

# NIC BANK



## 11<sup>TH</sup> ANNUAL REPORT 2007/2008



*Growing  
Stronger*



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# About us

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**N**IC Bank, which commenced operation on 21 July 1998, is the first commercial bank in the country to be capitalized at NPR 500 million. The Bank was promoted by some of the prominent business houses of the country. Promoters hold 65% of the shares while the remaining 35% is held by the general public. NIC Bank is one of the most widely held companies in Nepal with nearly 32,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with market capitalization of about NPR 12,119 million as at the year ended 15 July 2008.

Within 10 years of commencing business the Bank has grown rapidly with 16 branches throughout the country while at least 4 more are planned this year. All branches are inter-connected through V-Sat and are capable of providing real time on-line transactions.

The Bank is the first commercial bank in Nepal to be ISO 9001:2000 certified for Quality Management System. Furthermore, NIC Bank became the 1<sup>st</sup> bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program enabling our Letters of Credit to be accepted/confirmed by more than 200 banks worldwide. The Bank has also been awarded the “Bank of the Year 2007- Nepal” by the world - renowned financial publication of The Financial Times, U.K.- The Banker.

The Bank believes that these recognitions are a testimony to its success, robust growth and the transparency and professionalism it has consistently displayed in its business. The Bank is run by professionals and believes in the highest standards of corporate governance.

## Financial Highlights

	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
<b>Operating Performance</b>					
Operating Profit (NPR millions)	150.5	201.8	212.0	291.4	393.1
Net Profit (NPR millions)	68.3	113.7	96.6	158.5	243.1
<b>Financial Position</b>					
Total Assets (NPR millions)	5,939.4	7,508.1	10,383.6	11,679.3	15,238.7
Loans and Advances (NPR millions)	3,743.1	4,909.4	6,902.1	9,128.7	11,465.3
Deposits and Borrowings (NPR millions)	5,215.8	6,691.7	9,223.7	10,420.4	13,419.7
Paid-up Capital (NPR millions)	500.0	500.0	600.00	660.0	943.9
Shareholders fund (NPR millions)	620.4	684.2	766.5	918.5	1,303.4
Core Capital (NPR millions)	616.8	680.1	761.1	912.3	1,293.8
<b>Key Indicators</b>					
Earning Per Share (NPR)	13.65	22.75	16.10	24.01	25.75
Return on Equity after tax (%)	11.64	17.44	14.12	20.68	22.57
Return on Assets after tax (%)	1.37	1.69	1.08	1.36	1.60
Cost-income ratio (%)	35.46	30.98	32.67	29.09	28.06
Capital Adequacy Ratio (%)	13.75	13.29	13.54	12.20	13.11
Non-performing assets (%)	3.92	3.78	2.60	1.11	0.86
Dividend Payout Ratio (%)	-	30.00	10.53	21.05	21.05
<b>Share Information</b>					
Share price: year end (NPR)	218	366	496	950.00	1,284.00
Market capitalization (NPR Million)	1,090	1,830	2,976	6,270	12,119
Price to Earning Ratio (%)	15.97	16.09	30.81	39.56	49.86
<b>Others</b>					
Employees	140	157	166	189	232
Branch offices	6	8	8	10	16

The Board of Directors of the Bank is supported by a management team, which comprises of young, enthusiastic professionals. The Bank has successfully embarked on a multi-pronged strategy of consolidation, administrative streamlining, human resource up-skilling, strategic cost management, focused non-performing assets management,

balance sheet and treasury management and controlled asset growth, in tandem with strengthening the credit culture as well as strategic marketing and sales.

NIC Bank's organizational structure is designed to support its business goals. However, it is flexible enough in seeking to ensure effective control and supervision and consistency in standards across all businesses at the same time. The organization structure is divided into five major areas viz Consumer Banking, Business Banking, Risk Management, Treasury and Liability Marketing & Transaction Banking all of which are supported by the corporate center.

The Bank is committed towards providing financial services to its patrons through efficient and cost effective service delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury divisions.

Consumer Banking comprises consumer lending, retail credit products and transaction banking services for individuals. Consumer loans include home loans, auto loans, personal loans, education loans, travel loans, etc.

Liability Marketing & Transaction Banking comprises of institutional and personal deposit products and transaction banking services including debit cards, ATMs, safe deposit lockers, payment services, drafts, remittance, SMS Banking, Travelers' Cheques, bullion trading, etc.

Business Banking group comprises corporate as well as SME (small & medium enterprises) banking business including credit products and other banking services. It also includes transaction banking, trade finance services, foreign exchange and corporate financing solutions including project & infrastructure finance, working capital & term credit, structured financing, syndication, cash management and advisory services.

Special Assets Management division is responsible for managing non-performing and restructured loans.

Treasury is responsible for management of liquidity and market risk, mobilization of resources, balance sheet management, pricing, investor relations and international operation. The Bank's Treasury Division offers a full range of Risk Management and Cash Management products and provides effective treasury advisory services.

Further, Treasury also leverages its strong relationships with financial institutions to provide a wide range of banking services.

The Corporate center comprises all shared services and corporate functions including finance, secretarial, risk management, legal, human resources, branding and communications.

The Compounded Annual Growth Rate (CAGR) of the Bank for the last 5 years measured under different parameters is one of the best in the industry. This shows that the Bank's performance has been consistent over the duration of five years. The 5 years CAGR of the Bank is as under

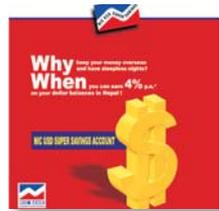
<b>Operating Profit Growth %</b>					
50	34	5	37	35	
2003/04	2004/05	2005/06	2006/07	2007/08	CRG 31
<b>Net Profit Growth %</b>					
163	67	(15)	64	53	
2003/04	2004/05	2005/06	2006/07	2007/08	CRG 56
<b>Deposits Growth %</b>					
64	21	40	15	30	
2003/04	2004/05	2005/06	2006/07	2007/08	CRG 33
<b>Risk Assets Growth %</b>					
46	31	41	32	26	
2003/04	2004/05	2005/06	2006/07	2007/08	CRG 35
<b>Share Price Growth (NPR)</b>					
(1)	68	36	92	35	
2003/04	2004/05	2005/06	2006/07	2007/08	CRG 42
<b>Headcount Growth</b>					
9	12	6	14	23	
2003/04	2004/05	2005/06	2006/07	2007/08	CRG 13

The Bank believes in continuously offering new and value added services to its customers, with commitment to quality and value to its clients at the same time. Accordingly, the Bank has been in the forefront in launching innovative and superior products having unique customer friendly features with immense success.



### NIC Life Savings Account

This is the first and only deposit product in the banking industry in the country/bundled with life insurance cover, which was launched in 2003. The product has been a runaway success with total deposits crossing the NPR 2 billion mark.



### NIC USD Super Savings Account

This deposit product was launched in 2006 bundled with a lot of facilities and has gained popularity amongst individuals who earn in foreign currencies.



### Shareholder Savings Account

The Bank has also come up with another unique deposit product called NIC Shareholder Savings Account for the benefit of its shareholders. The main objective of this account is to accumulate the widely scattered deposits of shareholders and provide them modern & innovative banking services plus a good return on their savings. Now shareholders will no longer be required to queue up to receive dividend payments as the same will be directly credited to their account.



### NIC Business Account

The Bank introduced another unique product branded NIC Business Account in October 2007, an interest bearing account aimed at businesses. It is being targeted at Proprietorship firms, Partnership firms, Companies, etc. That still many firms and companies do not have access to banking and these businesses also do not manage their cash effectively. NIC Business Account encourages such businesses to maintain accounts by offering interest on daily balance with lots of free and discount banking facilities.



## NIC Super Deposit

“NIC Super Deposit” a term deposit with a never-heard interest rate of up to 9% p.a. bundled with the flexibility of a savings account, is an innovative product developed by NIC Bank with simplified operational procedures. This unique product, which was launched in June 2008, offers a unique investment opportunity, with high returns of a fixed deposit with the flexibility of a savings account.



## Karmashil Bachat Khata

The Bank launched another unique savings deposit product in July 2007 branded Karmashil Bachat Khata specifically designed to provide an opportunity to save small amounts with high returns and various other facilities and cultivate banking habit. This account was developed to provide banking services to middle level working professionals and low/middle class individuals working in various private/government/social organizations, students, retired professionals and farmers etc. This product has been very popular among the target group with 8,000 accounts already opened as of July 2008.



## NIC Sikshya Kosh

This deposit product was launched in 2005 with an aim to inculcate the habit of putting aside small amounts of money every now and then to ensure one's children's future university education which can be very expensive and difficult to meet if one does not plan ahead. The high interest savings account has been well appreciated by the market. The product has also been a runaway success with about 8,000 depositors as of 15 July 2008. NIC Sikshya Kosh helps parents save every penny possible today to give a lump sum amount in future with lots of other benefits and also teach their children the importance of money and inculcate saving habits.

## NIC Pure Gold

NIC Bank has also launched NIC Pure Gold, a first-of-its-kind innovative product never before introduced by any bank in Nepal. Although there is a sizable demand for gold in Nepal, Nepali consumers are always uncertain of the quality available in the market. With NIC Bank importing certified 99.9% pure gold from reputed international mints/suppliers, quality is now assured.

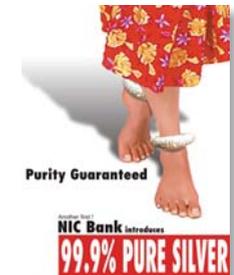
Apart from Kathmandu Valley, the Bank has made this product available from its Dharan, Biratnagar, Janakpur, Birgunj and Pokhara Branches.

The Bank also offers multiple finance options to avail loans to purchase gold and provides custodial service under which buyers may choose to keep the purchased gold safely in the Bank instead of taking the high risk of storing it at home.



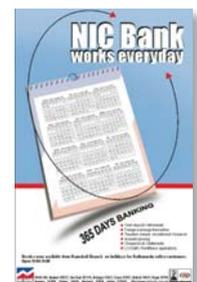
## NIC Pure Silver

The Bank was also the first among financial institutions in Nepal to import 99.9% pure silver granules from international mints. With the introduction of NIC Silver, NIC Bank is contributing to the silver crafts and jewellery industry by providing easy access to pure silver granules, that, too, in easy to carry packs of 10 Kg.



## 365 Days Banking

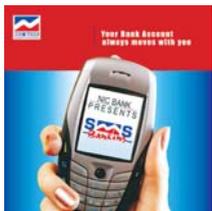
The Bank has been providing 365 Days Banking Services from its Kamaladi Branch for its Kathmandu Valley Customers providing Cash Withdrawal/Deposit, Foreign Currency Exchange and Travelers' Cheque facilities and acceptance of the applications to be processed immediately after holiday(s). The Bank has also been providing evening counter facilities from its New Road, Lalitpur, Bhakapur, Butwal, Nepalgunj and Birtamod branches.





## NIC Cash Card

The Bank launched NIC Cash Card in association with Smart Choice Technologies (SCT) to access accounts through networked ATMs and PoS terminals. NIC Cash Card allows its holder to withdraw cash, inquire balances and make payments through a wide network of ATMs and PoS terminals of SCT Network in Nepal and more than 1,000 ATMs of Punjab National Bank under FSS Network in India. NIC Cash Cards can be availed of without maintaining an account. As of 15 July 2008, about 11,000 customers are carrying NIC Cash Card.



## NIC SMS Banking

The Bank launched SMS Banking Service in 2005, which allows NIC customers to access their accounts through mobile phones for inquiring balance, viewing transaction history and request for cheque-books and statements.



## NIC Ghar Subidha

The Bank launched a unique retail product called “NIC Ghar Subidha” in 2005, which is a personal property finance suite of products with unique features never before introduced in the Nepali market. It aims to make possible the dream of every middle class Nepali family of living in one’s own house come true. With the low pricing and other features bundled in the product, a middle class family will not have to wait until retirement to fulfill its dream. The product has been another runaway success with total lending under the product crossing the NPR 2 billion mark as at 15 July 2008.



## NIC SME Trade & Industry Loan

SME T&IL is yet another innovative product under SME loans. The loan is suitable for expansion of existing businesses. A combination of fund based and non fund based facilities facilitates in financing working capital, capital expenditure and trade related requirement of SMEs. Per borrower exposure under this product is restricted to NPR 40 million with a cap of NPR 20 million on funds based.

## NIC Small Business Loan

The Bank introduced another unique product called “NIC Small Business Loan” in 2006. The product is a unique, simple and cost effective loan to cater to the financial needs of a wide range of small and medium enterprises. It has been felt that businesses of this category generally do not have easy access to bank finance and even when it is available, cumbersome procedures, lengthy paperwork and high cost of finance become major deterring factors. The product has been designed specifically addressing these factors and offers a loan product to best suit the needs of small and medium sized businesses. People owning small businesses or self-employed professionals now no longer need to feel intimidated about going to a bank for a loan.



## NIC Sajilo Karja (NSKza)

NIC Sajilo Karja (NSKza) is a simple overdraft facility developed to cater to the personal financing needs of salaried individuals, self-employed, professionals and owners of small family businesses. It is structured as a simple easy-to-use and easy-to-understand overdraft facility, which provides full flexibility for withdrawal of funds and repayment at the borrower's convenience without the need for any further bureaucratic process once the limit is set up. The major attractions of the product are very simplified loan approval process, borrower-determined usage and savings on interest cost.



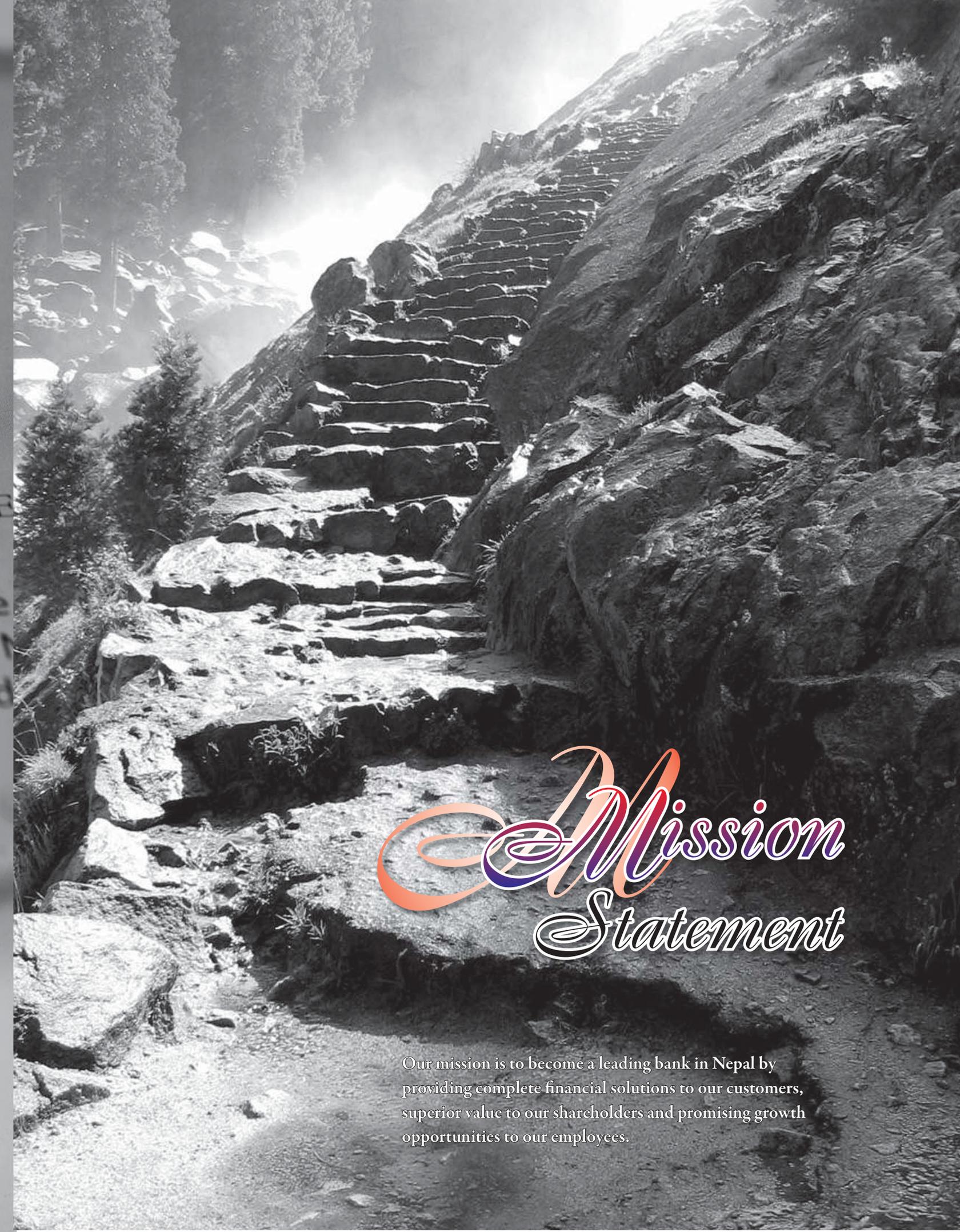


## VISION STATEMENT

Our vision is to become one of the most respectable banks in Nepal based on honorable conduct and long-term financial performance.

# *Vision Statement*

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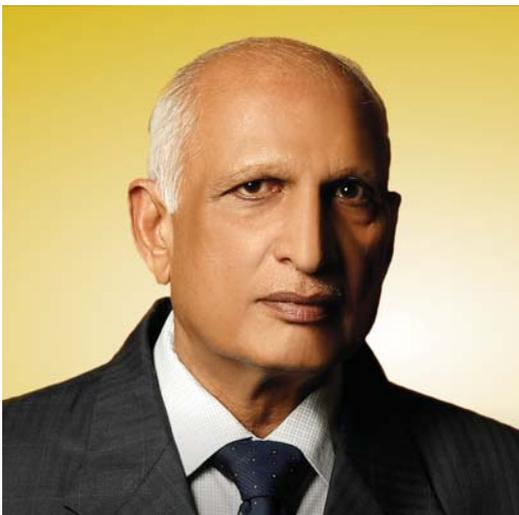


# *Mission Statement*

Our mission is to become a leading bank in Nepal by providing complete financial solutions to our customers, superior value to our shareholders and promising growth opportunities to our employees.

# Board of Directors

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Jagdish Prasad Agrawal  
Chairman

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Tulsi Ram Agrawal  
Director

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Birendra Kumar Sanghai  
**Director**

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Nirmal Kumar Agrawal  
**Director**

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Rajendra Aryal  
**Director**

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# Chairman's Statement

Dear Shareholders,



On behalf of the Board of Directors of NIC Bank, I take great pleasure in extending a cordial welcome to all the distinguished guests and shareholders at the Bank's 11th Annual General Meeting.

I am pleased to state that the Bank has been able to achieve a record performance in the review year 2007/08 despite continued political uncertainty and unfavorable economic climate. This year, the Bank's net profit (after tax) grew by 53% over last year to Rs. 243 million.

Total deposits and loans have also increased by 30% and 26%, respectively. The total assets of the Bank has now grown to Rs 15,239 million. These achievements were possible due to the strategies adopted by the Bank for prudential asset growth whilst ensuring its quality, better treasury management, strategic cost management and improvements in internal efficiencies and financial and structural consolidation. It is indeed very pleasing to note that the business and profitability growth achieved by the Bank is one of the best in the industry.

