499,730	499,890	499,955	499,960	500,000
Reserves and Surplus	19,385	26,206	52,146	120,438	184,194
Deposit	3,575,838	3,165,311	3,144,320	5,146,483	6,241,378
Borrowing	-	-	274,750	60,018	450,371
Bills Payable	31,506	37,357	24,354	32,921	28,329
Other Liabilities	88,961	39,889	41,994	70,247	103,795
Total Liabilities	**4,215,420**	**3,768,653**	**4,037,519**	**5,930,067**	**7,508,067**
Assets					
Cash Balance	127,107	139,856	95,742	79,042	69,778
Bank Balance	412,344	419,673	222,316	240,263	935,771
Money At call	352,029	46,810	29,900	129,663	89,881
Investment	567,078	753,812	1,153,262	1,760,724	1,572,902
Loan and Advances	2,585,419	2,278,994	2,419,522	3,561,139	4,711,712
Fixed Assets	45,470	54,758	50,214	43,285	59,496
Other Assets	125,973	74,750	66,563	115,951	68,527
Total Assets	**4,215,420**	**3,768,653**	**4,037,519**	**5,930,067**	**7,508,067**
Expenses					
Interest Expenses	180,459	197,094	142,606	183,582	225,992
Staff Expenses	21,253	26,990	33,827	35,226	39,004
Office Expenses	49,917	46,226	50,706	47,445	51,629
Exchange loss	-	-	26	-	-
Non operating expenses	3	1	82	-	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	13,525	57,516	53,481	38,615	19,128
Provision for NBA	-	-	-	4,289	-
Provision for Staff Bonus	7,903	943	4,704	10,755	18,303
Provision for Income Tax	22,851	1,665	16,394	28,535	50,971
Total Expenses	**295,911**	**330,435**	**301,826**	**348,447**	**405,027**
Income					
Interest Income	294,219	297,764	291,143	363,037	457,610
Commission and Discount	26,300	18,564	21,966	27,236	27,102
Exchange Income	23,669	18,831	12,183	20,832	24,606
Non operating Income	-	2,096	-	40	285
Other Income	-	-	2,476	5,561	9,180
Total Income	**344,188**	**337,255**	**327,768**	**416,706**	**518,783**
Net Profit/(Loss)	**48,277**	**6,820**	**25,942**	**68,259**	**113,756**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	16.29%	18.54%	17.44%	12.92%	12.36%
Capital Fund to Risk Weighted Assets	17.36%	20.90%	18.87%	13.75%	13.29%
Non-Performing Loan to Total Loan	5.06%	8.16%	6.66%	3.92%	3.78%
Net Profit To Gross Profit	52.16%	10.19%	25.81%	45.37%	56.27%
Weighted Average Interest Spread	3.61%	3.02%	4.03%	3.06%	3.33%
Net Interest Income (Rs. in million)	114	101	149	179	232
Return on Assets	1.15%	0.18%	0.64%	1.15%	1.52%
Credit to Deposit	73.21%	74.84%	81.51%	72.73%	78.66%
Liquid Assets to Total Assets	33.28%	34.14%	35.25%	28.40%	30.50%
Liquid Assets to Total Deposit	39.23%	40.65%	45.26%	32.73%	36.69%

14. Machhapuchchhre Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	84,000	136,200	544,174	550,000	550,000
Reserves and Surplus	-15,278	-56,656	-42,469	4,222	87,739
Deposit	700,080	994,817	1,778,788	2,754,632	5,586,803
Borrowing	-	-	90,000	102,167	154,217
Bills Payable	198	2,466	3,957	5,136	9,327
Other Liabilities	12,536	27,550	25,407	32,477	68,374
Total Liabilities	**781,536**	**1,104,377**	**2,399,857**	**3,448,634**	**6,456,460**
Assets					
Cash Balance	21,618	31,538	45,642	65,256	121,550
Bank Balance	89,904	194,591	156,083	345,488	609,583
Money At call	40,000	-	220,000	150,000	15,000
Investment	55,018	117,484	398,356	274,407	468,612
Loan and Advances	493,362	655,061	1,464,166	2,493,108	5,061,433
Fixed Assets	53,507	57,080	59,225	62,413	86,212
Other Assets	28,127	48,623	56,385	57,962	94,070
Total Assets	**781,536**	**1,104,377**	**2,399,857**	**3,448,634**	**6,456,460**
Expenses					
Interest Expenses	24,126	64,480	76,156	113,579	187,028
Staff Expenses	7,630	11,808	17,435	19,872	29,582
Office Expenses	13,672	23,181	34,079	42,358	59,973
Exchange loss	-	-	-	-	-
Non operating expenses	16	-	-	2	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	5,166	20,067	6,466	15,980	22,907
Provision for NBA	-	-	-	-	-
Provision for Staff Bonus	-	-	1,701	5,188	12,869
Provision for Income Tax	-	-	-	-	30,945
Total Expenses	**50,610**	**119,536**	**135,837**	**196,979**	**343,304**
Income					
Interest Income	31,174	70,089	139,040	215,207	381,931
Commission and Discount	2,751	3,113	5,654	14,840	21,391
Exchange Income	1,011	3,718	5,946	12,621	11,359
Non operating Income	-	1	-	-	287
Other Income	248	267	505	1,001	13,206
Total Income	**35,184**	**77,188**	**151,145**	**243,669**	**428,174**
Net Profit/(Loss)	**-15,426**	**-42,348**	**15,308**	**46,690**	**84,870**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	10.59%	8.00%	23.98%	17.01%	10.52%
Capital Fund to Risk Weighted Assets	0.00%	10.68%	24.75%	17.82%	11.36%
Non-Performing Loan to Total Loan	0.91%	10.45%	2.08%	0.98%	0.39%
Net Profit To Gross Profit	150.35%	190.06%	65.21%	68.81%	55.99%
Weighted Average Interest Spread	3.99%	4.36%	2.50%	3.78%	3.97%
Net Interest Income (Rs. in million)	7	6	63	102	195
Return on Assets	-1.97%	-3.83%	0.64%	1.35%	1.31%
Credit to Deposit	71.21%	68.38%	84.09%	92.24%	91.83%
Liquid Assets to Total Assets	25.47%	24.95%	20.88%	18.33%	13.53%
Liquid Assets to Total Deposit	28.43%	27.70%	28.17%	22.95%	15.63%

