

NIC Bank

Annual Report 2005/06



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Cover Page: The chariot of iRato Machhindranathi symbolise the reach Nepali culture, religious tolerance and communal harmony; and the annual festival of the polling of the chariot marks the initiation of the new planting season and prayer for good harvest and prosperity.



ABOUT US

Nepal Industrial & Commercial Bank Limited (NIC 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. The current shareholding pattern of the Bank constitutes of promoters holding 65% and general public holding 35%. NIC Bank is one of the most widely held banking companies in Nepal with close to 35,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about NPR 2,976 Million.

Within 8 years of commencing business the Bank has grown rapidly with 8 branches throughout the country with 2 more being opened this year. All branches are inter-connected through V-Sat and capable of providing on line, real time transactions.

The Bank is the first commercial bank in Nepal to be ISO 9001:2000 certified for quality management system.

The Bank is run by professionals and believes in the highest standards of corporate governance.

FINANCIAL HIGHLIGHTS

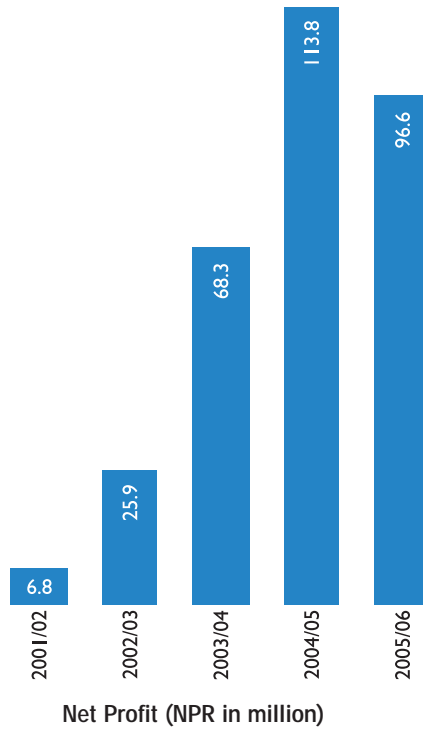
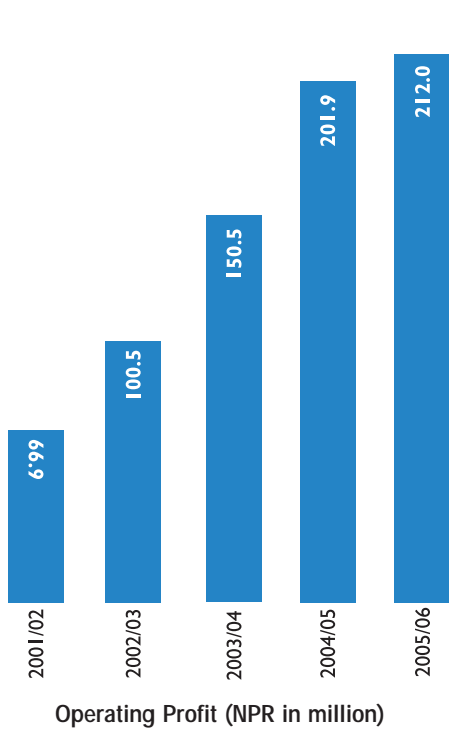
	FY 2001/02	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06
Key Indictors (%)					
Return on Equity after tax	1.31	4.81	11.64	17.44	13.32
Return on Assets after tax	0.17	0.66	1.37	1.69	1.08
Cost-income ratio	52.24	45.71	35.46	30.95	32.67
Operating Performance					
Operating Profit (NPR millions)	66.94	100.52	150.45	201.87	211.98
Net Profit (NPR millions)	6.82	25.94	68.26	113.75	96.59
Earning per share (NPR)	1.36	5.19	13.65	22.75	16.10
Financial position					
Total Assets (NPR millions)	3,768.65	4037.52	5,939.37	7,510.39	10,383.60
Loans and Advances (NPR millions)	2,368.85	2,562.86	3,743.09	4,909.36	6,902.12
Deposits and Borrowings (NPR millions)	3,165.31	3,419.07	5,215.80	6,691.75	9,223.66
Equity Fund (NPR millions)	499.89	499.95	499.95	500.00	600.00
Shareholders fund (NPR millions)	526.10	552.10	620.40	684.19	766.46
Core Capital (NPR millions)	523.39	549.42	616.78	680.14	761.13
Capital adequacy Ratio (%)	20.90	18.87	13.75	13.29	13.54
Non-performing assets (%)	8.16	6.66	3.92	3.78	2.60
Share information					
Share price: year end (NPR)	245	220	218	366	496
Market capitalization(NPR millions)	1,224.73	1099.89	1,089.91	1,830.00	2,976.00
Others					
Employees	127	128	140	157	166
Branch office	6	6	6	8	8