The Bank's asset portfolio is getting healthier by the year and I am happy to inform that the Non-Performing Assets of the Bank is down to 0.86 % from 1.11% in the previous year.

I am also pleased to inform you that the Bank's capital position is more than satisfactory with a Capital Adequacy Ratio of 13.11% as on 15 July 2008, compared to the statutory requirement of 11%. Furthermore, NRB had also prescribed application of Basel II framework under parallel run for fiscal year 2007/08 and we are in a very comfortable position under this scenario as well. As per Basel II framework, our Capital Adequacy Ratio is 12.41% as on 15 July 2008, against the requirement of 10% indicating a sound financial position.

The Bank has been a pioneer in taking initiatives and in innovating. We are the first commercial Bank in Nepal to be ISO 9001:2000 certified for Quality Management System. Furthermore, the Bank became the first in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group, under its Global Trade Finance Program. The Global Trade Finance Program supports trade with emerging markets worldwide and promotes the flow of goods and services between developing countries. IFC provides partial or full guarantees against underlying trade instruments and covers the payment risk of participating issuing banks. This facility helps in increasing the volume and value of the country's imports and exports while improving access to finance for local businesses and access to competitive pricing terms.

Similarly, the Bank has been recognized as the "Bank of the Year 2007- Nepal" by The Banker, a publication of The Financial Times, London. I may add that this is a much-cherished recognition of the Bank's outstanding performance, strong balance sheet, innovative product launches, technology and strong corporate governance.

In view of the excellent results, I am pleased to announce that the Board of Directors has

recommended payment of a stock dividend of 20% (1 share for every 5 shares held) in addition to a cash dividend of 1.0526% to the shareholders.

In order to expand reach and network, the Bank added six new branches in the review year, viz., one each in Butwal (western Nepal), Surkhet (mid western Nepal) and two branches at Damak & Lahan (eastern Nepal) and two in Katmandu valley at Battispatali and Bhaktapur. The Bank plans to establish at least four more branches in the current fiscal year including one in Dhangadhi in the far west Nepal. After the operation of Dhangadhi branch, we will have representation in all strategic commercial hubs of the country. In line with our policy to gradually move to our own premises, we shifted our Birgunj Branch to our own new building situated at Adarsha Nagar, a prime location in Birgunj. During the review year, the Bank also acquired land at Biratnagar and construction of the office building there is planned to be started soon.

The performance of the Bank in the current financial year is very encouraging as reflected by the achievements over the past 3 months. The Bank will continue to strive to improve its performance, and your directors are confident of delivering superior results in the current year.

On this occasion, I on behalf of the entire Bank, would once again like to express our profound grief on the untimely demise of our late professional director Mr. Suresh Prasad Acharya and express our heartfelt condolences to his family. I would also like to inform you that one of our directors Mr Ashok Kumar Agrawal, representing promoter shareholders resigned from the Board with effect from 15 December 2007, due to personal reasons. We would like to thank both late Mr. Acharya and Mr. Agrawal for their valuable support and guidance during their tenure as directors of the Bank.

On behalf of the Board, I would like to also thank all the distinguished shareholders for their continued support and guidance. Likewise, I would like to express my gratitude to our customers for their continued faith and support. I would also like to thank the Government of Nepal, Nepal Stock Exchange and Nepal Rastra Bank for their continued cooperation as well as guidance. Last, but not the least, the Management and all staff members of the Bank are commended for their dedication and commitment, which have been the key factor in ensuring such an excellent performance of the Bank.

Thank you.

**Jagdish Prasad Agrawal**  
Chairman



# CEO's Comment

Dear Shareholders,

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007/08 was another record year in NIC Bank's growth continuum. We managed to achieve a 53% increase in Net Profit resulting in a respectable 23% Return on Equity. The balance-sheet has grown by 30 % with gross non-performing assets reduced to a mere 0.86%. The market capitalization of the Bank at the year-end has increased to Rs.12,119 million from Rs. 6,270 million a year ago validating firm endorsement of the Bank's performance and future outlook. We are a performance driven company and our commitment to create value for our shareholders can only be as strong as our commitment to create value for our customers.

In 2007/08, we continued to streamline our business operations and made significant improvements in cost efficiency, derived from efforts to redesign and optimise operational processes and synergies in strategic sourcing which were bolstered by a strong risk management culture. During these times of intense competition and uncertain economic conditions, financial institutions are always striving to improve their cost-to-income ratios and I am pleased to say that, at 28 %, we have managed to achieve arguably the best in the industry in Nepal.

We have continued to fine-tune the management of our customer segments. We have structures that enable us to optimally meet the diverse requirement profiles of clearly defined customer groups through appropriate specialist skills and a range of products tailored to the respective customer needs.

We have made sizeable investments in increasing our footprint by opening 6 new branches during the year with 4 more planned in the current year which will enable us to service all major urban/semi-urban areas across the country.

These are some of the many reasons why our image as an emerging strong player in the Nepali banking market improved, both in general terms and as an employer of choice for high potentials and young graduates.

Nepal has been relatively insulated from the adverse effects of the Global Financial Crisis which emerged

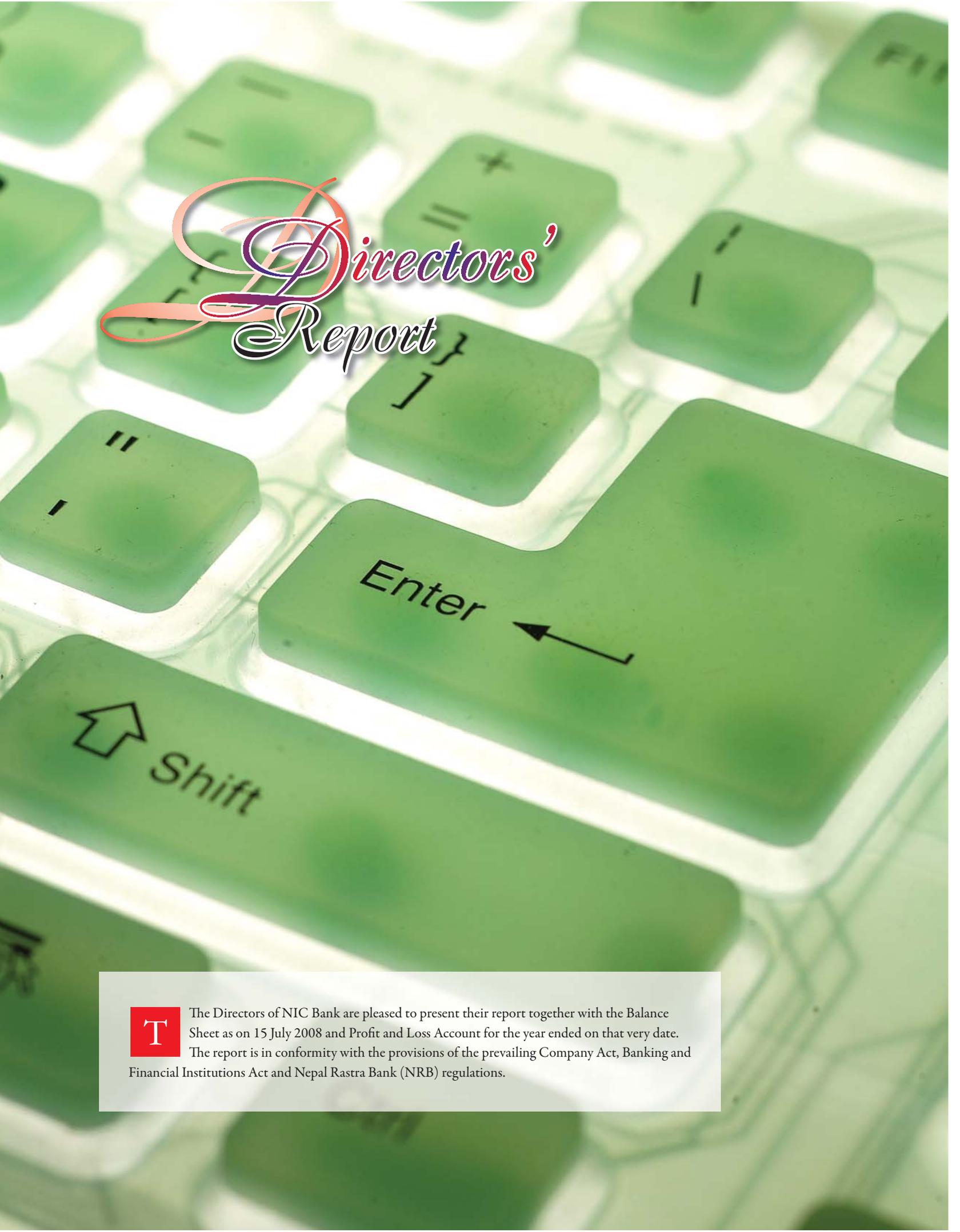
from the ashes of the U.S. sub-prime debacle.

However, this is no time to be complacent and banks in Nepal which still do not see the writing on the wall and refuse to learn from the mistakes of others would be doing so at their own peril. Prudent risk management practices, zero tolerance compliance culture and high standard of corporate governance have been the bedrock of NIC Bank's foundation which we believe will help us in getting through the most difficult challenges that lie ahead.

The challenging goals that NIC Bank has set for itself can only be achieved with highly motivated employees. I am pleased that our Bank has such a performance-driven merit-based work-force. We set out very steep targets which, I am proud to confirm, were exceeded. This was only possible because everyone demonstrated commitment and worked extremely hard. I would like to thank my colleagues very sincerely for all their hard work and their commitment in an extremely challenging economic and political environment; and my Board of Directors for their dedication, foresight, trust and belief in our people.

At the end, I would like to assure all our stakeholders that we believe that we will continue to be able to deliver value and meet – and perhaps exceed – their expectations in the years ahead.

**Sashin Joshi**  
Chief Executive Officer



# Directors' Report



The Directors of NIC Bank are pleased to present their report together with the Balance Sheet as on 15 July 2008 and Profit and Loss Account for the year ended on that very date.

The report is in conformity with the provisions of the prevailing Company Act, Banking and Financial Institutions Act and Nepal Rastra Bank (NRB) regulations.

## 1. Financial Highlights

The financial performance of NIC Bank for FY 2007/2008 is summarized below:

NPR in million

Particulars	Year ended 15 July 2008	Year ended 16 July 2007	% Change
Paid up Capital	943.9	660.0	43
Deposits & Borrowings	13,419.7	10,420.4	29
Risk Assets	11,465.3	9,128.7	26
Investments	2,311.5	1,599.5	45
Total Assets	15,238.7	11,679.3	31
Net Worth	1,303.4	918.5	42
Operating Profit before provisions	393.1	291.4	35
Net Profit	243.1	158.5	53

## 2. Appropriations

Out of the net profit after tax of NPR 243.06 million for F/Y 2007/08, NPR 48.61 million (previous year NPR 31.69 million), NPR 2.94 million (previous year NPR 0.94 million) and NPR 2.19 million have been transferred to General Reserve Fund, Exchange Fluctuation Reserve and NIC Bond Redemption Reserve respectively, as per statutory requirement. The total distributable profit, after taking into account NPR 12.40 million Retained Earnings of the previous year, is NPR 201.71 million. The Board of Directors has recommended a stock dividend of 20% (1 share for 5 shares held) plus a cash dividend of 1.0526% (NPR 10 million) to the shareholders from this distributable profit, whilst the balance NPR 1.62 million has been retained for distribution in future.

## 3. Capital Adequacies

It is pleasing to note that the Bank's capital position is more than satisfactory with a Capital Adequacy Ratio of 13.11% as on 15 July 2008 compared to the statutory requirement of 11%. Furthermore, the Bank's Capital Adequacy ratio under the Basel II framework is 12.41% as on 15 July 2008, compared to the minimum requirement of 10%. These ratios indicate a sound position of Bank.

## 4. Post Balance Sheet Event

No material events have occurred subsequent to 15 July 2008 and at the end of the closure of the books to the time of the signing of this report that could impact the financial health of the Bank.

## 5. Performance Update

The financial highlights of the Bank as at the end of the first 3 months of the current fiscal year as compared to the same period last year are as under:

NPR in million

Particulars	First 3 months ended 16 October 2008 FY 2008/09	First 3 months ended 17 October 2007 FY 2007/08	Growth (%)
Operating Profit before Provision	152.7	91.0	68
Net Profit	96.3	52.3	84
Total Deposits	12,854.4	10,595.8	21
Loans and Advances	12,008.8	9,476.6	27

The performance of the Bank in the current financial year is very encouraging. The Bank will continue to strive towards improving its performance and your directors are confident of delivering even better results in the current year.

## 6. Branch Network

In line with the Bank's strategy to expand reach and network, the Bank added six new branches in the review year - one each in Butwal, Surkhet, Damak and Lahan and two branches in Katmandu valley at Battisputali and Bhaktapur. The Bank plans to establish at least four new branches during the current year. We will have representation in all strategic commercial hubs across the country covering all geographic regions within this year.

In line with the Bank's policy to gradually serve customers from its own premises, our Birgunj Branch has been shifted to our own building situated at Adarsha Nagar, a prime location in Birgunj. Similarly, land has been acquired in Biratnagar recently and necessary preparations are underway to commence construction of our branch office on this land as well as on the land purchased in Kathmandu last year for our Corporate Office.



Lalitpur Branch

## 7. Products and Branding

The Bank takes pride in being able to consistently upgrade its services. Some of the key new products & services that the Bank has launched during the review period include

- a) Sale of 99.9% Pure Silver
- b) NIC Super Deposit
- c) NIC Education Loan
- d) NIC Business Account
- e) Karmashil Bachat Khata, etc.

Likewise, initiatives were taken to re-launch several products like SME- Trade & Industry Loan, Small Business Loan, NIC Sajilo Karza, etc. with more customized features to better cater to our customers' financial requirements. Similarly, many of our branches now offer late-hour services including 365 days services

After the pioneering entry into gold bullion we became the first bank to also trade in pure silver. With the introduction of NIC Silver we expect to contribute to the silver crafts and jewellery industry by ensuring easy and regular availability of unadulterated pure silver at international prices.

During the review period, the Bank also launched several deposit products, one of which is NIC Business Account (NBA). NIC Business Account encourages small businesses to maintain accounts by offering interest on daily balance. The Bank also introduced a unique product "NIC Super Deposit", a term deposit with a never-before-heard interest rate of up to 9% p.a. with the flexibility of a savings account. This unique product offers our customers with an investment opportunity with high returns.

The Bank also launched NIC Prepaid Cards which can be availed without maintaining a bank account. NIC prepaid cards can be used in Nepal and India in over 20,000 ATMs and 100,000 PoS terminals.

The innovative SME Trade & Industry Loan launched by the bank under SME loans has been well appreciated by the market. A combination of fund based and non-fund based facility, available on a multiple of choices as per customers' requirement, facilitates financing working capital, capital expenditure and trade related requirements.

The Bank has continuously enriched its brand building to increase value to its business. The Bank believes that branding is a valuable asset. In this context, in addition to launching various campaigns for brand building, the Bank also became the first commercial bank in the country to be ISO 9001:2000 certified for Quality Management system. Furthermore, NIC Bank is also the first bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group, under its Global Trade Finance Program. The Global Trade Finance Program supports trade with emerging markets worldwide and promotes the flow of goods and services between developing countries.

Similarly, the Bank has also been awarded the "Bank of the Year 2007- Nepal" by The Banker a publication of The Financial Times, London.



*CEO handing over a cheque to the nominee of a deceased NIC Life Savings Account customer towards reimbursement of life insurance covered under the product.*

## 8. Technology Development/ Information Management System

The Bank has successfully networked all of its branches. All branches are inter-linked and transactions are processed on a real-time-on-line basis. The Bank is also planning to centralize its data processing and other back-office functions in order to enhance processing efficiencies and to establish a reliable disaster recovery mechanism. NIC places high priority in managing and protecting its information resources and computer system. The Bank has a comprehensive IT policy.

## 9. Human Resource Management

The Bank continues its commitment to acquiring, developing and enhancing its human resource potential. The Bank views its human capital as a key source of competitive advantage. Consequently, the development and management of human capital is an essential element of our strategy and a key management activity. Continuous enhancement of knowledge and skill sets is vital, given the rapidly changing business environment and the constant challenges it poses to the organization. The Bank believes that building a learning organization is critical for being competitive and meeting customer expectations.

## 10. Directors

Mr. Suresh Prasad Acharya, the independent professional director on the Board, passed away during the year and his successor is yet to be nominated. Late Mr. Acharya was appointed to the Board with effect from 15 June 2007. We pray for the eternal peace of his soul and express our heartfelt condolences to his family. Mr Ashok Kumar Agrawal, representing promoter shareholders resigned as director with effect from 15 December 2007 due to personal reasons. We would like to thank both the directors for their valuable support and guidance during their tenure.

## 11. Auditors

Mr. Gopal P. Rajbahak, FCA, G. P. Rajbahak & Company, is retiring as the Bank's auditor at the forthcoming AGM and is eligible for re- appointment. Based on the recommendation of the Bank's Audit committee, the Board of Directors has proposed re-appointment of Gopal P. Rajbahak, FCA, Chartered Accountant for fiscal year 2008/2009.

## 12. Directors' Responsibility Statement

In accordance with the provisions of the Companies Act 2063 and provision of Nepal Rastra Bank and based on the information provided by the management, the directors state that:

- i. During the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii. Accounting policies selected were applied consistently. Reasonable and prudent judgments and estimates were made so as to give a true and fair view of the state of affairs of the Bank as at 15 July 2008 and of the profit of the Bank for the year ending on that date;



- iii. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Company Act for safeguarding the assets of the Bank and for preventing and detecting frauds and other irregularities;
- iv. The annual accounts of the Bank have been prepared on a going concern basis;
- v. There is no amount receivable by the Bank from Directors, Chief Executive Officer, substantial shareholders and their close relatives as well as associated firms, companies that have a potential conflict of interest with the Bank at large.

## 13. Management Discussions and Analysis

The Management Discussion and Analysis Report, which also includes reports, required by Company Act 2063 forms a part of this report.

## 14. Corporate Governance

The concept of corporate governance is entering a phase of global convergence. The driver behind this is the recognition that companies need to attract and protect all stakeholders, especially investors. Companies stand to gain by adopting systems that bolster investor trust through transparency, accountability and fairness.

NIC Bank has established a tradition of best practices in corporate governance. The Bank's corporate governance policy is directed not only towards the regulatory and legal requirements but also towards adherence to best business practices, transparency and disclosure to the stakeholders. The corporate governance framework in the Bank is based on an effective independent Board, which is not involved in the day-to-day management, and the constitution of different Board Committees with independent Directors to oversee critical issues.

NIC, within its relationships with its borrowers, depositors, agents, shareholders and other stakeholders has always maintained its fundamental principles of corporate governance – that of integrity, transparency and fairness. For NIC, corporate governance is a continuous journey, seeking to provide an enabling environment to harmonize the goals of maximising shareholder value and maintaining a customer centric focus.

NIC maintains that efforts to institutionalise corporate governance practices cannot solely rest upon adherence to a regulatory framework. NIC corporate governance compass has been its business practices, its values and personal beliefs, reflected in the actions of each of its employees.



The Board of Directors fully supports and is committed to the corporate governance model adopted by the Bank, which among others, encompasses the principles of full disclosure and transparency, social responsibility and accountability, Zero tolerance compliance culture, business and customer confidentiality, intolerance of conflict of interests and independent management.