15. Kumari Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	350,000	350,000	350,000	500,000	500,000
Reserves and Surplus	-2,778	-1,441	11,033	33,403	145,442
Deposit	316,099	1,179,894	2,513,144	4,807,936	6,268,954
Borrowing	-	31,991	-	-	401,761
Bills Payable	1,009	8,838	4,129	14,637	7,339
Other Liabilities	1,106	23,478	107,869	138,199	114,386
Total Liabilities	**665,436**	**1,592,760**	**2,986,175**	**5,494,175**	**7,437,882**
Assets					
Cash Balance	18,775	30,276	40,800	68,472	111,249
Bank Balance	153,442	98,878	250,905	617,006	332,122
Money At call	140,000	-	-	-	90,000
Investment	19,757	255,000	423,155	983,504	1,190,271
Loan and Advances	263,077	1,111,559	2,105,737	3,649,008	5,590,926
Fixed Assets	46,748	51,896	40,425	57,152	82,984
Other Assets	23,637	45,151	125,153	119,033	40,330
Total Assets	**665,436**	**1,592,760**	**2,986,175**	**5,494,175**	**7,437,882**
Expenses					
Interest Expenses	1,316	48,168	92,945	163,903	240,130
Staff Expenses	2,925	15,326	23,254	28,576	42,395
Office Expenses	4,024	31,423	45,504	56,441	71,812
Exchange loss	-	-	-	-	-
Non operating expenses	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	2,657	12,388	16,805	17,126	41,111
Provision for NBA	-	-	-	-	-
Provision for Staff Bonus	-	226	2,373	7,680	14,515
Provision for Income Tax	-	696	8,879	20,437	42,760
Total Expenses	**10,922**	**108,227**	**189,760**	**294,163**	**452,723**
Income					
Interest Income	6,385	96,355	185,090	310,216	499,918
Commission and Discount	514	3,441	9,413	16,446	23,083
Exchange Income	894	9,152	7,144	14,414	14,989
Non operating Income	193	-	4	-	5
Other Income	-	616	582	1,773	2,609
Total Income	**7,986**	**109,564**	**202,233**	**342,849**	**540,604**
Net Profit/(Loss)	**-2,936**	**1,337**	**12,473**	**48,686**	**87,881**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	83.58%	25.60%	14.22%	28.21%	10.20%
Capital Fund to Risk Weighted Assets	0.00%	26.79%	15.46%	29.13%	11.15%
Non-Performing Loan to Total Loan	0.00%	1.27%	1.70%	0.00%	0.95%
Net Profit To Gross Profit	1052.33%	9.13%	30.77%	51.83%	47.18%
Weighted Average Interest Spread	-	3.27%	6.48%	3.82%	3.85%
Net Interest Income (Rs. in million)	5	48	92	61	260
Return on Assets	-0.44%	0.08%	0.42%	0.89%	1.18%
Credit to Deposit	84.07%	95.48%	85.06%	76.91%	90.62%
Liquid Assets to Total Assets	49.89%	15.44%	17.66%	23.43%	22.23%
Liquid Assets to Total Deposit	105.02%	20.84%	20.98%	26.77%	26.37%