The Board supported by the management team comprising of young, enthusiastic professionals, 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 and strategic marketing and sales.

NIC Bank's organizational structure is designed to support its business goals, and is flexible while at the same time seeking to ensure effective control and supervision and consistency in standards across all businesses. The organization structure is divided into five major areas viz Consumer Banking, Business Banking, Special Assets Management, Treasury and Corporate centre. The Bank is committed to provide financial services to its patrons through efficient and cost effective service delivery through its consumer, business banking and treasury divisions.

Consumer Banking comprises consumer lending, retail liabilities and credit products and banking services for small enterprises dedicated team. Consumer Banking services include current, savings, call and fixed deposit accounts, home loans, auto loans, personal loans, education loans, travel loans, debit cards, ATMs, safe deposit lockers, SMS banking, bill payment services and transaction banking.





Business Banking division comprises corporate banking business including credit products and other banking services. The transaction banking, trade finance services, foreign exchange and corporate financing solutions including project & infrastructure finance, working capital & term loan, structured financing, loan syndications, cash management and advisory services.

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

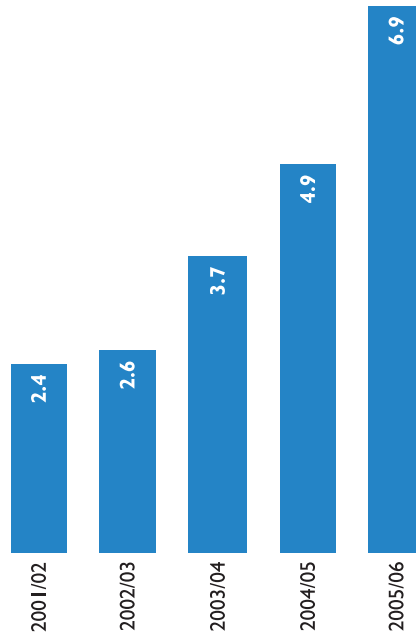
Treasury is responsible for management of liquidity and exposure to market risk, mobilization of resources, balance sheet management, pricing,

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 leverages its strong relationships with financial institutions to provide a wide range of banking services in addition to its liability products.

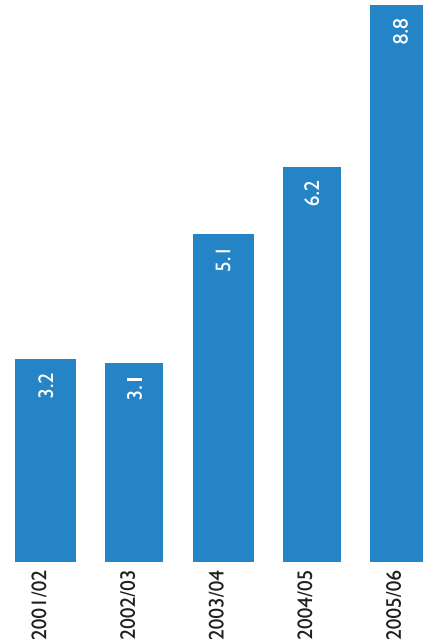
The corporate centre comprises all shared services and corporate functions including finance, secretarial, risk management, legal, human resources, branding and communications.