## i. Composition of Board of Directors

The composition of Board of Directors of the Bank is as per the Company Act 2063 and Bank & Financial Institution Act 2063. Directors of the Bank have signed a declaration as to observe the regulations relating to the code of ethics issued by Nepal Rastra Bank (Central Bank). The Directors are independent of management and free from any business or other relationship with the Bank, which could materially interfere with the exercise of their judgment.

The Directors of the Bank are eminent personalities drawn from various fields and they bring to the Board a wide range of experiences and skills. The directors retire every 4 years and if eligible, qualify for re-appointment.

The Board of Directors represents the interests of the Bank's shareholders in optimizing long-term value by providing the management with guidance and strategic direction on the behalf of the shareholders. The Board's mandate is to oversee the Bank's strategic direction, review corporate performance, authorise and monitor strategic investments, ensure regulatory compliance and safeguard interests of shareholders.

## ii. Board Meetings

The meetings of the Board of Directors are generally scheduled well in advance and the notice of each board meeting is given in writing to each director. The Board papers comprising the agenda and other explanatory notes are circulated to the directors in advance. The members of the Board have complete access to all information of the Bank. The members of the Board are also free to recommend inclusion of any matter in the agenda for discussion. Whilst the CEO is a permanent invitee, other members of Senior Management are also invited to attend the Board meetings, as required, so as to provide additional inputs to the items being discussed by the Board.

During the year under review, a total of 14 Board meetings were held. The attendance of each director at the Board meetings and the last Annual General Meeting along with sitting fees paid are provided below:

Board of Directors	Board Meeting		Annual General Meeting Attendance
	Number of Meetings Attended	Sitting Fees Paid NPR	
Mr. Jagdish Prasad Agrawal, Chairman	14	82,000	Yes
Mr. Tulsi Ram Agrawal, Director	14	70,000	Yes
Mr. Ashok Kumar Agrawal, Director	6	30,000	Yes
Mr. Nirmal Kumar Agrawal, Director	13	63,000	Yes
Mr. Rajendra Aryal, Director	13	65,000	Yes
Mr. Birendra Kumar Sanghai, Director	13	63,000	Yes
Mr. Suresh Prasad Acharya, Director	11	49,000	Yes
Mr. Niraj Shrestha, Company Secretary	11	-	Yes
Mr. Sashin Joshi, Chief Executive Officer	14	-	Yes

## iii. Board Committees

To enable better and more focused attention on the affairs of the Bank, the Board delegates particular matters to committees of the Board set up for the purpose. These committees decide on matters, which are within their delegated authority and prepare the groundwork for decision-making by the Board on other matters as determined by Board.

### a. Board Credit/Management Committee

The Board Credit/Management Committee comprises of non-executive independent directors in addition to the Chief Executive Officer or his nominee. The terms of reference of the committee are to provide advice and assistance to the Board in formulation of strategic plans for overall improvement of the Bank. The Committee assists the Board in credit approvals exceeding the Credit Approval Discretion delegated by the Board to Chief Executive Officer. The Committee also assists the Board in any other assignments/responsibilities assigned by the Board from time to time.

The committee met nine times during the year under review. The attendance was as under:

Board Credit/Management Committee	Number of Meetings Attended	Sitting Fees Paid NPR
Mr. Tulsi Ram Agrawal, Chairman	9	64,000
Mr. Nirmal Kumar Agrawal, Member	6	36,000
Mr. Birendra Kumar Sanghai, Member	6	38,000
Invitees*	7	50,000
Mr. Sashin Joshi, Chief Executive Officer, Member	9	-

\*(Mr. Jagdish Prasad Agrawal, Mr. Ashok Kumar Agrawal and Mr. Rajendra Aryal)

### B. Audit Committee

In accordance with the provisions of NRB, the Bank has an Audit Committee comprising of non-executive directors and Head of Audit and Compliance.

The terms of reference of the Audit Committee are primarily to review the systems and procedures of internal control, approve and oversee implementation of audit procedures and techniques, oversee financial reporting processes and disclosures of financial information to ensure that the financial statements are correct, sufficient and credible and ensure compliance with the regulatory and other requirements.

The Committee is also responsible for objectively reviewing the reports of the internal auditors and statutory auditors and ensuring that adequate follow-up action is taken by Management on observations and recommendations made by the auditors. In addition, the Committee reviews the performance of the Bank's statutory auditors at the time of appointment to ensure that an objective, professional and cost-effective relationship is being maintained. It is the Audit Committee's prerogative to invite senior executives whom it considers appropriate to be present at the meetings. Senior Management and auditors are invited to participate in the meetings of the Audit Committee, whenever necessary.

The Committee has reviewed the internal audit report and made its suggestions to improve internal controls. The Committee has reviewed the annual account and preliminary statutory audit report issued by statutory auditors and recommended their adoption by the Board of Directors.

The Committee met six times during the year under review. The Audit Committee also met prior to the finalization of the accounts for the year ended July 15, 2008.

Audit Committee	Number of Meetings Attended	Sitting Fees Paid NPR
Mr. Rajendra Aryal, Coordinator	6	36,000
Mr. Ashok Kumar Agrawal (Former Coordinator)	3	15,000
Mr. Birendra Kumar Sanghai, Member	3	21,000
Mr. B. K. Agrawal, invitee	3	21,000
Mr. Purna Man Napit, (Head Audit & Compliance), Member Secretary	6	-

#### iv. Annual General Meetings

The details of Annual General Meetings (AGM) held in the last three years are given below:

AGM	Date	Venue
Eighth General Meeting	9 December 2005	Meeting hall of Udhyog Sangathan, Morang
Ninth General Meeting	1 December 2006	Meeting hall of Udhyog Sangathan, Morang
Tenth General Meeting	14 December 2007	Meeting hall of Udhyog Sangathan, Morang

At the last AGM, shareholders of the Bank holding in aggregate 67.26% of the share capital had attended either in person or by proxy. Two special resolutions were passed in the AGM to change the Memorandum and Articles of Association of the Bank and issue of bonus shares and right shares.

#### v. Communication and Relationship with Shareholders

NIC has over 31,000 shareholders. The main channel of communication to the shareholders is through the annual report, which includes inter alia, the Chairman's Statement, Directors' Report, Management Discussion & Analysis, Chief Executive Officer's comment, and the audited financial results. The AGM is the principle forum for face-to-face communication with shareholders, where the entire Board is answerable to specific queries of the shareholders. The Board acknowledges its responsibility towards its shareholders and, therefore, encourages open and active dialogue with all its shareholders—be it individuals or corporate investors. Regular communication with shareholders ensures that the Bank's strategy is delivered properly and being clearly understood.

Shareholders are also intimated through the press and the Bank website, [www.nicbank.com.np](http://www.nicbank.com.np) of the quarterly performance and financial results of the Bank.

The annual report also contains general shareholder information including list of major shareholders.

#### vi. Related Party Transactions

There were no related party transactions with Directors, Management, subsidiaries or relatives of Directors that are outside the purview of laws and regulations and that have a potential conflict with the interests of the Bank at large.

#### vii. Going Concern

The Directors are satisfied that the Bank has adequate resources to continue its business for the foreseeable

future and consequently consider it appropriate to adopt the going concern basis in preparing financial statements.

## 15. Acknowledgements

Our shareholders have been our partners in progress. They have continued to repose their trust and confidence in the Bank. The Bank is committed to work for augmenting shareholder value.

In our quest to become a customer-centric Bank and in our journey towards excellence in banking services, our customers, patrons and well-wishers have stood by us all throughout. We are grateful for their continued patronage and encouragement.

In the rapidly changing banking environment and in the ever-evolving uncertainties, success in any business endeavor can be achieved only with a highly committed, dedicated and competent work force. The Bank is fortunate to be blessed with such a work force.

The Board of Directors places on record their appreciation for the continued support and patronage of shareholders, customers and well-wishers.

The Board is grateful for the co-operation of regulatory authorities including Nepal Rastra Bank, Securities Board, Nepal Stock Exchange, Company Registrar's Office and Ministry of Finance for their continued support and guidance to the Bank from time to time.

For and on behalf of the Board  
**Jagdish Prasad Agrawal**  
Chairman

# *Management Discussion & Analysis Report*



# 1. Economic Overview

The Nepalese economy has witnessed a satisfactory rebound in FY 2007/08 recording the highest GDP growth in the past 7 years following some improvements seen in the political climate. The GDP at factor cost and producer's price is estimated to have grown by 5.6% and 4.7% respectively (as against 2.6% and 3.2% respectively in the previous year) attributed primarily to the improved performance of agriculture sector. The agriculture and non-agriculture sectors are reported to have grown by 5.7% and 5.6% respectively vis-a-vis 1% and 4.1% recorded the preceding year. The satisfactory performance by the agriculture sector was primarily due to a surge in paddy production supported by favorable weather conditions.

Total government expenditure, on cash basis, grew by only 18.5% to NPR 148.6 billion compared to the higher growth of 23.3% the previous year, attributed mainly to the lower capital expenditure which increased by 32.2% to NPR 42.7 billion compared to a rise of 57.7% in the previous year. The recurrent expenditure increased by 18% to NPR 87.5 billion compared to an increase of 14.8% in the previous year.

During the review period, total revenue increased by 22.6% to NPR 107.6 billion compared to a growth of 21.3% in the previous year. Consequently, the revenue to GDP ratio climbed to 13.1% in 2007/08 from that of 12.1% in 2006/07. Growth of revenue was on account of substantial increase in the import of merchandise goods and the resulting increase in

customs duties, VAT and excise duties, the increase in income tax as well as in non tax revenue. The budget deficit expanded to NPR 33.0 billion in 2007/08 compared to deficit of NPR 30.09 billion in the previous year and was financed by domestic loan amounting to NPR 20.5 billion and external borrowing amounting to NPR 11.33 billion.

During the review year, year on year inflation climbed to 12.5% in mid-July 2008 from the level of 5.1% in mid-July 2007. The average annual consumer inflation stood at 7.7% against 6.4% last year mainly due to effect of hike in the price of petroleum products and food prices.

On the trade sector, exports increased by 2.4% as compared to a rise of 1.4% in the previous year. Imports increased by 16.1% compared to an increase of 12% in the previous year.

The overall balance of payment registered a surplus of NPR 29.7 billion in FY 2007/08 as compared to a surplus of NPR 5.9 billion in the previous year. This significant increase due to rise in workers remittances and grant assistance contributed to a record of BOP surplus in the review year.

The gross foreign exchange reserves of the country in mid-July 2008 stood at NPR 212.6 billion, which is adequate to cover service and merchandise imports of 9.1 months.

(Source: Macro Economic Situation 2007/08 published by Nepal Rastra Bank)

# 2. Financial Sector Overview

During the last few years, the banking environment in the country has gone through a sea change with a host of new players, both large and small, entering the market. The industry now comprises of 25 full-fledged commercial banks, 58 development banks, 78 finance companies and hundreds of other credit and savings cooperatives. This has led to an unprecedented level of competitive behavior resulting in continuous erosion of margins, high customer expectations, need to upgrade technology to keep pace with international developments, ever increasing need to be innovative and churn out new products and

services to differentiate oneself and stay ahead, need to improve customer services and service delivery and maintain the quality of assets in an ever-compromising competitive behavior in the face of poor business conditions and ever-stringent regulatory norms; and to maintain profitability growth and meet demanding shareholder expectations.

Based on the published figures as on 15 July 2008, total loans and advances of the commercial banks aggregated NPR 348.19 billion and total deposits aggregated NPR 421.52 billion.

## 3. Review of Operation

### i. Financial Condition

The Bank was able to achieve an impressive growth in the year. Total assets increased by 30% to NPR 15,238.73 million. Similarly, Net Worth increased to NPR 1,303.43 million from NPR 918.50 million in the previous year. The significant increase in assets is expected to bear fruit by an increase in profitability in the current year.

During the year, paid up capital of the Bank increased by NPR 283.88 million to NPR 943.88 million due to issue of 20 % bonus & 20% rights shares in the previous year. No shares have been forfeited till date and the Bank did not buy back its own shares during the year.

The core capital of the Bank stood at Rs 1,293.75 million and total Capital fund (including Supplementary capital of Rs 321.97 million) stood at Rs 1,615.72 million as on 15 July 2008. The Capital Adequacy Ratio of 13.11% exceeded the statutory requirement by 2.11%. Furthermore, NRB had also prescribed application of Basel II framework under parallel run for fiscal year 2007/08 and we are in a very comfortable position under this scenario as well. As per Basel II framework, our Capital Adequacy Ratio also exceeded by 2.41%. These ratios indicate a sound financial position.

#### a. Deposits

On 15 July 2008, the share of the Bank's Deposits in total resources was at 86%, with outstanding total deposits at NPR 13,085 million, registering a growth of 30% over the previous year. Out of the total deposits, local currency deposits grew significantly by 29% as compared to the previous year.

Non-interest bearing deposits grew by 19% over the previous year. With a positive response to Karmashil Bachat Khata, savings deposits, an important part of low cost deposits grew by 10% over the previous year. Similarly, in order to properly match the medium/ long term investment, the Bank has increased the ratio of time deposits. The Bank has achieved a significant growth by 36% in call deposits over the previous year replacing high cost, volatile, institutional deposits.

The Bank offers differentiated liability products to various categories of customers. NIC Bank's deposit products continue to be a preferred investment for households and individuals, despite higher rates of return being offered by many other financial institutions.

#### Composition of Funds

Particulars	NPR in million	
	Year ended 15 July 2008	Year ended 16 July 2007
Deposits	13,084.7	10,068.2
Local Currency	12,369.6	9,538.9
Foreign Currencies	715.1	529.3
Borrowings including subordinated debt	535.0	552.1

#### b. Loan Portfolio

During the year, the Bank posted a significant growth in loans and advances of 26% over the previous year. Credit to small/medium businesses and consumer lending have made the major contribution to this growth. Consumer lending increased from NPR 2,052 million as at 16 July 2007 to NPR 2,979 million as at 15 July 2008, reflecting a growth of 45% over the previous year. The share of consumer lending to total loans and advances has increased to 26% from 23% in the previous year. "NIC Sajilo Karja" a simple overdraft facility was the major contributor to consumer lending growth during the year with its share to total consumer lending at 21%. Currently, the maximum loan exposure to a single unit is only 1.88%. Loans of NPR 11.52 million have been written off during the year.

Consumer lending has emerged as a rapidly growing opportunity for banks. The Bank continued its focus on consumer lending to capitalize on the robust growth in this sector. Innovative products, parity pricing, cross selling, customer convenience and customer focus are the key elements of the Bank's consumer strategy.

The Bank's Corporate/Business Banking strategy is geared towards providing comprehensive and customized financial solutions to our corporate customers. The Bank offers a complete range of corporate banking products including transaction banking, trade finance services, foreign exchange and

corporate financing solutions including project & infrastructure finance, working capital & term loans, structured financing, syndications, cash management and treasury and advisory services.



The Bank has implemented quality processes across Business Banking operations and reduced turnaround times. The Bank has developed new relationships with SMEs and medium-sized companies, which have the potential to become large corporations of tomorrow. The Bank believes that medium-sized corporates will play an important role in the economy and have created a dedicated group for tapping opportunities with mid-cap companies. The Bank's focus in Business Banking will continue, as there is continuing demand for credit from the business sector, with growth and additional investment demand in almost all sectors of the economy.

Prudent risk management, continuation of the selective asset growth strategy and strategic diversification of the credit portfolio resulted in gross Non Performing Assets (NPA) reducing to 0.86% of total loans and advances

from 1.11% in the previous year. Gross NPA are loans overdue for more than 90 days as at year-end.

As per the prudential norms prescribed by Nepal Rastra Bank, the Bank has provided for a loan loss provision of NPR 201 million as at 15 July 2008. The loan loss provision has been strengthened during the year by a transfer of NPR 25 million through a charge to the Profit and Loss Account.

### c. Investment

Total investment of the Bank registered a growth of 45% over the previous year of which 40% was on account of investment in government securities. Out of total investments 67% is in government securities, 30% in foreign banks and remaining in equity investments and interbank lending. Similarly, the total investment portfolio is 15% of the total balance sheet size as at 15 July 2008.

During the review year the Bank increased its holding in Rural Microfinance Development Centre Ltd (RMDC) by 55% over the previous year. Investment in RMDC equity qualifies for Deprived Sector lending. The Bank also increased its holding in Credit Information Centre Ltd (CICL) by 250% over the previous year. The Board reviews the investment portfolio of the Bank regularly.

#### Deployment of funds

Particulars	Year ended 15 July 2008	Year ended 16 July 2007
Loans and Advances	11,465.3	9,128.7
Investments	2,311.5	1,599.5
- Local Currency	1,621.8	1,220.7
- Foreign Currency	689.6	378.8



#### d. Unclaimed Dividend

The Bank distributed 10% cash dividend in FY 2000/01, 30% cash cum stock dividend in FY 2004/05, 10.53% cash cum stock dividend in FY 2005/06 and 21.05% cash cum stock dividend in FY 2006/07. As at 15 July 2008, dividend amounting to NPR 2.47million has not been claimed by shareholders of the Bank. The Bank has been intimating the shareholders to lodge their claim for dividend from time to time through newspaper notices.

### ii. Operating Result

The Bank has achieved remarkable growth in both the top and bottom line. Profit before provisions increased by 35% to NPR 393.06 million primarily due to increase in net interest income and significant increase in non- interest income.

Profit after tax increased by 53% to NPR 243.06 million as compared to previous year.

#### a. Net Interest Income

During the year, Net Interest Income increased by 40% to NPR 304 million mainly due to asset growth and better margin. The net interest margin for the review year was 3.44% as compared to previous year at 2.86%. Average return on Loans and Advances and Investment was 7.79%. The average return increased by 0.67% over the previous year. Average cost of deposit and borrowings increased to 4.35% in Fiscal Year 2007/08 from 4.26% in the previous year.

#### b. Non-Interest Income

Non-Interest income includes Fee income and FX income, which increased by 14% to NPR 121million due to growth in service charges on account of increase in consumer loans. The share of Non-Interest Income to total revenue is 22%, which is considered reasonable in the current competitive scenario.

#### c. Non-Interest Expense

Non-Interest Expense increased by 28% to NPR 153 million due to increase in business volume, inflation and cost of new branches.

## 4. Risk Management

Risk is an integral part of the banking business and we aim at delivering superior shareholder value by achieving an appropriate trade-off between risk and returns. We are exposed to various risks, including credit risk, market risk and operational risk. Our risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The operations manual, policies and procedures covering various products and services established for mitigating various risks are continuously benchmarked with international best practices.



### Credit Risk

Credit risk is the risk that a borrower fails to meet its financial obligations to the Bank. In order to mitigate this risk the Bank measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Bank manages credit risk through stringent credit norms/procedures. The Bank has standardized credit approval processes, which include a well-established procedure of comprehensive credit appraisal. The Bank follows credit grading methodologies as prescribed by NRB. All credits are extended in strict compliance with the directives of Nepal Rastra Bank. The loan approval process of the Bank is decentralized, with varying approval limits. Approval of lending proposals beyond certain limits delegated to Management is referred to the Board Credit and Management Committee (BCMC). Larger proposals, as appropriate, are referred to the Board of Directors.