16. Laxmi Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	-	275,000	330,000	549,789	609,839
Reserves and Surplus	-	-4,217	-3,183	7,266	33,731
Deposit	-	112,597	691,810	1,684,159	3,051,759
Borrowing	-	-	70,000	317,005	18,691
Bills Payable	-	162	2,150	283	31,443
Other Liabilities	-	727	5,769	26,988	75,307
Total Liabilities	-	**384,269**	**1,096,546**	**2,585,490**	**3,820,770**
Assets					
Cash Balance	-	2,968	16,054	36,977	109,852
Bank Balance	-	165,690	137,555	342,490	359,692
Money at call	-	-	-	100,000	57,505
Investment	-	54,027	110,914	295,107	410,939
Loan and Advances	-	122,880	768,184	1,733,420	2,657,959
Fixed Assets	-	26,258	30,944	32,633	124,385
Other Assets	-	12,446	32,895	44,863	100,438
Total Assets	-	**384,269**	**1,096,546**	**2,585,490**	**3,820,770**
Expenses					
Interest Expenses	-	354	20,096	63,177	118,438
Staff Expenses	-	2,877	14,394	19,198	29,934
Office Expenses	-	2,447	17,322	35,730	37,122
Exchange loss	-	-	-	-	-
Non operating Expenses	-	-	-	55	9,088
Bad debts written off	-	-	-	-	1,092
Loan loss Provision	-	1,241	6,518	9,750	5,503
Provision for NBA	-	-	-	-	-
Provision for Staff Bonus	-	-	115	1,454	3,678
Provision for Income Tax	-	-	-	2,634	10,315
Total Expenses	-	**6,919**	**58,445**	**131,998**	**215,170**
Income					
Interest Income	-	1,867	49,787	124,046	214,132
Commission and Discount	-	231	4,262	11,299	14,136
Exchange Income	-	522	4,534	6,076	5,770
Non operating Income	-	-	405	-	-
Other Income	-	83	491	1,026	7,597
Total Income	-	**2,703**	**59,479**	**142,447**	241,635
Net Profit/(Loss)	-	**-4,216**	**1,034**	**10,449**	**26,465**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	-	133.19%	37.60%	11.90%	19.59%
Capital Fund to Risk Weighted Assets	-	133.80%	38.56%	12.81%	20.72%
Non-Performing Loan to Total Loan	-	0.00%	0.00%	0.76%	1.63%
Net Profit To Gross Profit	-	141.71%	13.49%	43.02%	54.52%
Weighted Average Interest Spread	-	2.38%	5.16%	4.30%	4.19%
Net Interest Income (Rs. in million)	-	2	30	146	96
Return on Assets	-	-1.10%	0.09%	0.40%	0.68%
Credit to Deposit	-	110.23%	112.16%	103.96%	89.33%
Liquid Assets to Total Assets	-	43.89%	22.75%	29.53%	23.86%
Liquid Assets to Total Deposit	-	149.79%	36.07%	45.33%	30.41%

17. Siddhartha Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Capital	-	-	350,000	350,000	350,000
Reserves and Surplus	-	-	-1,284	16,198	37,889
Deposit	-	-	391,678	1,291,314	2,461,922
Borrowing	-	-	110,000	220,000	190,000
Bills Payable	-	-	-	962	429
Other Liabilities	-	-	13,341	33,565	58,756
Total Liabilities	**-**	**-**	**863,735**	**1,912,039**	**3,098,996**
Assets					
Cash Balance	-	-	9,439	18,214	33,459
Bank Balance	-	-	55,648	53,632	97,270
Money At call	-	-	102,073	174,830	22,471
Investment	-	-	3,775	42,050	286,623
Loan and Advances	-	-	622,735	1,543,768	2,570,776
Fixed Assets	-	-	21,819	28,409	30,217
Other Assets	-	-	48,246	51,136	58,180
Total Assets	**-**	**-**	**863,735**	**1,912,039**	**3,098,996**
Expenses					
Interest Expenses	-	-	5,619	45,506	91,981
Staff Expenses	-	-	8,040	16,458	20,310
Office Expenses	-	-	10,163	21,668	30,898
Exchange loss	-	-	-	-	-
Non operating expenses	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Loan loss Provision	-	-	6,290	17,769	-
Provision for NBA	-	-	-	-	-
Provision for Staff Bonus	-	-	-	2,836	9,707
Provision for Income Tax	-	-	-	8,039	17,083
Total Expenses	**-**	**-**	**30,112**	**112,276**	**169,979**
Income					
Interest Income	-	-	23,889	113,630	198,184
Commission and Discount	-	-	2,163	7,034	7,553
Exchange Income	-	-	88	2,229	7,171
Non operating Income	-	-	-	-	-
Other Income	-	-	2,687	6,866	27,351
Total Income	**-**	**-**	**28,827**	**129,759**	**240,259**
Net Profit/(Loss)	**-**	**-**	**-1,285**	**17,483**	**70,280**

Financial Indicators	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Core Capital to Risk Weighted Assets	-	-	41.11%	18.50%	13.06%
Capital Fund to Risk Weighted Assets	-	-	41.85%	19.36%	13.93%
Non-Performing Loan to Total Loan	-	-	0.00%	1.61%	2.58%
Net Profit To Gross Profit	-	-	-25.67%	37.90%	72.40%
Weighted Average Interest Spread	-	-	5.15%	5.53%	4.46%
Net Interest Income (Rs. in million)	-	-	18	68	106
Return on Assets	-	-	-0.15%	0.91%	2.27%
Credit to Deposit	-	-	160.60%	121.41%	107.03%
Liquid Assets to Total Assets	-	-	19.79%	15.10%	13.87%
Liquid Assets to Total Deposit	-	-	43.64%	22.36%	17.46%