The Bank believes in continuously offering new and value added services to customers with commitment to quality and value to clients. Accordingly, the Bank has





Loans and Advances (NPR in billion)



Deposits (NPR in billion)

been in the forefront in launching innovative and superior products with unique customer friendly features with immense success.

NIC Life Savings Accounts

The first and only deposit product in the banking industry in the country bundled with life insurance cover, which was launched in 2004. The product has been a runaway success with total deposits under the product nearing the NPR 2 billion mark at the end of 16 July 2006.

NIC Sikshya Kosh

This deposit product was launched in 2005 with an aim of inculcating 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. This high interest savings account with very innovative features has been well appreciated by the market.

NIC USD Super Savings Account

The deposit product launched in 2006 with a host of facilities bundled together which has gained popularity amongst individuals with foreign currency income.

NIC Ghar Subidha

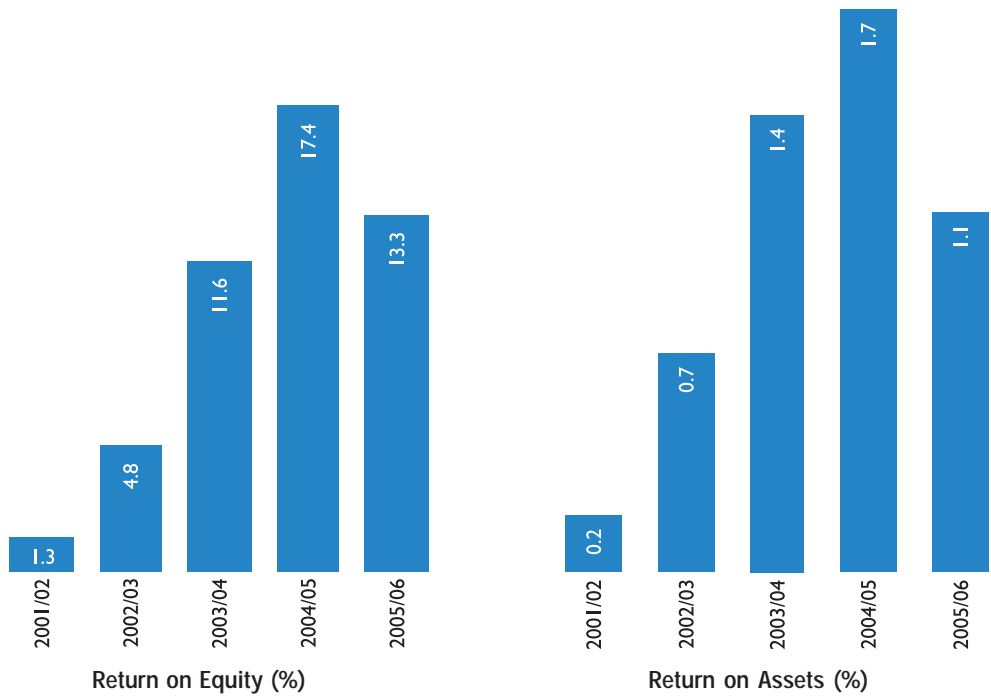
The Bank launched a unique retail product "NIC Ghar Subidha" in 2005, a personal property-finance suite of products with unique features never before introduced in the Nepalese

market. It aimed at helping make it possible for every middle class Nepali family's dream of living in one's own house come true. With its low pricing and other features the product has been a runaway success with total lending under the product crossing NPR 1,110 million mark at the end of 16 July 2006.

NIC Small Business Loan

After the successful launches of NIC Life Savings Account, NIC Ghar Subidha and NIC Sikshya Kosh, the Bank introduced another unique product "NIC Small Business Loan" in 2006. The product is a simple and cost effective loan product aimed at catering to the financing needs of a wide range of small and medium





business enterprises. It has been felt that business in these segments generally do not have easy access to bank finance and even where available, cumbersome procedures, lengthy paper work and high cost of finance are believed to be 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 business. People owning small business or self - employed professionals now will no longer need to feel intimidated about going to a bank for loan.