In Consumer lending, the Bank has standardized products, policies, procedures and service delivery standards. Sale of consumer loans and credit assessment are distinct and independent of each other. The Bank's sales officers do initial evaluation of credit proposals on the basis of the approved product policy and risk assessment criteria. A comprehensive due diligence process including inspection of business site and verification of place of residence along with substantiation of income is done. Credit proposals are approved through the credit chain in accordance to Credit Approval Discretion as appropriate. There is a separate Recovery Cell that monitors accounts regularly. Performance of the consumer lending portfolio is reviewed monthly and product and policies are reviewed and updated periodically.

## Market Risk

Market risk is the risk of loss resulting from changes in interest rates, foreign currency exchange rates, and equity and commodity prices. Our exposure to market risk is a function of our trading and asset and liability management activities and our role as a financial intermediary in customer-related transactions. The objective of market risk management is to minimize the impact of losses on earnings and equity capital due to market risk.

Management of Market Risk is the major concern of the top management of the Bank. The Bank has an ALCO (Asset Liability Management Committee), which meets periodically to review product pricing, liquidity management, funding strategies, market/economic situation, transfer pricing and balance sheet management of the Bank. Treasury ensures adequate liquidity at all times through systematic funds planning and maintenance of liquidity. The structural liquidity and interest rate sensitivity gap reports are prepared in line with the NRB guidelines to monitor the liquidity and interest rate risk which are also reported to NRB on a regular basis.

The Treasury Back Office monitors the Treasury activities and adherence to regulatory/ internal policy guidelines. The Treasury Back Office is also responsible for processing treasury transactions, tracking the daily funds position and ensuring

compliance with all treasury-related management and regulatory reporting requirements.

## Operational Risk

Operational risk is the risk of loss that can result from various factors, including failure to obtain proper internal authorizations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors/lapses and external factors as well. Our approach to operational risk management is designed to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back-up procedures and undertaking regular contingency planning. Effective operational risk management system would ensure that Bank has sufficient information to make appropriate decisions about additional controls, adjustments to controls, or other risk responses. Bank's operational risk management policy aims at minimizing losses and customer dissatisfaction due to failure in processes, focusing on flaws in products and their design that can expose the Bank to losses due to fraud, analyzing the impact of failures in technology/systems, developing mitigants to minimize the impact and developing plans to meet external shocks that can adversely impact continuity in the Bank's operations.

The Audit and Compliance unit of the Bank undertakes a comprehensive audit of all business groups and other functions, in accordance with the audit plan. This plan allocates audit resources based on an assessment of the operational risks in the various businesses. The reports of all internal audits are submitted to Audit Committee for review on periodic basis. Based on the weight of the findings branches are instructed to take corrective and preventive action in order to mitigate any operations risk.

Further, since the Bank has been certified ISO 9001:2000 for its Quality Management System (QMS), the Bank has adopted QMS in each area to ensure that the services provided by the Bank are in line with international standards for mitigating all types of risks. Internal Audit also covers QMS audit which is also ensured by the Auditor of ISO during

their surveillance audit which confirms whether transactions are in line with approved procedures or not.

The Bank has adopted a Self Audit System at all branches to further strengthen its Operational Risk Management. The Bank has developed a set guideline to all branches/departments/units to perform self audit of transactions on daily, monthly, quarterly and annual basis to help mitigate risks if any in time under advice to Management.

## New Capital Adequacy Framework – Basel II

Banks are required to maintain sufficient capital in line with NRB guidelines to be compliant with Basel II framework. NRB had issued a draft guideline in August 2006 to adopt a more risk sensitive approach to capital requirements in accordance with the framework issued by the Basel Committee on Banking Supervision (popularly known as Basel II). In line with NRB instruction, NIC Bank has capital adequacy fully complied with the requirements under this draft guideline. The Bank is ready for implementation of the new capital adequacy framework from the fiscal year 065/66. The Capital Adequacy of the Bank is sufficient in line with the new framework.



## Know Your Customer & Anti Money Laundering

The Bank is mindful of the need to check money laundering activities and has developed an operations manual on Know Your Customer (KYC) and Anti Money Laundering (AML) policy in line with international standards which has been strictly implemented at all branches. In order to create awareness among staff in these areas, the Bank has been providing training on KYC and AML on periodic basis covering 100% staff.

## 5. Information Technology

The Bank has successfully networked all of its branches and all branches are inter-linked and transactions are processed on a real-time on-line basis. The Bank is also concurrently planning on centralizing its data processing and other back office functions in order to enhance processing efficiencies and to establish a reliable disaster recovery mechanism. The Bank has been continuously upgrading the technology in order to leverage more customer convenience.

## 6. Human Resources

The Bank has a practice of continuous enrichment of its human assets so that they deliver value to business. This is rooted on the belief that the Bank's human resources are the most valuable intangible asset, with potential for continuous appreciation in value.

The Bank also recognizes that accelerating the learning process within the organization is crucial to enhance competitiveness. The acquisition of knowledge and its appropriate application to structure value-added solutions at the point of interface with customers is critical. During the year, customized functional in-house training programmes on various aspects were conducted. Staff members were also nominated to attend external programmes. The Bank makes extensive use of external training resources of reputed training institutions in Nepal and abroad. During the review year, the Bank invested NPR 1.48 million (previous year NPR 1.07 million) in training to

enhance the development of human resources of the Bank.

The Bank reviews its salary structure once in two years based on a comprehensive market survey.

In order to enhance the development of human resources and to align it with the strategic goal, the Bank has introduced a new Performance Management System, which effectively measures and rewards employee performance and identifies potential.

Staff	Year ended 15 July 2008	Year ended 16 July 2007
Managerial Level Staff	53	51
Support Staff	147	108
Auxiliary staff	32	30
<b>Total staff</b>	<b>232</b>	<b>189</b>
Total Staff Cost (NPR in million)	72.1	54.9
Staff Cost to total cost (%)	47	46
Staff cost per Employee (NPR in 000)	310.7	290.6
Net Profit per Employee (NPR in 000)	1047.7	838.5

Remuneration, allowances and facilities given to Chief Executive Officer (CEO) and managers/officers of the Bank during the year is as under:

Particulars	Rs. in 000	
	Chief Executive Officer	Managers/ Officers
Salary	5,082	20,078
Allowances	1,425	10,264
Dashain allowance	424	1,613
Provident Fund	508	2,007
Leave Fare Allowances	424	1,684
Vehicle Loan	-	Yes
House Loan	-	Yes
Insurance coverage	Yes	Yes
<b>Total Number</b>	<b>1</b>	<b>59</b>

Bonus, telephone facility and office car with driver is provided to CEO. The managers are given vehicle facility with fuel as per the Bank policy. Insurance coverage includes accidental insurance and medical insurance. All eligible staffs are paid bonus and provided other facilities as per regulations/staff rules.

## 7. Community Development

As a part of the Bank's Corporate Social Responsibility (CSR) the Bank is now actively involved in community welfare activities. Bank has promoted an independent and autonomous organization namely NIC Foundation having objectives of bringing about positive changes in the society through charitable works by helping marginalized and underprivileged communities through education, health and skill development. To sustain the work of NIC Foundation the Bank contributes a fixed percentage (0.5% of its net profit) for this purpose. NIC Bank is the only Bank in the industry to set aside a fixed proportion of profit for such purposes.

NIC Foundation is providing scholarships to underprivileged but meritorious girl children of several community run schools. Similarly, three blind students who arrived in Katmandu from far west Jumla to pursue higher education also benefited under a two-year scholarship program at Sanothimi Campus. The Bank has also donated computers to a school of a remote area and is providing financial assistance to an orphanage at Birgunj. The Bank has also set an



CEO and Rajendra Aryal, Director of the Bank handing over cheque of Rs. 251,000 to "Prime Minister's Disaster Relief Fund"

example by organizing a Blood Donation campaign every year in order to help alleviate the shortage of blood in Kathmandu.

The Bank has recently donated a sum of NPR 251,000 to “Prime Minister’s Disaster Relief Fund” with a view to help flood victims. The Bank has also raised NPR 225,800 for donation for the same purpose through Nepal Red Cross Society. Out of the total fund, staff members contributed NPR 129,000.

## 8. Future Prospects

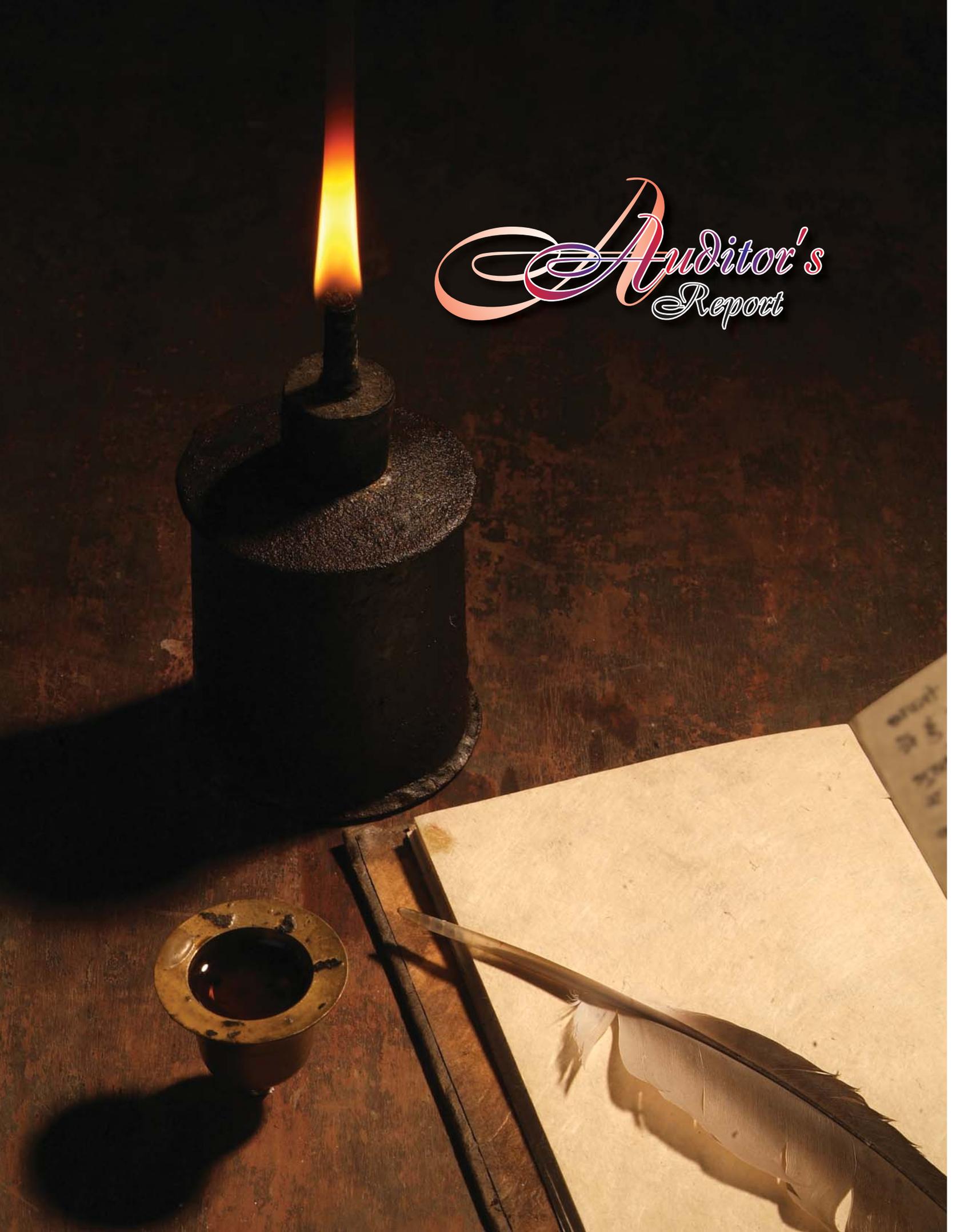
Falling from the recent developments in the political front where a new government has been formed and various initiatives are being taken for the country’s economic progress, it is expected that the overall investment climate and opportunities should improve over time. The Bank has accordingly outlined its strategy for the next 3 years and developed a detailed plan for its implementation. New customer segments and products have been identified and responsibilities assigned. Besides, the Bank will continue to pursue and grow its core business with a special focus in further growing its SME portfolio. In the expected improved political and economic environment, the Bank expects to maintain a healthy growth in FY 2007/08. Goals have been set to achieve a higher customer satisfaction, improved productivity and better efficiency. Technology upgrades needed to accomplish service quality and productivity improvements have been planned and are expected to be implemented in the next two years. A big challenge will continue to be recruitment and retention of quality people and managing risk in a highly competitive market.

In this environment, aggressive growth of risk assets could be counter productive. The Bank will therefore continue its present strategy of selective risk asset growth by maintaining the quality of assets, increasing its market share in retail lending, SMEs and international trade with a higher focus on treasury operations, risk assets portfolio diversification and better productivity through improvements in internal

efficiencies, diversification of our deposit portfolio with a bias towards savings deposits with a view to further reduce dependency on large institutional deposits and reduce funding costs, better cost management and enhancing the corporate image of the Bank.



*Auditor's  
Report*





We have audited the accompanying Balance Sheet of Nepal Industrial & Commercial Bank Ltd. (*hereinafter referred to as 'the Bank'*), as at Ashadh 31, 2065 (July 15, 2008) and the related Profit & Loss Account and Cash Flow Statement for the year then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Nepal Standards of Auditing and relevant practices. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination on a *test basis*, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Based on our examination of the financial statements as aforesaid, we report that:

1. We have obtained all information and explanations required for the purpose of our audit.
2. The Balance Sheet, Profit & Loss Account and Cash Flow Statement thereto are presented in conformity with the formats prescribed by Nepal Rastra Bank and are in agreement with the accounts maintained by the Bank.
3. The account and records of the Bank have been maintained as required by law and practice.
4. Returns received from the branch offices of the Bank are adequate for the purpose of our audit.
5. The capital fund and risk bearing fund of the bank are adequate considering the Directives issued by the Nepal Rastra Bank.
6. To the best of our information and according to the explanations given to us and from our examination of the books of accounts of the Bank, we have not come across any case where the Board of Directors or any employees of the Bank have acted contrary to the provisions of law, or committed any misappropriation or caused any loss or damage to the Bank and violated Directives issued by the Nepal Rastra Bank or acted in a manner as would jeopardize the interest and security of the Bank and its depositors.
7. The business of the Bank has been conducted satisfactorily and found within its authority.
8. In our opinion and to the best of our information and according to the explanation given to us, the said accounts read together with the Significant Accounting Policies (Schedule 32) and Notes thereon (Schedule 33), give a true and fair view -
  - in the case of Balance Sheet, of the state of affairs of the Bank as at Ashadh 31, 2065 (July 15, 2008),
  - in the case of Profit & Loss Account, of the profit of the Bank for the year ended on that date, and
  - in the case of Cash Flow Statement, the cash flows of the Bank for the year ended on that date.

**Gopal P. Rajbahak, FCA**  
For G. P. Rajbahak & Co.  
Chartered Accountants

Date: September 22, 2008  
Kathmandu

## BALANCE SHEET as at 31 Ashad 2065 (15 July 2008)

Capital & Liabilities	Schedule	Current Year NPR	Previous year NPR
1. Share Capital	1	943,877,100	660,000,000
2. Reserves and Funds	2	359,549,800	258,495,972
3. Debentures & Bonds	3	200,000,000	200,000,000
4. Borrowings	4	335,000,000	352,128,714
5. Deposit Accounts	5	13,084,688,672	10,068,230,869
6. Bills Payable	6	32,564,394	31,691,544
7. Proposed Dividend and Dividend Payable		12,474,904	11,380,066
8. Income Tax Liabilities		13,927,060	404,997
9. Other Liabilities	7	256,654,384	97,007,703
<b>Total</b>		<b>15,238,736,314</b>	<b>11,679,339,865</b>

Assets	Schedule	Current Year NPR	Previous year NPR
1. Cash Balance	8	235,246,176	181,606,909
2. Balance with Nepal Rastra Bank	9	634,114,316	262,735,366
3. Balance with Banks/Financial Institutions	10	322,988,294	155,416,357
4. Money at Call and Short Notice	11	160,000,000	163,009,044
5. Investments	12	2,311,468,317	1,599,481,050
6. Loans, Advances and Bills Purchased	13	11,264,678,096	8,941,397,651
7. Fixed Assets	14	194,500,407	153,679,315
8. Non-banking Assets	15	674,375	1,163,750
9. Other Assets	16	115,066,333	220,850,423
<b>Total</b>		<b>15,238,736,314</b>	<b>11,679,339,865</b>

Contingent Liabilities	Schedule 17
Directors' Declaration	Schedule 29
Capital Adequacy Table	Schedule 30
Statement of Risk Weighted Assets	Schedule 30 (A)
Principal Indicators	Schedule 31
Principal Accounting Policies	Schedule 32
Notes to Accounts	Schedule 33

Schedules 1 to 17, 32 and 33 form integral part of this Balance Sheet

Sashin Joshi Chief Executive Officer	Nirmal Kumar Agrawal Director	Tulsi Ram Agrawal Director	Kathmandu Date:–
Rajendra Aryal Director	Birendra Kumar Sanghai Director	Jagdish Prasad Agrawal n am r i a h C	As per our report of even date  Gopal P. Rajbahak, FCA G.P. Rajbahak & Co. Chartered Accountants

**PROFIT AND LOSS ACCOUNT**

For the period from 1 Shrawan 2064 to 31 Ashad 2065 (17 July 2007 to 15 July 2008)

Particulars	Schedule	Current Year NPR	Previous year NPR
1. Interest Income	18	931,400,562	725,819,040
2. Interest Expenses	19	505,995,879	421,374,951
<b>Net Interest Income</b>		<b>425,404,683</b>	<b>304,444,089</b>
3. Commission & Discount	20	43,373,395	36,017,034
4. Other Operating Incomes	21	37,905,045	26,174,612
5. Exchange Fluctuation Income	22	39,657,785	44,276,889
<b>Total Operating Income</b>		<b>546,340,908</b>	<b>410,912,624</b>
6. Staff Expenses	23	72,073,510	54,920,384
7. Other Operating Expenses	24	81,203,334	64,631,218
8. Exchange Fluctuation Loss	22	-	-
<b>Operating Profit Before Provision for Possible Loss</b>		<b>393,064,064</b>	<b>291,361,022</b>
9. Provision for Possible Losses	25	25,414,298	37,770,737
<b>Operating Profit</b>		<b>367,649,766</b>	<b>253,590,285</b>
10. Non - Operating Income/Expenses	26	10,649,150	409,114
11. Loan Loss Provision Written Back	27	18,450,568	94,457,231
<b>Profit from Regular Activities</b>		<b>396,749,484</b>	<b>348,456,630</b>
12. Income/Expense from Extra-Ordinary Activities	28	(6,037,521)	(94,457,231)
<b>Profit from All Activities</b>		<b>390,711,963</b>	<b>253,999,399</b>
13. Provision for Staff Bonus		35,519,269	23,090,854
14. Provision for Tax Expense		112,134,654	72,433,494
Current Years		113,989,604	72,680,135
Deferred Tax		(1,854,950)	-
Previous Years		-	(246,641)
<b>Net Profit / (Loss)</b>		<b>243,058,040</b>	<b>158,475,051</b>

Schedule 18 to 28, 32 and 33 form integral part of this Profit and Loss Account

Sashin Joshi Chief Executive Officer	Nirmal Kumar Agrawal Director	Tulsi Ram Agrawal Director	Kathmandu Date:-
Rajendra Aryal Director	Birendra Kumar Sanghai Director	Jagdish Prasad Agrawal n am r i a hC	As per our report of even date
			<b>Gopal P. Rajbahak, FCA</b> G.P. Rajbahak & Co. Chartered Accountants

## PROFIT AND LOSS APPROPRIATION ACCOUNT

Fiscal Year 2064/2065 (2007/2008)

Particulars	Current Year NPR	Previous year NPR
<b>Income</b>		
1. Accumulated Profit upto Previous Year	12,398,336	25,004,264
2. Current Year's Profit	243,058,040	158,475,051
3. Exchange Equilization Fund	-	-
4. Recognition of Deferred Tax Asset (Net) on initial adoption of NAS 09 -Income Taxes	-	505,810
<b>Total</b>	<b>255,456,376</b>	<b>183,985,125</b>
<b>Expenses</b>		
1. Accumulated Loss upto Previous Year	-	-
2. Current Year's Loss	-	-
3. General Reserve	48,611,608	31,695,010
4. Contingent Reserve	-	-
5. Institution Development Fund	-	-
6. Dividend Equalization Fund	-	-
7. Employees' Related Fund	-	-
8. Proposed Dividend	10,004,211	6,947,368
9. Proposed Issue of Bonus Share	190,080,000	132,000,000
10. Special Reserve Fund	-	-
11. Exchange Fluctuation Fund	2,941,691	944,411
12. Capital Redemption Reserve	-	-
13. NIC Bond -2070 Redemption Reserve	2,191,781	-
<b>Total</b>	<b>253,829,291</b>	<b>171,586,789</b>
14. Accumulated Profit (Loss)	1,627,085	12,398,336

Sashin Joshi  
Chief Executive Officer

Nirmal Kumar Agrawal  
Director

Tulsi Ram Agrawal  
Director

Kathmandu  
Date:-

Rajendra Aryal  
Director

Birendra Kumar Sanghai  
Director

Jagdish Prasad Agrawal  
n am r i a h C

As per our report of even date

**Gopal P. Rajbahak, FCA**  
G.P. Rajbahak & Co.  
Chartered Accountants

## STATEMENT OF CHANGES IN EQUITY

### Fiscal Year 2064/2065 (2007/2008)

Amount in NPR

Particulars	Share Capital	Accumulated Profit/Loss	General Reserve	Capital Adjustment Fund	Share Premium	Exchange Fluctuation Fund	Other Reserves & Fund	Total Amount
Opening Balance as at 1st Shrawan 064	660,000,000	11,892,526	108,472,044	-	-	5,625,591	132,000,000	917,990,161
Recognition of Deferred Tax Asset on initial adoption of NAS 9 - Income Taxes	-	505,810	-					505,810
<b>Restated Balance</b>	<b>660,000,000</b>	<b>12,398,336</b>	<b>108,472,044</b>	<b>-</b>	<b>-</b>	<b>5,625,591</b>	<b>132,000,000</b>	<b>918,495,971</b>
<b>Adjustments For the year</b>	<b>283,877,100</b>	<b>(10,771,251)</b>	<b>48,611,608</b>	<b>-</b>	<b>-</b>	<b>2,941,691</b>	<b>60,271,781</b>	<b>384,930,929</b>
Net profit for the year		243,058,040						243,058,040
Transfer to General Reserve		(48,611,608)	48,611,608					-
Capital Adjustment Fund								-
Declaration of Dividend		(10,004,211)						(10,004,211)
Issue of Bonus Share Capital	132,000,000						(132,000,000)	-
Exchange Fluctuation Fund		(2,941,691)				2,941,691		-
Issue of Right Share Capital	151,877,100							151,877,100
Proposed issue of Bonus Share		(190,080,000)					190,080,000	-
NIC Bond -2070 Redemption Reserve		(2,191,781)					2,191,781	-
<b>Closing Balance as at 31 Ashad 2065</b>	<b>943,877,100</b>	<b>1,627,085</b>	<b>157,083,652</b>	<b>-</b>	<b>-</b>	<b>8,567,282</b>	<b>192,271,781</b>	<b>1,303,426,900</b>

## CASH FLOW STATEMENT

From 1st Shrawan 2064 to 31 Ashad 2065 (17 July 2007 to 15 July 2008)

Previous year NPR	Particulars	Current Year NPR
218,944,447	(A) Cash Flow from Operation	328,561,744
822,497,760	1. Cash Receipts	1,071,831,874
725,819,040	1.1 Interest Income	931,400,562
36,017,034	1.2 Commission and Discount Income	43,373,395
34,105,111	1.3 Exchange Gain	43,483,544
-	1.4 Recovery of Write off Loan	5,483,047
26,556,575	1.5 Other Income	48,091,326
603,553,313	2. Cash Payments	743,270,130
421,374,951	2.1 Interest Expenses	505,995,879
54,870,384	2.2 Staff Expenses	66,723,246
49,960,610	2.3 Office Overhead Expenses	60,546,793
70,400,000	2.4 Payment of Income Tax	100,000,000
6,947,368	2.5 Other Expenses	10,004,212
(232,868,310)	Cash Flow Before Working Capital Activities	187,999,668
(1,349,412,459)	Decrease/(Increase) in Current Asset from Operating Activities	(2,928,161,461)
190,506,059	1. Decrease/(Increase) in Money at Call and Short Notice	3,009,044
895,186,474	2. Decrease/(Increase) in Other Short Term Investments	(702,114,767)
(2,320,982,492)	3. Decrease/(Increase) in Loans, Advances and Bills Purchased	(2,348,205,368)
(114,122,500)	4. Decrease/(Increase) in Other Assets	119,149,630
1,116,544,149	Increase/(Decrease) in Current Liabilities from Operating Activities	3,116,161,129
1,302,280,231	1. Increase /(Decrease) in Deposit/Liabilities	3,016,457,803
-	2. Increase /(Decrease) in Certificate of Deposits	-
(105,576,346)	3. Increase /(Decrease) in Short Term Borrowings	(17,128,714)
(80,159,736)	4. Increase /(Decrease) in Other Liabilities	116,832,040
(145,628,362)	(B) Cash Flow from Investing Activities	(72,022,599)
(14,755,000)	1. Decrease/(Increase) in Long Term Investments	(9,872,500)
(126,499,903)	2. Decrease/(Increase) in Fixed Assets	(58,032,378)
-	3. Interest Income from Long Term Investments	-
27,151	4. Dividend Income	462,869
(4,400,610)	5. Others (Capital Construction Items)	(4,580,590)
-	(C) Cash Flow from Financial Sources	151,877,100
-	1. Increase /(Decrease) in Long Term Borrowings (Bond ,Debentures etc)	-
-	2. Increase /(Decrease) in Paid in Capital	151,877,100
-	3. Increase /(Decrease) in Other Liabilities	-
-	4. Increase /(Decrease) in Refinance/facilities from Nepal Rastra Bank	-
10,171,778	(D) Income/Loss from change in exchange rate of Cash and Bank Balance	(3,825,759)
(149,380,447)	(E) Net Cash Flow of the Year	592,590,154
749,139,079	(F) Opening Cash and Bank Balance	599,758,632
599,758,632	(G) Closing Cash and Bank Balance	1,192,348,786

Sashin Joshi  
Chief Executive Officer

Nirmal Kumar Agrawal  
Director

Tulsi Ram Agrawal  
Director

Kathmandu  
Date:-

Rajendra Aryal  
Director

Birendra Kumar Sanghai  
Director  
namr i ahC

Jagdish Prasad Agrawal

As per our report of even date

Gopal P. Rajbahak, FCA  
G.P. Rajbahak & Co.  
Chartered Accountants

## SHARE CAPITAL AND OWNERSHIP

As at 31 Ashad 2065 (15 July 2008)

Schedule 1

Previous Year NPR	Particulars	Current Year NPR
	<b>I. Share Capital</b>	
1,000,000,000	<b>1.1 Authorised Capital</b>	1,600,000,000
1,000,000,000	a) 16,000,000 Ordinary Shares of Rs 100 each (Previous year 10,000,000 Ordinary shares of Rs 100 each)	1,600,000,000
	b) .... Non-Redeemable Shares of Rs _ each	
	c) ..... Redeemable Shares of Rs _ each	
660,000,000	<b>1.2 Issued Capital</b>	950,400,000
660,000,000	a) 9,504,000 Ordinary Shares of Rs 100 each (Previous year 6,600,000 Ordinary shares of Rs 100 each)	950,400,000
	b) ..... Non-Redeemable Shares of Rs _ each	
	c) ..... Redeemable Shares of Rs _ each	
660,000,000	<b>1.3 Paid Up Capital</b>	943,877,100
660,000,000	a) 9,438,771 Ordinary Shares of Rs 100 each (Previous year 6,600,000 Ordinary shares of Rs 100 each)	943,877,100
	b) ..... Non-Redeemable Shares of Rs _ each	
	c) ..... Redeemable Shares of Rs _ each	

## SHARE OWNERSHIP

Share Capital Previous Year		Particulars	Share Capital This Year	
NPR	%		%	NPR
429,000,000	65	<b>A. Promoters</b>	65	617,760,000
-		1.1 Government of Nepal		-
-		1.2 Foreign Institution		-
-		1.3 "A" Class Licensed Institutions		-
-		1.4 Other Licensed Institutions		-
-		1.5 Other Institutions		-
429,000,000	65	1.6 Individuals	65	617,760,000
-		1.7 Others		-
231,000,000	35	<b>B. General Public</b>	35	326,117,100
660,000,000	100	<b>Total</b>	100	943,877,100

## SHAREHOLDERS HOLDING MORE THAN 0.5% SHARES

As at 31 Ashad 2065(15 July 2008)

SN	Name	Number of shares held	Amount NPR	% of Shareholding
1	Rajani Amatya	55,490	5,549,000	0.56
2	Sushila Devi Sanghai	57,767	5,776,700	0.61
3	Raja Ram Joshi	59,060	5,906,000	0.63
4	Nepal Life Insurance Company Ltd	68,226	6,822,600	0.72
5	Govinda Lal Sanghai	91,400	9,140,000	0.97
6	Nirmal Kumar Agrawal	166,320	16,632,000	1.75
7	Anuj Agrawal	344,543	34,454,300	3.63
8	Jagdish Prasad Agrawal	371,862	37,186,200	3.91
9	Nikunj Agrawal	400,525	40,052,500	4.21
10	Ashok Kumar Agrawal	402,217	40,221,700	4.23
11	Vishal Agrawal	449,570	44,957,000	4.73
12	Basu Dev Golyan	466,430	46,643,000	4.91
13	Trilok Chand Agrawal	467,515	46,751,500	4.92
14	Pawan Kumar Golyan	475,200	47,520,000	5.00
15	Tulsi Ram Agrawal	483,534	48,353,400	5.09
13	Diwakar Golchha	519,490	51,949,000	5.47
17	Lokmanya Golchha	519,498	51,949,800	5.47
18	Subhash Chandra Sanghai	950,400	95,040,000	10.00

## RESERVE AND FUNDS

As at 31 Ashad 2065 (15 July 2008)

Schedule 2

Previous Year NPR	Particulars	Current Year NPR
108,472,044	1. General Reserve Fund	157,083,652
132,000,000	2. Proposed Bonus Shares	190,080,000
-	3. Capital Reserve Fund	-
-	4. Capital Redemption Reserve	-
-	5. Capital Adjustment Fund	-
-	6. Other Reserve & Fund	2,191,781
-	a. Contingent Reserve	-
-	b. Institution Development Fund	-
-	c. Dividend Equalisation Fund	-
-	d. Special Reserve Fund	-
-	e. Assets Revaluation Reserve	-
-	f. Other Free Reserves	-
-	g. Bond Redemption Reserve	2,191,781
12,398,336	7. Accumulated Profit/Loss	1,627,085
5,625,592	8. Exchange Fluctuation Fund	8,567,282
258,495,972	<b>Total</b>	<b>359,549,800</b>

## DEBENTURE & BOND

As at 31 Ashad 2065 (15 July 2008)

Schedule 3

Previous Year NPR	Particulars	Current Year NPR
200,000,000	1. 6% NIC Bond of Rs 1,000 each Issued 26 June 2006 Maturing on 25 June 2013 (Redemption Reserve : - Rs 2,191,781, Previous Year :- Nil)	200,000,000
-	2. ....	-
-	3. ....	-
200,000,000	<b>Total</b>	<b>200,000,000</b>

## BORROWINGS

As at 31 Ashad 2065 (15 July 2008)

Schedule 4

Previous Year NPR	Particulars	Current Year NPR
	<b>A. Local</b>	
-	1. Government of Nepal	-
200,000,000	2. Nepal Rastra Bank	-
-	3. Repo Obligations	-
100,000,000	4. Inter-bank and Financial Institutions	335,000,000
	5. Other Financial Institutions	-
-	6. Others	-
300,000,000	<b>Total</b>	<b>335,000,000</b>
	<b>B. Foreign</b>	
52,128,714	1. Banks	-
-	2. Others	-
52,128,714	<b>Total</b>	-
352,128,714	<b>Total (A+B)</b>	<b>335,000,000</b>

## DEPOSIT LIABILITY

As at 31 Ashad 2065 (15 July 2008)

Schedule 5

Previous Year NPR	Particulars	Current Year NPR
	<b>1. Non-Interest Bearing Accounts</b>	
<b>510,200,555</b>	<b>A. Current Deposits</b>	<b>654,178,208</b>
<b>473,846,451</b>	<b>1. Local Currency</b>	<b>627,890,172</b>
51,629,818	1.1 Government of Nepal	72,395,485
3,567,246	1.2 "A" Class Licensed Institutions	11,085,663
92,094,900	1.3 Other Licensed Financial Institutions	163,720,575
262,372,750	1.4 Other Organized Institutions	313,849,602
64,181,737	1.5 Individuals	66,838,847
-	1.6 Others	-
<b>36,354,104</b>	<b>2. Foreign Currency</b>	<b>26,288,036</b>
-	2.1 Government of Nepal	-
-	2.2 "A" Class Licensed Institutions	-
898,666	2.3 Other Licensed Financial Institutions	39,177
35,455,438	2.4 Other Organized Institutions	26,248,859
-	2.5 Individuals	-
-	2.6 Others	-
<b>81,608,476</b>	<b>B. Margin Deposits</b>	<b>72,253,733</b>
-	1. Employees' Guarantee	-
22,798,211	2. Guarantee Margin	33,385,627
58,810,265	3. Letters of Credit Margin	38,868,106
-	<b>C. Others</b>	-
-	<b>1. Local Currency</b>	-
-	1.1 Financial Institutions	-
-	1.2 Other Organized Institutions	-
-	1.3 Individuals	-
-	<b>2. Foreign Currency</b>	-
-	2.1 Financial Institutions	-
-	2.2 Other Organized Institutions	-
-	2.3 Individuals	-
<b>591,809,031</b>	<b>Total of Non-Interest Bearing Accounts</b>	<b>726,431,941</b>

Previous Year NPR	Particulars	Current Year NPR
	<b>2. Interest Bearing Accounts</b>	
3,335,671,231	<b>A. Savings Deposits</b>	3,667,897,217
3,249,814,620	<b>1. Local Currency</b>	3,554,375,624
264,283,116	1.1 Institutions	344,452,570
2,985,531,504	1.2 Individuals	3,209,923,054
-	1.3 Others	-
85,856,611	<b>2. Foreign Currency</b>	113,521,593
16,859,689	2.1 Institutions	7,945,078
68,996,922	2.2 Individuals	105,576,515
-	2.3 Others	-
4,074,563,221	<b>B. Fixed Deposits</b>	5,875,951,533
3,689,104,462	<b>1. Local Currency</b>	5,336,029,018
3,411,982,322	1.1 Institutions	4,851,439,500
277,122,140	1.2 Individuals	484,589,518
-	1.3 Others	-
385,458,759	<b>2. Foreign Currency</b>	539,922,515
384,546,659	2.1 Institutions	527,459,595
912,100	2.2 Individuals	12,462,920
-	2.3 Others	-
2,066,187,386	<b>C. Call Deposits</b>	2,814,407,981
2,044,512,425	<b>1. Local Currency</b>	2,779,012,983
-	1.1 "A" Class Licensed Institutions	9,297,035
716,880,886	1.2 Other Licensed Financial Institutions	1,109,545,834
1,243,624,595	1.3 Other Institutions	1,435,805,251
84,006,944	1.4 Individuals	224,364,863
-	1.5 Others	-
21,674,961	<b>2. Foreign Currency</b>	35,394,998
-	2.1 "A" Class Licensed Institutions	174,955
655,215	2.2 Other Licensed Financial Institutions	823,725
21,019,746	2.3 Other Institutions	34,396,318
-	2.4 Individuals	-
-	2.5 Others	-
-	<b>D. Certificate of Deposits</b>	-
-	1. Institutions	-
-	2. Individuals	-
-	3. Others	-
9,476,421,838	<b>Total of Interest Bearing Accounts</b>	12,358,256,731
10,068,230,869	<b>Total Deposits (1+2)</b>	13,084,688,672

## BILLS PAYABLE

As at 31 Ashad 2065 (15 July 2008)

Schedule 6

Previous Year NPR	Particulars	Current Year NPR
13,983,672	1. Local Currency	9,526,731
17,707,872	2. Foreign Currency	23,037,663
<b>31,691,544</b>	<b>Total</b>	<b>32,564,394</b>

## OTHER LIABILITIES

As at 31 Ashad 2065 (15 July 2008)

Schedule 7

Previous Year NPR	Particulars	Current Year NPR
-	1. Pension/Gratuity Fund	-
-	2. Employees' Provident Fund	-
-	3. Employees' Welfare Fund	-
23,090,854	4. Provision for Staff Bonus	35,519,269
13,401,519	5. Interest Payable on Deposits	24,953,112
784,305	6. Interest Payable on Borrowing [Includes Payable on account of NIC Bond NPR 691,266 (Previous year NPR 690,411)]	4,378,732
200,000	7. Unearned Discount and Commission	319,070
33,624,795	8. Sundry Creditors	179,443,699
-	9. Branch Adjustment Account	-
25,906,230	10. Others	12,040,502
3,234,070	a. Provision for Leave encashment	4,024,334
22,672,160	b. Payable to Others	8,016,168
<b>97,007,703</b>	<b>Total</b>	<b>256,654,384</b>

## CASH BALANCE

As at 31 Ashad 2065 (15 July 2008)

Schedule 8

Previous Year NPR	Particulars	Current Year NPR
172,716,272	1. Local Currency ( Including Coins)	227,009,152
8,890,637	2. Foreign Currency	8,237,024
<b>181,606,909</b>	<b>Total</b>	<b>235,246,176</b>

**BALANCE AT NEPAL RASTRA BANK**

As at 31 Ashad 2065 (15 July 2008)

Schedule 9

Previous Year NPR	Particulars	Local Currency NPR	Foreign Currency			Current Year NPR
			INR	Others	Total	
262,735,366	1. Nepal Rastra Bank	621,949,726	-	12,164,590	12,164,590	634,114,316
259,181,270	a. Current Account	621,949,726	-	12,164,590	12,164,590	634,114,316
3,554,096	b. Other Account	-	-	-	-	-

**BALANCE WITH BANKS/FINANCIAL INSTITUTIONS**

As at 31 Ashad 2065 (15 July 2008)

Schedule 10

Previous Year NPR	Particulars	Local Currency NPR	Foreign Currency			Current Year NPR
			INR	Others	Total	
80,553,569	1. Local Banks	159,353,634	-	788,739	788,739	160,142,373
80,553,569	a. Current Account	159,353,634	-	788,739	788,739	160,142,373
-	b. Other Account	-	-	-	-	-
74,862,788	2. Foreign Banks	-	100,622,813	62,223,108	162,845,921	162,845,921
74,862,788	a. Current Account	-	100,622,813	62,223,108	162,845,921	162,845,921
-	b. Other Account	-	-	-	-	-
155,416,357	Total	159,353,634	100,622,813	63,011,847	163,634,660	322,988,294

**Note:** Balance at Nepal Rastra Bank and with Banks/Financial Institutions as per confirmation and statements received from respective banks is NPR 936,941,842 and the difference are subsequently reconciled.