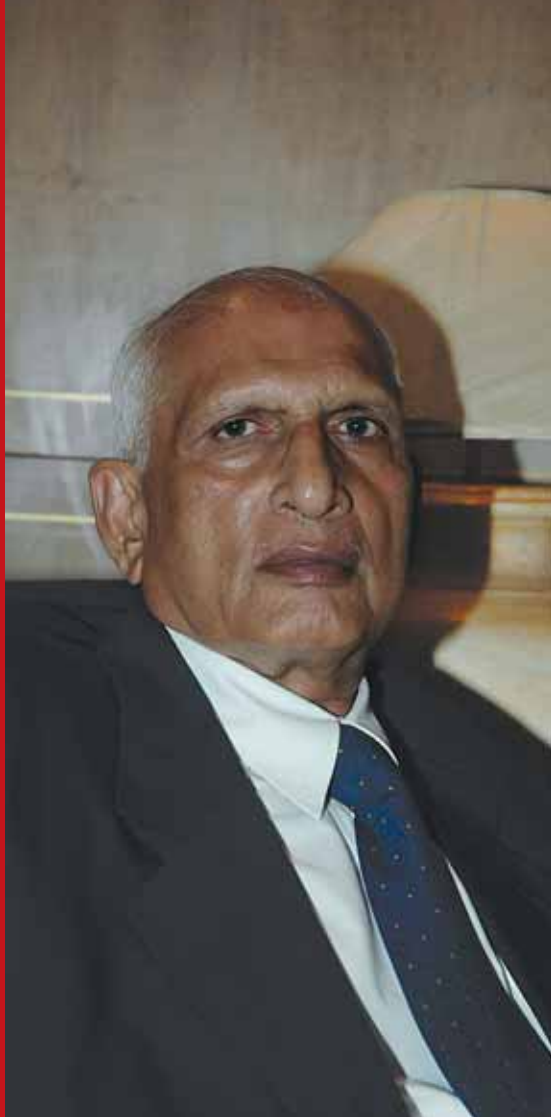
NIC Cash Card

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, enquire balances and make payments through a wide network of ATMs and PoS terminals, within the country.

NIC SMS Banking

Bank launched SMS Banking service in 2005, which allows NIC customer to access their account through mobile phones.