**MONEY AT CALL AND SHORT NOTICE**

As at 31 Ashad 2065 (15 July 2008)

Schedule 11

Previous Year NPR	Particulars	Current Year NPR
130,000,000	1. Local Currency	160,000,000
33,009,044	2. Foreign Currency	-
163,009,044	Total	160,000,000

## INVESTMENTS

As at 31 Ashad 2065 (15 July 2008)

Schedule 12

Previous Year NPR	Particulars	Purpose		Current Year NPR
		Trading NPR	Others NPR	
1,048,088,168	1. Nepal Government's Treasury bills		1,385,248,220	1,385,248,220
-	2. Nepal Government's Savings Bonds			-
55,972,347	3. Nepal Government's Others Securities		160,127,127	160,127,127
-	4. Nepal Rastra Bank Bonds		-	-
-	5. Foreign Securities		-	-
100,000,000	6. Local Licenced Institutions		50,000,000	50,000,000
378,826,535	7. Foreign Banks		689,626,470	689,626,470
16,594,000	8. Corporate Shares		26,466,500	26,466,500
-	9. Corporate Bonds & Debentures		-	-
-	10. Other Investments		-	-
1,599,481,050	<b>Total Investments</b>	-	2,311,468,317	2,311,468,317
-	Less : Provision		-	-
1,599,481,050	<b>Net Investments</b>	-	2,311,468,317	2,311,468,317

## INVESTMENTS IN SHARES, DEBENTURES AND BONDS

As at 31 Ashad 2065 (15 July 2008)

Schedule 12 (A)

Previous Year NPR	Particulars	Current Year NPR		Provision
		Cost Price	Market Value	
16,594,000	<b>1. Investments in Shares</b>	26,466,500		-
16,241,000	1.1 Rural Microfinance Development Centre Ltd. 252,310 Ordinary Shares of Rs. 100 each at par	25,231,000	Not listed	-
353,000	1.2 Credit Information Centre Ltd. 12,355 Ordinary Shares of Rs. 100 each at par	1,235,500	Not listed	-
-	1.3 .....			
-	<b>2. Investments in Debentures and Bonds</b>	-		-
	2.1 .....			
	2.2 .....			
	2.3 .....			
16,594,000	<b>Total Investments</b>	26,466,500		-
-	<b>3. Provision for Loss</b>	-		-
-	3.1 Upto Previous Year	-		-
-	3.2 Adjustment This Year	-		-
-	<b>Total Provision</b>	-		-
16,594,000	<b>Net Investments</b>	26,466,500		-

# CLASSIFICATION OF LOANS, ADVANCES AND BILLS PURCHASED AND PROVISIONS

As at 31 Ashad 2065 (15 July 2008)

Schedule 13

Previous Year NPR	Particulars	Advances						Bills Purchased and Discounted				Current Year NPR
		Domestic		Others		Foreign NPR	Total Advances NPR	Local NPR	Foreign NPR	Total Bills Purchased & Discounted		
		Insured NPR	Priority Non Insured NPR	Others NPR								
9,027,509,005	1. Performing Loan	-	384,162,985	10,964,198,144	-	11,348,361,129	456,250	18,349,482	18,805,732	11,367,166,861		
9,019,677,975	A. Pass loans	-	384,162,985	10,947,489,119	-	11,331,652,104	456,250	18,349,482	18,805,732	11,350,457,836		
7,831,030	B. Restructured Loan	-	-	16,709,025	-	16,709,025	-	-	-	16,709,025		
101,140,201	2. Non Performing Loan	-	633,219	97,533,925	-	98,167,144	-	-	-	98,167,144		
6,133,247	2.1 Sub Standard	-	-	9,632,303	-	9,632,303	-	-	-	9,632,303		
928,740	2.2 Doubtful	-	-	11,760,428	-	11,760,428	-	-	-	11,760,428		
94,078,214	2.3 Loss	-	633,219	76,141,194	-	76,774,413	-	-	-	76,774,413		
9,128,649,206	Total Loans (A)	-	384,796,204	11,061,732,069	-	11,446,528,273	456,250	18,349,482	18,805,732	11,465,334,005		
	3. Loan Loss Provision											
90,196,780	3.1 Pass Loans	-	3,841,630	109,474,891	-	113,316,521	4,563	183,494	188,057	113,504,578		
978,879	3.2. Restructured Loan	-	-	2,088,628	-	2,088,628	-	-	-	2,088,628		
1,533,312	3.3 Sub Standard	-	-	2,408,076	-	2,408,076	-	-	-	2,408,076		
464,370	3.4 Doubtful	-	-	5,880,214	-	5,880,214	-	-	-	5,880,214		
94,078,214	3.5 Loss	-	633,219	76,141,194	-	76,774,413	-	-	-	76,774,413		
187,251,555	Total Provisions (B)	-	4,474,849	195,993,003	-	200,467,852	4,563	183,494	188,057	200,655,909		
	4. Provision upto Previous year											
66,895,015	4.1 Pass Loans	-	4,795,350	85,190,723	-	89,986,073	45,676	165,031	210,707	90,196,780		
4,133,500	4.2 Restructured Loans	-	-	978,878	-	978,878	-	-	-	978,878		
163,592	4.3 Sub Standard	-	215,780	1,317,532	-	1,533,312	-	-	-	1,533,312		
3,932,250	4.4 Doubtful	-	-	464,370	-	464,370	-	-	-	464,370		
171,035,567	4.5 Loss	-	1,323,424	92,754,790	-	94,078,214	-	-	-	94,078,214		
246,159,924	Total Provision upto Previous year (C)	-	6,334,554	180,706,223	-	187,040,847	45,676	165,031	210,707	187,251,554		
(94,457,231)	Write back from last year provision (D)	-	-	(11,520,568)	-	(11,520,568)	-	-	-	(11,520,568)		
35,548,862	Additional Provision during this year	-	(1,859,705)	26,807,278	-	24,947,573	(41,113)	18,463	(22,650)	24,924,923		
(58,908,369)	Net Change this year	-	(1,859,705)	15,286,710	-	13,427,005	(41,113)	18,463	(22,650)	13,404,355		
8,941,397,651	Net Loan (A-B)	-	380,321,355	10,865,739,066	-	11,246,060,421	451,687	18,165,988	18,617,675	11,264,678,096		

## SECURITIES AGAINST LOANS, ADVANCES AND BILLS PURCHASED

As at 31 Ashad 2065 (15 July 2008)

Schedule 13 (A)

Previous Year NPR	Particulars	Current Year NPR
9,128,649,206	(A) Secured	11,465,334,005
8,059,586,393	1. Collateral of Movable/Immovable Assets	10,108,863,091
304,500,000	2. Guarantee of Local Licensed Institutions	322,287,985
-	3. Guarantee of Government of Nepal	-
-	4. Guarantee of Internationally Rated Banks	-
7,323,567	5. Export Documents	12,040,109
226,122,100	6. Fixed Deposit Receipts	274,718,901
57,125,502	(a) Own FDR	84,775,123
168,996,598	(b) FDR of other Banks	189,943,778
-	7. Government Bonds	-
-	8. Counter Guarantees	-
-	9. Personal Guarantee	-
531,117,146	10. Other Securities	747,423,919
-	(B) Unsecured	-
9,128,649,206	Total	11,465,334,005

## FIXED ASSETS

### As at 31 Ashad 2065 (15 July 2008)

Schedule 14

Previous Year NPR	Particulars	Assets						Current Year NPR
		Building NPR	Vehicles NPR	Machinery NPR	Office Equipment NPR	Others NPR	Current Year NPR	
	<b>1. At Cost</b>							
90,869,906	a. Previous year's balance	8,201,000	26,652,431	7,511,779	55,213,707	15,168,921	112,747,838	
24,796,282	b. Additions this year	4,150,217	14,332,457	3,165,158	10,944,570	3,969,771	36,562,173	
-	c. Revaluation/Written back this year	-	-	-	-	-	-	
(2,336,875)	d. This year sold	-	(4,531,025)	(1,057,313)	-	-	(5,588,338)	
(581,475)	e. This year written off	-	-	-	(1,113,894)	-	(1,113,894)	
<b>112,747,838</b>	<b>Total Cost (a+b+c+d+e)</b>	<b>12,351,217</b>	<b>36,453,863</b>	<b>9,619,624</b>	<b>65,044,383</b>	<b>19,138,692</b>	<b>142,607,779</b>	
	<b>2. Depreciation</b>							
56,938,192	a. Upto previous year	-	14,256,040	4,347,705	35,014,614	9,961,583	63,579,942	
8,979,083	b. For this year	561,183	3,200,009	957,025	5,646,251	1,493,267	11,857,735	
-	c. Depreciation on revaluation/written back	-	-	-	-	-	-	
(2,337,333)	d. Depreciation adjustment/Written off	-	(2,821,689)	(947,419)	(997,196)	-	(4,766,304)	
<b>63,579,942</b>	<b>Total Depreciation</b>	<b>561,183</b>	<b>14,634,360</b>	<b>4,357,311</b>	<b>39,663,669</b>	<b>11,454,850</b>	<b>70,671,373</b>	
49,167,896	3. Written Down Value (1-2)	11,790,034	21,819,503	5,262,313	25,380,714	7,683,842	71,936,406	
90,698,060	4. Land	-	-	-	-	-	100,287,025	
4,400,610	5. Capital Construction( Capital WIP)	-	-	-	-	-	4,580,590	
9,412,749	6. Leasehold Assets (net of amortisation)	-	-	-	-	-	17,696,386	
<b>153,679,315</b>	<b>Total (3+4+5+6)</b>	<b>11,790,034</b>	<b>21,819,503</b>	<b>5,262,313</b>	<b>25,380,714</b>	<b>7,683,842</b>	<b>194,500,407</b>	

## NON BANKING ASSETS

As at 31 Ashad 2065 (15 July 2008)

Schedule 15

Previous Year NPR	Name & Address of Borrower	Date of Assuming Non Banking Assets	Gross Non Banking Assets NPR	Less : Provisions		Net Non Banking Assets NPR
				%	NPR	
608,750	1. Ashok Rice Mill Ramgadhwa VDC -8, Parsa	13/04/2006	1,217,500	75%	913,125	304,375
555,000	2. Ganpati Rice Mill Sugauli Birta V.D.C. Ward No -8, Parsa	06/07/2007	740,000	50%	370,000	370,000
<b>1,163,750</b>	<b>Total</b>		<b>1,957,500</b>		<b>1,283,125</b>	<b>674,375</b>

## OTHER ASSETS

As at 31 Ashad 2065 (15 July 2008)

Schedule 16

Previous Year NPR	Particulars	Current Year NPR
4,030,806	1. Stock of Stationery	3,871,690
3,455,591	2. Income Receivable on Investments	21,999,152
-	3. Accrued Interest on Loans	-
13,465,355	Accrued Interest on Loans 12,913,688	-
13,465,355	Less: Interest Suspense 12,913,688	-
-	4. Commission Receivable	-
182,206,958	5. Sundry Debtors	41,913,679
15,387,162	6. Staff Loans and Advances	18,854,357
7,959,743	7. Prepayments	5,455,780
-	8. Cash-in-Transit	-
-	9. Other Transit Items ( including cheques)	-
-	10. Drafts Paid Without Notice	-
5,573,599	11. Expenses not Written off	9,571,031
-	12. Branch Adjustment Accounts	-
2,236,564	13. Others	13,400,644
133,004	a. Coins and Valuable	81,134
1,597,750	b. Purchased Asset-Bullion (Gold and Silver)	10,958,750
505,810	c. Deferred Tax Asset	2,360,760
<b>220,850,423</b>	<b>Total</b>	<b>115,066,333</b>

**OTHER ASSETS (ADDITIONAL STATEMENT)**

As at 31 Ashad 2065 (15 July 2008)

Schedule 16 A

Previous Year NPR	Particulars	This Year NPR			Total
		Upto 1 year	1 to 3 years	Above 3 years	
13,465,355	1. Accrued Interest on Loans	12,913,688	-	-	12,913,688
-	2. Draft Paid without Notice	-	-	-	-
-	3. Branch Adjustment Account	-	-	-	-

**CONTINGENT LIABILITIES**

As at 31 Ashad, 2065 (15 July, 2008)

Schedule 17

Previous Year NPR	Particulars	Current Year NPR
8,943,000	1. Claims on Bank but not Accepted by the Bank	8,943,000
859,540,977	2. Letters of Credit (Full Amount)	945,224,502
777,819,121	a. Letter of Credit With Maturity Less than 6 Months	778,601,883
81,721,856	b. Letter of Credit With Maturity More than 6 Months	166,622,619
-	3. Rediscounted Bills	-
179,618,672	4. Unmatured Guarantees/Bonds	286,286,741
9,267,679	a. Bid Bonds	13,647,660
170,350,993	b. Performance Bonds	272,639,081
-	c. Other Guarantee/Bonds	-
-	5. Unpaid Shares in Investment	-
12,124,415	6. Forward Exchange Contract Liabilities	26,909,389
43,739,295	7. Bills under Collection	83,639,364
29,493,792	8. Acceptances and Endorsements	58,870,409
-	9. Underwriting Commitments	-
-	10. Irrevocable Loan Commitments	-
-	11. Guarantees issued against Counter Guarantee of In'llly Rated Foreign Banks	-
11,120,352	12. Advance Payment Guarantees	36,297,358
-	13. Financial Guarantees	-
2,071,597	14. Contingent Liabilities on Income Tax	7,876,433
-	15. Other Guarantees	-
	16. ....	
	17. ....	
<b>1,146,652,100</b>	<b>Total</b>	<b>1,454,047,196</b>

## INTEREST INCOME

Fiscal Year 2064/2065 (2007/2008)

Schedule 18

Previous Year NPR	Particulars	Current Year NPR
611,243,617	<b>A. On Loans, Advances and Overdrafts</b>	842,552,260
495,380,214	1. Loans and Advances	655,556,334
115,863,403	2. Overdrafts	186,995,926
104,532,067	<b>B. On Investments</b>	76,685,635
51,854,353	<b>1. Nepal Government Securities</b>	51,827,932
43,526,728	a. Treasury Bills	46,776,100
8,327,625	b. Development Bonds	5,051,832
-	c. National Savings Certificates	-
-	<b>2. Foreign Securities</b>	-
	a. ....	
	b. ....	
-	<b>3. Nepal Rastra Bank Bonds</b>	-
-	<b>4. Debentures and Bonds</b>	-
52,677,714	<b>5. Interest on Interbank Placements</b>	24,857,703
52,677,714	a. Bank/ Financial Institutions	24,857,703
-	b. Other Institutions	-
1,339,071	<b>C. On Agency Balances</b>	3,990,789
-	1. Local Banks/Financial Institutions	-
1,339,071	2. Foreign Banks	3,990,789
8,076,927	<b>D. On Money at Call and Short Notice</b>	7,410,892
4,377,499	1. Local Banks/Financial Institutions	4,921,051
3,699,428	2. Foreign Banks	2,489,841
627,358	<b>E. On Others</b>	760,986
-	1. Certificates of Deposit	-
-	2. Local Banks/Financial Institutions Loan	-
627,358	3. Others	760,986
725,819,040	<b>Total</b>	931,400,562

## INTEREST EXPENSES

### Fiscal Year 2064/2065 (2007/2008)

Schedule 19

Previous Year NPR	Particulars	Current Year NPR
397,218,644	<b>A. On Deposit Liabilities</b>	475,968,622
215,799,007	<b>1. Fixed Deposits</b>	266,647,679
182,205,713	1.1 Local Currency	251,380,395
33,593,294	1.2 Foreign Currency	15,267,284
112,502,291	<b>2. Savings Deposits</b>	120,885,615
110,441,365	2.1 Local Currency	118,339,896
2,060,926	2.2 Foreign Currency	2,545,719
68,917,346	<b>3. Call Deposits</b>	88,435,328
68,674,828	3.1 Local Currency	86,244,174
242,518	3.2 Foreign Currency	2,191,154
-	<b>4. Certificate of Deposits</b>	-
24,156,307	<b>B. On Borrowings</b>	30,027,257
12,000,000	1. Debentures & Bonds	12,000,000
696,999	2. Loan from Nepal Rastra Bank	1,510,608
11,459,308	3. Inter Bank/Financial Institutions Borrowings	16,516,649
-	4. Other Organized Institutions	-
-	5. Other Loans	-
-	<b>C. On Others</b>	-
-	1 .....	-
-	2 .....	-
421,374,951	<b>Total</b>	505,995,879

## COMMISSION AND DISCOUNTS

### Fiscal Year 2064/2065 (2007/2008)

Schedule 20

Previous Year NPR	Particulars	Current Year NPR
1,106,839	<b>A. Bills Purchased and Discounted</b>	437,667
465,993	1. Local	87,863
640,846	2. Foreign	349,804
19,892,545	<b>B. Commission</b>	21,571,257
10,576,165	1. Letters of Credit	9,799,544
2,783,986	2. Guarantees	4,833,866
1,460,104	3. Collection Fees	2,007,632
2,650,339	4. Remittance Fees	2,633,913
-	5. Credit Cards	-
-	6. Share Underwriting /Issues	-
-	7. Government Transactions	-
2,421,951	8. Agency Commission	2,296,302
-	9. Exchange Fee*	-
15,017,650	<b>C. Others</b>	21,364,471
36,017,034	<b>Total</b>	43,373,395

\*Income from exchange fee is not segregated and is included under Trading Gains (Schedule 22)

## OTHER INCOME

Fiscal Year 2064/2065 (2007/2008)

Schedule 21

Previous Year NPR	Particulars	Current Year NPR
417,275	1. Rental on Safe Deposit Lockers	488,050
-	2. Issue and Renewal of Credit Cards	-
161,620	3. Issue and Renewal of ATM Cards	206,250
3,090,487	4. Telex/ T. T.	3,330,118
21,588,089	5. Service Charges	30,818,875
537,500	6. Renewal Fees	1,777,427
379,641	7. Others	1,284,325
26,174,612	<b>Total</b>	<b>37,905,045</b>

## EXCHANGE GAIN/LOSS

Fiscal Year 2064/2065 (2007/2008)

Schedule 22

Previous Year NPR	Particulars	Current Year NPR
3,777,642	A. Revaluation Gain	11,766,763
40,499,247	B. Trading Gain (Including Exchange Fee)	27,891,022
44,276,889	<b>Total</b>	<b>39,657,785</b>

## STAFF EXPENSES

Fiscal Year 2064/2065 (2007/2008)

Schedule 23

Previous Year NPR	Particulars	Current Year NPR
27,463,376	1. Salary	33,368,330
17,719,828	2. Allowances	22,406,190
2,533,442	3. Contribution to Provident Fund	2,799,147
1,071,693	4. Training Expenses	1,478,840
651,519	5. Uniform	804,529
-	6. Medical	-
1,036,789	7. Insurance	1,242,156
757,127	8. Pension and Gratuity Expenses	2,888,878
3,686,610	9. Others	7,085,440
54,920,384	<b>Total</b>	<b>72,073,510</b>

**OFFICE OVERHEAD EXPENSES**

Fiscal Year 2064/2065 (2007/2008)

Schedule 24

Previous Year NPR	Particulars	Current Year NPR
10,774,320	1. House Rent	11,980,601
4,171,130	2. Electricity and Water	5,610,507
3,275,938	3. Repairs and Maintenance	3,952,558
222,664	a. Building	239,879
620,589	b. Vehicles	654,620
2,432,685	c. Others (Office Equipment and Furnitures)	3,058,059
2,196,124	4. Insurance	2,526,109
7,870,660	5. Postage, Telex, Telephone, Fax	8,372,184
87,094	6. Office Equipment	246,095
3,508,716	7. Travelling Allowance and Expenses	5,613,609
2,396,163	8. Printing and Stationery	3,255,543
136,944	9. Books and Periodicals	92,666
2,950,738	10. Advertisements	4,007,709
1,108,608	11. Legal Fees & Expenses	911,575
933,629	12. Donations	1,215,290
2,099,036	13. Expenses Relating to Board of Directors	2,331,870
587,000	a. Meeting Fees	697,000
1,512,036	b. Other Expenses	1,634,870
696,144	14. Annual General Meeting Expenses	753,035
474,212	15. Expenses Relating to Audit	563,545
140,000	a. Audit Fees	140,000
334,212	b. Other Expenses (Including expenses of Internal Audit)	423,545
233,632	16. Commission on Remittances	389,575
8,979,083	17. Depreciation on Fixed Assets	11,857,735
-	18. Amortization of Preliminary Expenses	-
-	19. Share Issue Expenses	-
-	20. Technical Services Fees	-
792,706	21. Entertainment	800,760
3,705,359	22. Written off Expenses	5,353,551
3,764,277	23. Security Expenses	5,380,696
-	24. Credit Guarantee Premium	-
-	25. Commission and Discount	-
4,476,705	26. Others Expenses	5,988,121
1,460,620	a. Other Fees and Taxes	1,914,808
335,000	b. Membership Fees	314,500
595,989	c. Anniversary Expense	700,832
2,085,096	d. Other Expenses	3,057,981
<b>64,631,218</b>	<b>Total</b>	<b>81,203,334</b>

## PROVISION FOR LOSS

Fiscal Year 2064/2065 (2007/2008)

Schedule 25

Previous Year NPR	Particulars	Current Year NPR
35,548,862	1. Increase in Loan Loss Provision	24,924,923
-	2. Increase in Provision for Loss on Investment	-
2,221,875	3. Provision for Non Banking Assets	489,375
-	4. Provision for Other Assets	-
37,770,737	<b>Total</b>	<b>25,414,298</b>

## NON-OPERATING INCOME/LOSS

Fiscal Year 2064/2065 (2007/2008)

Schedule 26

Previous Year NPR	Particulars	Current Year NPR
-	1. Profit (Loss) on Sale of Investments	-
366,763	2. Profit (Loss) on Sale of Assets [Includes profit on sale of NBA, NPR 8,820,000 (Previous year :- Nil)]	10,186,281
42,351	3. Dividend	462,869
-	4. Subsidies Received from Nepal Rastra Bank	-
-	a. Reimbursement of Losses of Specified Branches	-
-	b. Interest Subsidy	-
-	c. Exchange Counter	-
-	d. ....	-
-	5. Others	-
409,114	<b>Total</b>	<b>10,649,150</b>

## LOSS PROVISION WRITTEN BACK

Fiscal Year 2064/2065 (2007/2008)

Schedule 27

Previous Year NPR	Particulars	Current Year NPR
94,457,231	1. Loan Loss Provision Written Back	11,520,568
-	2. Provision against Non Banking Assets Written Back	6,930,000
-	3. Provision against Investment Written Back	-
-	4. Provision against Other Assets Written Back	-
94,457,231	<b>Total</b>	<b>18,450,568</b>

**INCOME/(LOSS) FROM EXTRAORDINARY ITEMS**

Fiscal Year 2064/2065 (2007/2008)

Schedule 28

Previous Year NPR	Particulars	Current Year NPR
-	1. Recovery of Loan Written off	5,483,047
-	2. Voluntary Retirement Scheme Expenses	-
(94,457,231)	3. Loan Write Offs { Refer Schedule 28 (a)}	(11,520,568)
-	4. Other Expense/Income	-
-	5. ....	-
(94,457,231)	<b>Total</b>	<b>(6,037,521)</b>

**DETAILS OF WRITE OFF LOAN**

Fiscal Year 2064/2065 (2007/2008)

Schedule 28 (A)

Loan Type	Amount Write off NPR	Type of Security	Basis of Valuation	Loan approved by Name/ Designation authority	Initiations made for Recovery	Remark
1. Working Capital Loan	(9,595,568)	Hypothecation of Stock, Plant and Machinery	N/A	K.R. Iyer, the then CEO.	Recommended for blacklisting and recovery suit filed with Debt Recovery Tribunal, Case now has been decided in favor of Bank, Written verdict awaited.	-
2. Project Loan	(1,925,000)	Hypothecation of Stock, Land and Building	N/A	K.R. Iyer, the then CEO.	Recommended for blacklisting and recovery suit filed with Debt Recovery Tribunal, Case now has been decided in favor of Bank, Written verdict awaited.	-
3. Fixed Assets Loan						
4. Personal Loan						
5. Other Loan						
<b>Total</b>	<b>(11,520,568)</b>					

## STATEMENT OF LOANS & ADVANCES EXTENDED TO DIRECTORS/CHIEF EXECUTIVE/ PROMOTERS/EMPLOYEES AND SHAREHOLDERS HOLDING MORE THAN 1 PERCENT SHARES

As at 31 Ashad 2065 (15 July 2008)

Schedule 29

The Statement of amount include under total amount of Bills purchases & Discounted ,Loans, Advances and Overdraft, provided to Directors, Chief Executives,Promoters,Employees, Shareholders holding more than 1% shares and to the individual member of their undivided family or against the guarantee of such persons or to the Organisation or Companies in which such individuals are managing agent are as follows

Name of Promoter/ Director/Chief Executive	Last Year's Balance		This Year's Recovery		This Year's	Balance as at 31 Ashad 2065	
	Principal NPR	Interest NPR	Principal NPR	Interest NPR	Additions NPR	Interest NPR	Additions NPR
(A) Directors	-	-	-	-	-	-	-
1							
2							
3							
(B) Chief Executive	-	-	-	-	-	-	-
1							
2							
3							
(C) Promoters	-	-	-	-	-	-	-
1							
2							
3							
(D) Employees	-	-	-	-	-	-	-
1							
2							
3							
(E) Shareholders holding more than 1% Shares	-	-	-	-	-	-	-
1							
2							
3							
<b>Total</b>	-	-	-	-	-	-	-

**Note :** Loan given to Employees as per Employees' Rules and to Director and promoter against Fixed Deposits/Government Securities not been presented above.

## CAPITAL ADEQUACY

### Fiscal Year 2064/2065 (2007/2008)

Schedule 30

Particulars	Current Year	Previous Year
<b>A) Core Capital</b>		
1. Paid up Capital	943,877,100	660,000,000
2. Share Premium	-	-
3. Non-Redeemable Preference Shares	-	-
4. General Reserve Fund	157,083,652	108,472,044
5. Retained Profit/Loss	1,627,085	12,398,336
6. Capital Redemption Fund	-	-
7. Proposed Bonus Share	190,080,000	132,000,000
8. Other Free Reserves	-	-
9. Bond Redemption Reserve	2,191,781	-
Less:		
Goodwill	-	-
Loans in excess of Single Obligar Limit	-	-
Fictitious Assets	1,108,859	558,018
Investment in Companies where the Bank has financial interest	-	-
<b>Total</b>	<b>1,293,750,759</b>	<b>912,312,362</b>
<b>B) Supplementary Capital</b>		
1. General Loan Loss Provision for Pass Loans	113,504,578	90,196,780
2. Assets Revaluation Reserve	-	-
3. Hybrid Capital Instruments	-	-
4. Unsecured Subordinated Term Debt	197,808,219	200,000,000
5. Exchange Equalization Fund	8,567,282	5,625,592
6. Additional Loan Loss Provision	2,088,628	978,879
7. Investment Adjustment Fund	-	-
8. Provision for Loss on Investments	-	-
<b>Total</b>	<b>321,968,707</b>	<b>296,801,251</b>
<b>C) Total Capital Fund (A+B)</b>	<b>1,615,719,466</b>	<b>1,209,113,613</b>
<b>D) Minimum Capital Fund required to be maintained on the basis of Risk Weighted Assets</b>		
Capital Fund (@ 11%)	1,355,324,443	1,089,609,600
Core Capital (@ 5.5%)	677,662,221	544,804,800
<b>Total Capital Adequacy Ratio</b>	<b>13.11%</b>	<b>12.21%</b>
<b>Capital Fund Excess by 2.11 %</b>	<b>260,395,023</b>	<b>119,504,013</b>
<b>Core Capital Excess by 5.00%</b>	<b>616,088,538</b>	<b>367,507,562</b>

## TABLE OF RISK WEIGHTED ASSETS STATEMENT

Fiscal Year 2064/2065 (2007/2008)

Schedule 30 (A)

On - Balance - Sheet Assets	Weightage	Current Year		Previous Year	
		Amount	Risk Weighted Assets NPR	Amount	Risk Weighted Assets NPR
Cash Balance	0%	235,246,176	–	181,606,909	–
Gold and Silver (Tradeable)	0%	10,958,750	–	1,597,750	–
Balance With Nepal Rastra Bank	0%	634,114,316	–	262,735,366	–
Investment in Government Securities	0%	1,545,375,347	–	1,104,060,515	–
Investment in NRB Bonds	0%	–	–	–	–
Fully Secured Loan against own Fixed Deposit Receipt	0%	84,775,123	–	57,125,502	–
Fully Secured loan against Government Securities	0%	–	–	–	–
Balance with Domestic Banks and Financial Institutions	20%	160,142,373	32,028,475	80,553,569	16,110,714
Fully Secured FDR Loan against Fixed Deposit Receipt of Other Banks	20%	189,943,778	37,988,756	168,996,598	33,799,320
Balance with Foreign Banks	20%	162,845,921	32,569,184	74,862,788	14,972,558
Money at Call	20%	160,000,000	32,000,000	163,009,044	32,601,809
Loans against Guarantee of Internationally Rated Banks	20%	–	–	–	–
Other Investments with Internationally Rated Banks	20%	689,626,470	137,925,294	378,826,535	75,765,307
Investment in Shares, Debentures and Bonds	100%	26,466,500	26,466,500	16,594,000	16,594,000
Other Investments	100%	50,000,000	50,000,000	100,000,000	100,000,000
Loans, Advances and Bills Purchased/ Discounted	100%	11,190,615,104	11,190,615,104	8,902,527,106	8,902,527,106
Fixed Assets	100%	194,500,407	194,500,407	153,679,315	153,679,315
All Other Assets (Excluding Advance Tax Deposit)	100%	84,065,931	84,065,931	218,299,185	218,299,185
Other Accrued Interest Receivable(Accrued interest Receivable -Interest on Government Securities-Interest Suspense)	100%	6,118,450	6,118,450	2,117,238	2,117,238
<b>Total (A)</b>		<b>15,424,794,646</b>	<b>11,824,278,100</b>	<b>11,866,591,420</b>	<b>9,566,466,551</b>

Off - Balance Sheet Items	Weightage	Current Year		Previous Year	
		Amount	Risk Weighted Assets NPR	Amount	Risk Weighted Assets NPR
Bills Collection	0%	83,639,364	–	43,739,295	–
Forward Foreign Exchange Contracts	10%	26,909,389	2,690,939	12,124,415	1,212,442
Letters of Credit with Maturity of less than 6 months (full value)	20%	778,601,883	155,720,377	777,819,121	155,563,824
Guarantees provided against Counter Guarantee of Internationally Rated Foreign Banks	20%	–	–	–	–
Letters of Credit with maturity of more than 6 months (full value)	50%	166,622,619	83,311,310	81,721,856	40,860,928
Bid Bonds	50%	13,647,660	6,823,830	9,267,679	4,633,840
Performance Bonds	50%	272,639,081	136,319,541	170,350,993	85,175,497
Advance Payment Guarantees	100%	36,297,358	36,297,358	11,120,352	11,120,352
Financial Guarantees	100%	–	–	–	–
Other Guarantees	100%	–	–	–	–
Irrevocable Loan Commitments	100%	–	–	–	–
Contingent Liability in respect of Income Tax	100%	7,876,433	7,876,433	2,071,597	2,071,597
All other Contingent Liabilities	100%	67,813,409	67,813,409	38,436,792	38,436,792
<b>Total (B)</b>		<b>1,454,047,196</b>	<b>496,853,196</b>	<b>1,146,652,100</b>	<b>339,075,271</b>
<b>Total Risk Weighted Assets (A+B)</b>		<b>16,878,841,842</b>	<b>12,321,131,296</b>	<b>13,013,243,520</b>	<b>9,905,541,822</b>

## PRINCIPAL INDICATORS

Schedule 31

	Indicators	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
1. Net Profit/Gross Income	Percent	29.28	38.89	30.68	38.57	44.49
2. Earnings Per Share	NPR	13.65	22.75	16.10	24.01	25.75
3. Market Value Per Share	NPR	218	366	496	950	1,284
4. Price Earning Ratio	Ratio	15.97	16.09	30.81	39.56	49.86
5. Dividend (including bonus) on Share Capital	Percent	-	30.00	10.53	21.05	21.05
6. Cash Dividend on Share Capital	Percent	-	10.00	0.53	1.05	1.05
7. Interest Income/Loans and Advances	Percent	9.40	8.72	8.04	7.81	8.31
8. Staff Expenses/Total Operating Expenses	Percent	42.61	43.03	44.23	45.94	47.02
9. Interest Expenses/Total Deposits and Borrowings	Percent	4.45	3.89	4.38	4.26	4.32
10. Exchange Gain/Total Income	Percent	5.00	4.74	3.88	5.32	3.77
11. Total Cost/Total Revenue	Percent	35.46	30.98	32.67	29.09	28.06
12. Staff Bonus/Total Staff Expenses	Percent	30.53	46.93	30.20	42.04	49.28
13. Staff Cost Per Employee	NPR	251,616	248,430	274,061	290,584	310,662
14. Net Profit Per Employee	NPR	487,578	724,559	581,853	838,492	1,047,664
15. Total Credit/Deposits	Percent	72.73	78.66	78.74	90.67	87.62
16. Total Operating Expenses/Total Assets	Percent	1.10	1.21	0.99	1.02	1.01
17. Capital Adequacy (On Risk Weighted Assets)						
Core Capital	Percent	12.92	12.37	9.94	9.21	10.50
Supplementary Capital	Percent	0.83	0.92	3.60	3.00	2.61
Total Capital Fund	Percent	13.75	13.29	13.54	12.20	13.11
18. Liquidity (CRR)	Percent	6.53	11.07	6.10	5.02	5.09
19. Gross Non-Performing Credit/Total Credit	Ratio	3.92	3.78	2.60	1.11	0.86
20. Net Non-Performing Credit/Total Credit	Ratio	0.02	0.82	0.06	0.06	0.11
21. Weighted Average Interest Rate Spread	Percent	3.06	3.33	2.74	2.87	3.44
22. Return on Total Assets	Percent	1.37	1.69	1.08	1.36	1.60
23. Return on Equity	Percent	11.64	17.44	14.12	20.68	22.57
24. Book Net Worth	NPR'000	620,398	684,194	766,462	918,496	1,303,427
25. Number of Shares		4,999,595	5,000,000	6,600,000	6,600,000	9,438,771
26. Number of Staff		140	157	166	189	232

## Schedule 32: Significant Accounting Policies

### 1. General information

Nepal Industrial & Commercial Bank Ltd (NIC Bank) is a limited liability company domiciled in Nepal. Its registered office is at Biratnagar, Nepal and Corporate Office at Kathmandu, Nepal. The Bank is listed with Nepal Stock Exchange Ltd and provides full commercial banking services as authorized by Nepal Rastra Bank (NRB).

The accompanied financial statements have been approved for publication by the Board of Directors of the Bank in its meeting held on 21 September 2008.

### 2. Basis of Preparation

The financial statements are presented in Nepalese rupees (NPR) and are prepared on historical cost convention applying accrual basis of accounting except otherwise stated and prepared in accordance with the Nepal Accounting Standards (NAS), Generally Accepted Accounting Principles (GAAP), Banks & Financial Institutions Act (BFIA) 2063, Nepal Rastra Bank (NRB) directives and the Company Act 2063.

### 3. Interest Income

Interest income on loans and advances are recognized on cash basis as required by NRB Directive. However NAS requires revenue to be recognized on accrual basis.

Interest income on investments is accounted for on accrual basis.

### 4. Commission Income

Commission income is accounted for on cash basis. However, commission receivable on Letters of Credit and Guarantees exceeding NPR 50,000 with a maturity period exceeding one year from the date of transaction is accounted for on accrual basis and prorated over the tenure of the transaction.

### 5. Dividend Income

Dividend on equity shares are recognized on cash basis.

### 6. Foreign Exchange Transactions

Foreign currency assets and liabilities including bullion are translated into NPR at the mid-rate between the prevailing buying and selling rates of the Bank on the Balance Sheet date.

Gain or loss realized on the foreign exchange transactions including bullion is recognized on the date of transaction and included under Exchange Gain/(Loss) as the case may be as Trading Gain/(Loss).

Gains/losses arising due to fluctuation in exchange rates of different foreign currencies including bullion is accounted for on a daily basis and shown as Revaluation Gain/(Loss). 25% of such revaluation gain is transferred to Exchange Fluctuation Reserve through Profit and Loss Appropriation Account as per NRB directives.

### 7. Interest Expense

Interest on deposit liabilities and borrowings from other banks are accounted for on accrual basis.

### 8. Loans & Advances including Bills Purchased

Loans and advances, overdrafts and bills purchased include overdrafts, term loans, working capital loans, consumer loans and loans given to Priority and Deprived Sectors and other loans extended to customers as per the Bank's policy. These assets are graded as pass, substandard, doubtful and loss assets as per NRB directives. Loans and advances are presented net of loan loss provisions.

## 9. Loan Write off

The Bank has “Management of Deteriorating Credits and Write off Policy” approved by the Board of Directors, to provide a framework for efficient management of deteriorating credits as well as Non-Performing Assets which also provides a transparent and effective write-off policy. Specific loans that meet the criteria stipulated in the policy are written off without prejudice to Bank’s right of recovery.

## 10. Staff Loans

Loans and advances granted to staff in accordance with the Bank’s policy are presented under Other Assets.

## 11. Loan Loss Provision

The provision for possible losses on loans and advances are provided at the rates ranging from 1% to 100% of the outstanding on the balance sheet date according to the grading of such assets as per NRB directives.