TULSI RAM AGRAWAL, *Director*

ASHOK KUMAR AGRAWAL, *Director*



JAGDISH PRASAD AGRAWAL, *Chairman*

BOARD OF



NIRMAL KUMAR AGRAWAL, *Director*

RAJENDRA ARYAL, *Director*



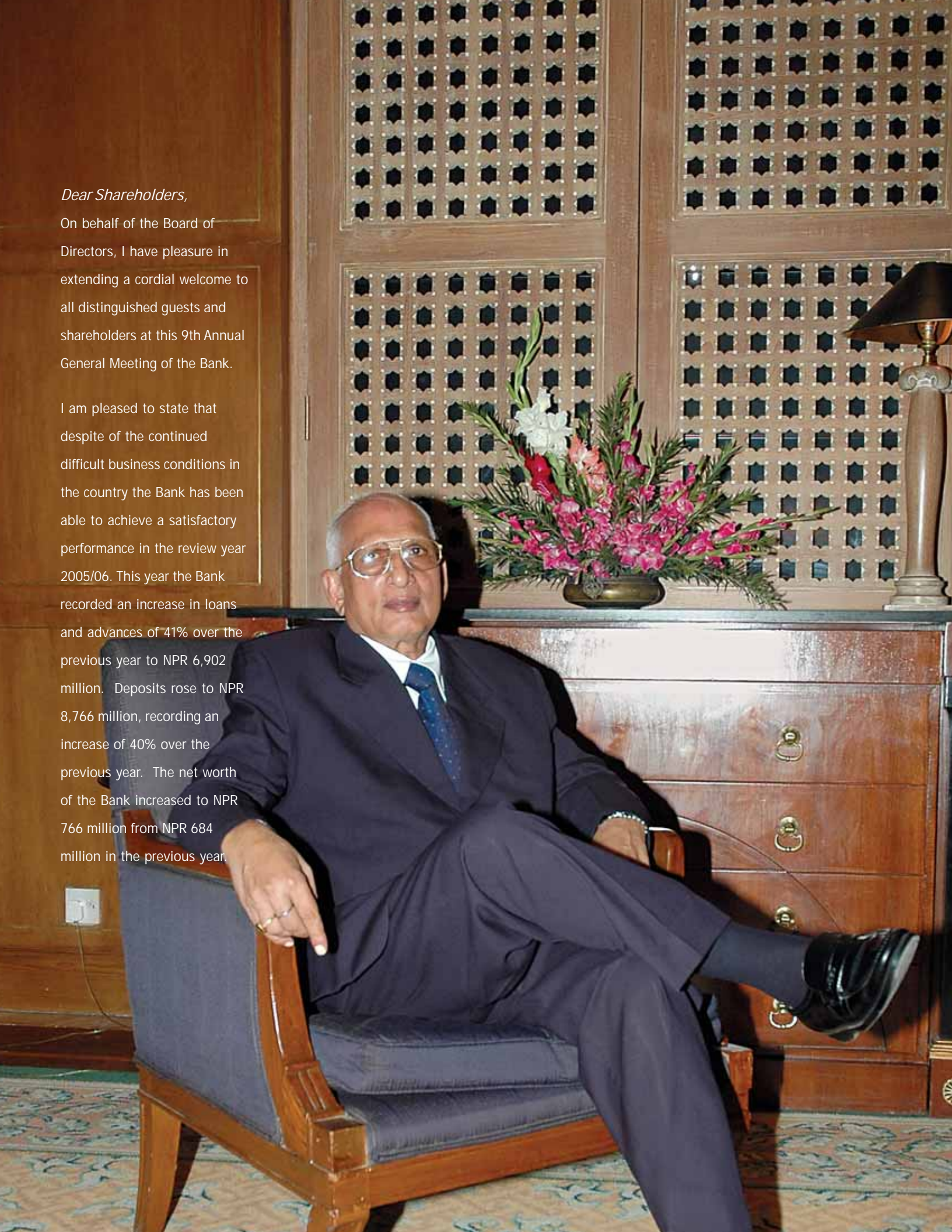
BIRENDRA KUMAR SANGHAI, *Director*

DIRECTORS

Dear Shareholders,

On behalf of the Board of Directors, I have pleasure in extending a cordial welcome to all distinguished guests and shareholders at this 9th Annual General Meeting of the Bank.

I am pleased to state that despite of the continued difficult business conditions in the country the Bank has been able to achieve a satisfactory performance in the review year 2005/06. This year the Bank recorded an increase in loans and advances of 41% over the previous year to NPR 6,902 million. Deposits rose to NPR 8,766 million, recording an increase of 40% over the previous year. The net worth of the Bank increased to NPR 766 million from NPR 684 million in the previous year.



CHAIRMAN'S STATEMENT

During the review year, operating profit before provision increased by 5% to NPR 211.98 million. However, there was some decrease in profit after tax mainly due to an increase in provisioning on account of some residual old exposures which, otherwise, we had managed to reduce significantly and also due to our prudent provisioning policy. Notwithstanding the above, the Bank's asset portfolio is getting healthier and it is pleasing to note that the Net Non Performing Assets of the Bank reduced to 0.06% from 0.82% in the previous year.

I am also happy to inform that the Bank's capital position is more than adequate with a Capital Adequacy Ratio of 13.54% as on 16 July 2006 as against the statutory requirement of 11%. This indicates a very sound financial position of the Bank in terms of capital requirement.

During the year, the Bank strengthened its capital base by raising NPR 200 million through the issue of long-term Unsecured Redeemable Non-Convertible Subordinated Debentures. The subordinated debt, with a tenor of 7 years carries a fixed coupon rate of 6% per annum. Based on the balance term to maturity as at 16 July 2006, the entire amount of the subordinated debt qualifies as Tier II capital for the purpose of capital adequacy computation. The Issue received an overwhelming response and was oversubscribed before the issue closure date, reflecting the market's strong confidence in the Bank confirming its ability to raise capital at low cost when required.