## 12. Investments

Investments in Treasury Bills and Government Development Bonds are those, which the Bank purchased with the positive intent and ability to hold till maturity. Such securities are carried at their acquisition cost or at amortized cost if acquired at a premium over the face value. Investments in shares are valued at the lower of cost or market value.

All investments are subject to periodic review by the Board of Directors of the Bank as required by Nepal Rastra Bank (Central Bank of Nepal) directives.

## 13. Fixed Assets & Depreciation

- Fixed assets are stated at cost less accumulated depreciation.
- Assets with a value of less than NPR 2,000 are charged off to revenue irrespective of their useful life in the year of purchase.

- Depreciation is charged to Profit & Loss Account on a Written-down-Value method over the estimated useful life of the relevant assets. The rates of depreciation based on the estimated useful life are as follows:

Nature of Assets	Depreciation Rate (%)
Buildings	5
Vehicle	15–20
Office Equipment	25
Computers and Accessories	25
Furniture	25

- Depreciation is charged from the month subsequent to the month when assets were accounted for. In case of disposal depreciation is charged up to the previous month of such disposal.

## 14. Non-Banking Assets

Non-Banking Assets (NBA) is valued at the lower of principal outstanding or distress value of the assets acquired. Provisions for NBA are made in accordance with Nepal Rastra Bank (Central Bank of Nepal) directives

## 15. Software Expenses

Software applications purchased by the Bank are capitalized at acquisition cost and amortized over a period of five years from the date of acquisition.

## 16. Leasehold Improvement

Expenses incurred on improvement and renovation of leasehold property is amortized over a period of five years from the date of such improvements irrespective of the life of lease exceeding 5 years.

## **17. Retirement Benefits**

The Bank has schemes of retirement benefits, viz Provident Fund and Gratuity. Periodic contributions made to Provident Fund are recognized at the time of contribution to the approved fund. Provision for Gratuity is made on accrual basis and is transferred to the approved retirement fund, independent from the Bank, for eligible employees.

## **18. Staff Accumulated Leave**

Accumulated leave payable to staff is recognized on accrual basis as per the service rules of the Bank.

## **19. Stationery Stock**

Stationery purchased are stated at cost and charged to revenue at the time of consumption.

## **20. Income Taxes**

Provision for taxation has been made with reference to profit for the financial year on the provisions of Income Tax Act 2058.

Deferred Tax is recognized and provided for on timing differences between taxable income and accounting income. Deferred tax assets are not recognized unless there is virtual/reasonable certainty that there will be sufficient future taxable income available to realize such assets.

## **21. Dividend and Proposed Bonus Shares**

Dividend and Proposed Bonus Shares are provided as proposed by the Board of Directors pending approval by NRB and Annual General Meeting.

## Schedule 33: Notes to Accounts

### 1. Dividend & Proposed Bonus Shares

The Board of Directors has proposed distribution of bonus shares of 20% of issued capital and has also proposed final dividend of NPR 1.0526 per share representing applicable dividend tax on proposed bonus share.

### 2. Provisions for Staff Bonus

Provision for staff bonus has been made at 10% of profit before tax as per the Bonus Act 2030.

### 3. Staff Housing Fund

As the terms of service of the staff has a provision for extending housing loans to eligible staff, a separate housing fund has not been created under the Labour Act 2049.

### 4. General Reserve

As required by NRB directives, 20% of the current year's net profit amounting to NPR 48,611,608 has been transferred to General Reserve through Profit and Loss Appropriation Account.

### 5. Exchange Fluctuation Reserve

As required by NRB directive, 25% of Revaluation Gain amounting to NPR 2,941,691 has been transferred to Exchange Fluctuation Reserve through Profit and Loss Appropriation Account.

### 6. Deferred Tax

#### a. Component of Deferred Tax

	Amount in NPR	
	As at Ashad 31, 2065	As at Ashad 32, 2064
Deferred Tax Asset		
On employee's separation and retirement	2,912,837	1,018,732
Deferred Tax Liability		
On fiscal allowance on fixed assets	336,970	512,922
On other temporary differences	215,107	-
	<b>552,077</b>	<b>512,922</b>
<b>Deferred Tax Assets – Net</b>	<b>2,360,760</b>	<b>505,810</b>

This being the first year of adoption of Nepal Accounting Standard 09 – Income Taxes issued by the Institute of Chartered Accountants of Nepal, NPR 505,810 representing deferred tax asset – net on initial adoption of NAS 09 – Income taxes, has been adjusted to the opening balance of retained earnings through appropriation account.

## b. Explanation of the relationship between Tax Expense and Accounting Profit

	Amount in NPR
	Current Year 2064-65
<b>Accounting Profit</b>	<b>355,192,692</b>
Tax at the applicable rate of 31.50%	111,885,698
Tax effect of expenses/incomes that are not deductible/included in determining taxable profit	
Prior Period Expenses	11,943
Donation	382,816
Dividend Income	(145,803)
<b>Total Tax Expenses</b>	<b>112,134,654</b>

The bank has adopted NAS 09 for accounting of deferred tax from the current year. The change in accounting policy on deferred tax has resulted in an increase of current year profit by NPR 1,854,950.

## 7. Related Parties Disclosures

### a. Key Management Personnel

Key Management Personnel include Chief Executive Officer and members of the Board of Directors of the Bank as follows:

Mr. Jagdish Prasad Agrawal	– Chairman
Mr. Tulsi Ram Agrawal	– Director
Mr. Birendra Kumar Sanghai	– Director
Mr. Nirmal Kumar Agrawal	– Director
Mr. Rajendra Aryal	– Director
Mr. Sashin Joshi	– Chief Executive Officer
Mr. Niraj Shrestha	– Company Secretary & General Manager Business Banking

#### • Transaction with Key Management Personnel of the Bank

The following provides transaction between the bank and Key Management Personnel of the Bank during the year and the status of their outstanding balances as on Ashad 31, 2065 (July 15, 2008).

	Amount (NPR)
Meeting Fees Paid	697,000
Incidental Expenses	882,000
Loans & Advances Outstanding	
To Director	3,063,032
To Promotor	2,813,210

Note:- Loans given to Key management personnel are against Bank Fixed Deposits.

Other than the above, there are no transactions with Directors, Promoters and other key management personnel or their relatives that have a potential conflict of interests with the Bank at large.

## 8. Income Tax Matters

The bank has filed tax returns with the Large Tax Payers' Office, Inland Revenue Department for the financial years up to 2006/07 under self-assessment procedures.

Inland Revenue Office has completed assessment/reassessment of Bank's tax liability up to financial year 2003/04 wherein an additional demand of NPR 7,876,433 has been raised by the tax authorities. The Bank has disputed the claim of the tax authorities against which, Bank has filed appeals with the respective authorities. Matter is still pending with the authorities.

## 9. Contingent Liability

A claim of NPR 8,943,000 made against the Bank in 2003/2004 in respect of underwriting commitment of shares of Himalayan Distillery Limited has not been accepted by the Bank. The Bank has contested the claim in a writ petition with the Supreme Court.

## 10. Transactions in Bullion

The Bank deals in bullion (Gold/Silver) either on its own account or holds stock on consignment basis on behalf of suppliers as per the arrangement. The stock held on own account are included under other assets and contra stock of NPR 189,574,000 (Previous Year NPR 302,102,000) on the Balance sheet date is presented as contra asset/ contra liability. The customs duty allocable to the consignment stock is included under other assets.

## 11. Summary of Disbursement, Recovery of Loans and Advances and Principal and Interest written off

Particulars	NPR in '000'
Loans Disbursed	25,852,049
Loans Recovered	23,515,367
Loans Written Off	11,521
Interest written Off	8,996

## 12. Summary of Changes in Deposit Liabilities

Amount in NPR

Particulars	Current Year	Previous Year	Changes
Current and Margin Accounts	726,431,941	591,809,031	134,622,910
Savings Bank Account	3,667,897,217	3,335,671,231	332,225,986
Call Deposits	2,814,407,981	2,066,187,386	748,220,595
Fixed Deposits	5,875,951,533	4,074,563,221	1,801,388,312

## 13. Summary of concentration of exposure

NPR in '000'

Particulars	Loans and Advances	Deposits & Borrowings	Contingent
Total Amount as on 15 July 2008	11,465,334	13,419,689	1,454,047
Highest Exposure to a Single Unit	215,457	2,212,266	166,623
Concentration of exposure to a single unit	1.88%	16.49%	11.46%

## 14. Weighted Average Interest Spread

Particulars	Rate (%)
Average Yield on Advances and Investments	7.79
Average cost of Deposits	4.35
Net Spread	3.44

## 15. Particulars of Amortized Expenses yet to be expensed off

Particulars	NPR
Software Application	7,499,672
Leasehold Assets	17,696,386
License Fee	962,500
NIC Bond 2070 related expenses	425,980

## 16. Classification of Assets and Liabilities based on Maturity

NPR in Million

Particulars	1-90 days	91-180 days	181-270 days	271 days -1 year	Over 1 year	Total
<b>Assets</b>						
Cash Balance	235	-	-	-	-	235
Balance with Banks	766	-	-	-	191	957
Investment in Foreign Banks	353	173	-	26	138	690
Nepal Government Securities	89	154	406	736	160	1,545
Nepal Rastra Bank Bonds	-	-	-	-	-	-
Inter Bank Lending	210	-	-	-	-	210
Loans, Advances & Bills Purchased	1,646	1,019	1,507	4,051	3,042	11,265
Other Assets	105	-	-	-	232	337
<b>Total Assets</b>	<b>3,404</b>	<b>1,346</b>	<b>1,913</b>	<b>4,813</b>	<b>3,763</b>	<b>15,239</b>
<b>Liabilities</b>						
Borrowings	35	-	-	300	-	335
Current and Margin Deposits	167	80	80	73	327	726
Saving Bank Deposits	1,284	-	-	-	2,384	3,668
Fixed and Call Deposits	893	2,169	1,250	792	3,587	8,690
Debentures	-	-	-	-	200	200
Other Liabilities, Capital & Reserves	189	-	-	-	1,430	1619
<b>Total Liabilities</b>	<b>2,568</b>	<b>2,249</b>	<b>1,330</b>	<b>1,165</b>	<b>7,928</b>	<b>15,239</b>
Net Financial Assets	836	(903)	583	3,648	(4,165)	-
Cumulative Net Financial Assets	-	(67)	516	4,165	-	-

## 17. Borrowing by Bank against the collateral of own assets: Nil

## 18. Details of Non Banking Assets

Amount in NPR

Particulars	Up to last year balance	Addition during this year	Sold during this year	Outstanding as on Ashad end 2065
Non Banking Assets	8,887,500	-	6,930,000	1,957,500

## 19. Details of Amortization expense

Amount in NPR

Particulars	Amortization up to last year	Amortization during the year	Total
Leasehold Assets	10,112,720	1,634,840	11,747,560
Software Application	27,993,423	3,586,673	31,580,096
Cost of NIC Bond issue	102,172	132,038	234,210

## 20. Rounding off/Previous Years Figures

Previous years figures are regrouped or rearranged, wherever necessary in order to facilitate comparison. All figures are rounded off to the nearest rupee.

# Disclosure of Capital Adequacy Framework 2007(Basel II)

## 1. Capital Structure and Capital adequacy

NPR in '000'

Core Capital (Tier 1)		1,293,751
a	Paid up Equity Share Capital	943,877
b	Statutory General Reserves	157,084
c	Retained Earnings	1,627
d	Proposed Bonus Equity Shares	190,080
e	Bond Redemption Reserve	2,192
f	Less: Fictitious Assets	1,109
Supplementary Capital (Tier 2)		319,880
a	Subordinated Term Debt	197,808
b	General loan loss provision	113,505
c	Exchange Equalization Reserve	8,567
Total Capital Fund (Tier I and Tier II)		1,613,631

Capital Adequacy Ratios		Current Period
Tier 1 Capital to Total Risk Weighted Exposures		9.95%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures		12.41%
Minimum Capital fund required to be maintained on the basis of RW Assets		
Capital Fund	(@ 10 Percent for this year)	1,299,851
Core Capital	(@ 6 Percent for this year)	779,911
Excess Core Capital	3.95%	513,840
Excess Capital Fund	2.41%	313,780

### Details information of Subordinated Term Debts

NIC Bond 2070 of Rs 1,000 each, total value of Rs 200 Million

Issued 26 June 2006 Maturing on 25 June 2013

(Redemption Reserve: - (Rs. 2,191,781)

### Summary of Bank's internal approach to assess capital adequacy

As per capital plan of the Bank, the requirement of capital fund is intended to be fulfilled by incremental annual transfer of profits. The Bank plans to grow its size gradually and steadily keeping in mind the capital requirements to support business growth and maintaining robust standards of risk management processes.

## 2. Risk Exposures

### Risk weighted exposures for Credit Risk, Market Risk and Operational Risk

NPR in '000'

Risk Weighted Exposures	
a. Risk Weighted Exposure for Credit Risk	12,394,860
b. Risk Weighted Exposure for Operational Risk	514,982
c. Risk Weighted Exposure for Market Risk	88,667
<b>Total Risk Weighted Exposures (a+b+c)</b>	<b>12,998,509</b>

### Risk weighted Exposures under each of 11 categories of Credit Risk

NPR in "000"

Claims on government and central bank	-
Claims on other official entities	-
Claims on banks	582,459
Claims on corporate and securities firms	4,846,999
Claims on regulatory retail Portfolio	510,311
Claims secured by residential properties	3,184,278
Claims secured by commercial real estate	378,611
Past due claims	390,167
High risk claims	1,062,369
Other Assets	273,830
Off Balance - Sheet Items	1,165,836
<b>Total</b>	<b>12,394,860</b>

## Non Performing Assets

	NPR in '000'	
	Gross NPAs	Net NPAs
Restructured/ Reschedule Loan	16,709	14,620
Sub Standard Loan	9,632	7,224
Doubtful	11,760	5,880
Loss	76,774	-
<b>Total NPAs</b>	<b>114,876</b>	<b>27,725</b>

### Ratio of Non Performing Asset

Gross NPA to gross advances	:	1%
Net NPA to net advances	:	0.25%

### Movement of Non performing Assets

	NPR in "000"
NPA recovery during this year	: 44,358

### Write off Loan and Interest Suspend

	NPR in "000"
Write off Loan	: 11,521
Write off Interest	: 8,996

### Movements in LLP and Interest Suspend

	NPR in "000"
Movements in Loan Loss Provisions	: 13,404
Movements in Interest Suspend	: -

### Details of Additional Loan Loss Provisions

	NPR in "000"
Additional LLP during this year	: 24,925

## 3. Risk Management Function

The Bank has plans for robust risk management capabilities in order to achieve an effective risk management framework and contain the risks associated with the business; a fully functional Risk management unit is responsible for identifying, reporting, controlling and managing credit, operational and market risk.

### Credit Risk

For credit risk management a separate risk management unit (Segregated from the sales function of business) has been created and directly reports to Chief Executive Officer. A dedicated sub-unit within the risk management for management of non-performing /problem assets works towards implementing risk grading/credit scoring processes in order to achieve better management of credit risk and to achieve better efficiency in credit processing.

## Operational Risk

Effective operational risk management systems aims to minimizing losses and customer dissatisfaction due to failure in processes, focusing on flows in products and their design that can expose the Bank to losses due to fraud, analyzing the impact of failures in technology /system, developing and developing plans to meet external shocks that can adversely impact continuity in the Bank's operations. The Internal Audit and Compliance unit undertakes a comprehensive audit of all business groups and other functions, in accordance with the approved audit plan.

## Market Risk

Similarly, the bank has an ALCO (Asset Liability Management Committee) which meets periodically to discuss product pricing for deposits and advances and maturity profiles of assets and liabilities, articulating interest rate view of bank, funding policy, transfer pricing policy and balance sheet management.

The audit and compliance function is also independent from Bank management, this unit focuses on development of internal procedures and check and control systems/procedures. This unit's function is also independent with separate reporting lines, with audit function reporting directly to Board Audit Committee.

The Bank has plans for risk diversification of its asset base so as to achieve a better portfolio risk mix and to protect/enhance the overall risk on its loan book. The strategic focus of mapping business is gradually reducing high risk assets and increasing low risk exposures. In order to mitigate above risks, further, the Bank has introduced tools for output checks at all branches covering all transactions on daily basis.

### Approval of Financial Statements for the FY 2064/65 by Nepal Rastra Bank (NRB)

NRB has approved the Balance Sheet, Profit and Loss and all related annexures of the annual audited accounts for the fiscal year 2007/08 including the proposed bonus share issue and payment of cash dividend with the following remarks:

- The bank shall create a Redemption Reserve sufficient to fully redeem the "NIC Bond 2070" by the end of the fiscal year 2068/69, i.e. the fiscal year preceding the year of maturity of the bond.

### Management Response

Noted and agreed. The Bank has already started building this reserve.

# Senior Management

**Sashin Joshi**

Chief Executive Officer

**Niraj Shrestha**

General Manager – Business Banking

**Bimal Daga**

Head Credit – Business Banking

**Purna Man Napit**

Head Audit & Compliance

**B N Gharti**

Manager Liability Marketing & Transaction Banking

**Bhanu Dawadi**

Manager Consumer Lending

**Deepak Kumar Shrestha**

Manager Credit Consumer Banking

**Bam Dev Dahal**

Manager Operations

**Saroj Guragain**

Manager Treasury & Correspondent Banking

**Saroj Shrestha**

Relationship Manager – Business Banking

**Bhesh Raj Khatiwada**

Relationship Manager – Business Banking

**Rajesh Raj Gautam**

Manager – SME

**Prahlad Nidhi Tiwari**

Head Credit Support Unit

**Sushil Bhattarai**

Manager – Information & Technology

**Sanchita Gorkhali**

Manager – Human Resource

**Biplove Singh**

Manager – Corporate Affairs

**Surendra Chand**

Manager – Accounts

## Branch Managers

### Kathmandu Valley

**Arjun Chhetri**

Bishal Bazar, New Road, Kathmandu

**Pradeep Chalise**

Kamaladi, Kathmandu

**Umesh Acharya**

Pulchok, Lalitpur

**Priyanka Ranjit**

Suryavinayak, Bhaktapur

**Prajeeta Joshi**

Battisputali, Kathmandu

### Outside Kathmandu

**Sudhir Agrawal**

Main Road Biratnagar

**Binay Dahal**

Adarsh Nagar, Birganj

**Shiv Gopal Risal**

Bhadrapur Road, Birtamod, Jhapa

**Jayendra Rawal**

Mahendra Pool, Pokhara

**Yogendra Rana**

Mahendrapath, Dharan

**Dinesh Kumar Sharma**

Ram Mandir Chowk, Janakpur

**Saroj Chaudhary**

Surkhet Road, Nepalgunj

**Renu Prasad Pandey**

Shrawanpath, Butwal

**Bishnu Pandey**

Rajmarg Chowk, Damak

**Birendra Kumar Thakur**

Ganesh Chowk, Lahan

**Yuba Raj Dahal**

Birendra Chowk, Surkhet

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**BHAKTAPUR BRANCH**

Suryavinayak, Bhaktapur  
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**SURKHET BRANCH**

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**LAHAN BRANCH**

Ganesh Chowk, Lahan, Siraha  
Tel: 033-561012, 561013, Fax: 033-561014

**BATTISPUTALI BRANCH**

Battisputali, Kathmandu



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