In order to comply with the statutory requirement of increasing the paid-up capital to NPR 800 million by the year 2009, an additional NPR 60 million has been transferred from net profit after tax to the Capital Reserve Fund. This is equivalent to 10% of paid up capital, I am pleased to announce that The Board of Directors has recommended payment of a 10.5263% dividend including stock dividend of 10% (1 share for every 10 share held) to the shareholders. I also take pleasure in announcing that the

Bank has become the first commercial bank in Nepal to be ISO 9001:2000 Certified for quality management system.

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

The Bank plans to open two branches shortly in the current year one in Nepalgunj and another in Lalitpur. I am also pleased to inform that in line with our policy to gradually move our office to own premises we have purchased land in Kamladi, the heart of Kathmandu's upcoming business district for our corporate centre.

There has been no change in the Board of Directors except the director representing Rastriya Baniya Bank (RBB) who discontinued after RBB's divestment of its shareholding as per the regulatory requirement. I would like to extend my sincere thanks to Mr. Ganesh Man Shrestha, who represented RBB, for his valuable contribution in the Board.

On behalf of the Board, I would like to thank all distinguished shareholders for their continued support and guidance. Similarly, I would like to express my gratitude towards all the customers for their continued faith and support and also to Government of Nepal, Nepal Stock Exchange and Nepal Rastra Bank for their support and guidance. Last, but not the least, the Management and all staff members are to be commended for their dedication and commitment, which were instrumental in ensuring the encouraging performance of the Bank.

Thank You.



Jagdish Prasad Agrawal
Chairman

CEO'S COMMENT

Dear Stakeholders, We initiated a comprehensive and a very challenging consolidation process of NIC Bank in early 2003. I can still remember a few skeptical voices that expected us to fall by the wayside but also that of many more well-wishers and stakeholders, who believed in our ability and resolve to set things right and cheered us on. I am glad to say that we did not give occasion to disappoint those who put their faith in us and our ability to deliver. NIC Bank is now a brand which is well recognized by the market as a solid, professionally-run company with robust foundations.

Despite extremely difficult business conditions fuelled by the continuous political uncertainty and conflict in 2005/06, we managed to grow our balance-sheet by 38% to cross the NPR 10 billion mark for the first time, which has catapulted us to a different league. Size does matter in this business-provided size translates into operating and scale efficiencies, increased profit margins and stronger earnings and leadership position. And the benefits of size can only be realized within a culture that values teamwork, partnership execution and ethical practices.

The actions we have taken since 2003 to become more flexible, innovative and improve our risk profile have made us better able to manage through the effects of the continuing difficult economic and business environment. As a result, we have now managed to pare down our gross non-performing assets to 2.60% and with prudent provisioning, net non-performing assets to a mere 0.06%

But, can we achieve outstanding performance? Yes, but we are not there yet. Good positioning does not assure great performance - it takes consistent effort, hard work and discipline. While we have produced satisfactory results across our business in 2005/06, the question we must answer is whether we can sustain strong performance. We are confident the answer is yes, based on our steady momentum since 2003 as well as the steps we have taken to increase our financial strength and capitalize on our competitive advantage

and growth opportunities. By consolidating and improving platforms, we are eliminating inefficiencies and reducing competitive disadvantages.

We are excited about our progress in 2005/06 and our plans for 2006/07.

Two years ago, we identified consumer credit as the area of growth. This has paid dividends with our home loan suite "NIC-Ghar Subidha" entrenching itself last year as the undisputed leader in its category. We consolidated our position further last year in the retail lending business by launching a uniquely packaged "NIC Small Business Loan", the first of its kind in the country, which neatly fitted into our strategy to diversify our risk asset portfolio, with the retail segment now constituting 22% of our lending book. On the liability side, we also came out with an innovative savings scheme for children and parents, which is an alternative to a university education insurance product branded "NIC Sikshya Kosh", which again was a runaway success. This helped diversify our deposit base with savings deposits now contributing 32%. By extending our product lines, we are able to leverage the substantial investments we have made to build our distribution capabilities (e.g. branches, technology and sales people, etc.), strengthen our brand and earn the trust of our customers.

The market's confidence in us was validated by the successful Subordinated Long Term Non-convertible Debenture issue of NPR 200 million

which was subscribed even before the earliest issue closure date. At year-end, our stock's price-to-earnings ratio was 30.81 reflecting investor confidence in the current strengths of our business and the Bank's long term potential.

We also became the first commercial bank in Nepal to be ISO 9001:2000 certified for our Quality Management Systems by United Registrar of Systems (URS), U.K. under United Kingdom Accreditation Service (UKAS). This is indeed a matter of immense pride for us.

Certain core strengths have anchored our journey of transformation and growth. These are our outstanding employees, our focus on innovation, our use of technology, our understanding of the market dynamics and our unwavering adherence to best practices of governance. It is our people and their energy and passion that have made our achievements possible.

Our ultimate goal is to be one of the most respected companies in Nepal, based on long-term financial performance and honourable conduct. It's just not results, but how we achieve them - with a commitment to integrity

& service. This commitment starts at the top with our Board of Directors, which provides invaluable guidance at the policy level, while fully entrusting day-to-day management to a professional team. On behalf of our employees and shareholders, I thank our Directors for their foresight and dedication to the Bank. We believe that we will continue to be able to meet expectations and deliver value to all our stakeholders - customers, regulators, investors, employees and the community at large.



SASHIN JOSHI
Chief Executive Officer





We are committed to benchmarking ourselves to international Best Practice in Corporate Governance and making our services comparable with the highest standard in the country. The Corporate Governance framework of the Bank is based on an effective independent Board, the separation of the Board's supervisory role from the management and constitution of Board committees comprising of non-executive, independent directors to oversee critical functions. We believe that all stakeholders should have access to complete information regarding the Bank's position to enable them to accurately assess its condition and future potential. Our effort is to continue to maximize all stakeholders' value.

- Jagdish Prasad Agrawal, *Chairman*

DIRECTOR'S REPORT

The directors of NIC Bank are pleased to present their report together with the Balance Sheet as at 16 July 2006 and Profit and Loss Account for the year ended on that date. The report is in conformity with the provisions of the Company Act, Banking and Financial Institutions Ordinance and Nepal Rastra Bank (NRB) regulations.

1. Financial Highlights

NPR million

Particulars	16 July 2006 (FY 2005/06)	15 July 2005 (FY 2004/05)
Paid up Capital	600.00	500.00
Deposits	8,765.95	6,241.38
Borrowings	457.71	450.37
Risk Assets	6,902.12	4,909.36
Investments	2,479.91	1,572.90
Total Assets	10,383.60	7,510.40
Net Worth	766.46	684.19
Operating Profit before provisions	211.98	201.87
Net Profit	96.58	113.75

2. Appropriations

In order to comply with the statutory requirement of increasing the paid-up capital to NPR 800 million by the year 2009, an additional NPR 60 million (Previous year NPR 50 million) has been transferred from net profit after tax to the Capital Adjustment Fund. This is equivalent to 10% of paid up capital. The Board of Directors has recommended issuance of one bonus share for every 10 shares from "Capital Adjustment Fund" with a cash dividend of NPR 0.5263 per share to shareholders.

The Bank has also transferred NPR 19.32 million (previous year NPR 22.75 million) and NPR 0.63 million (previous year NPR 0.44 million) to General Reserve Fund and Exchange Fluctuation Reserve, respectively as per

statutory requirement from the net profit after tax. Profit available for disposal amounting to NPR 25 million has been retained, which is available for distribution in future.

3. Capital Adequacy

It is pleasing to note that the Bank's capital position is more than adequate with a Capital Adequacy Ratio of 13.54% as on 16 July 2006 as against the statutory requirement of 11%. This indicates a very sound financial position of the Bank in terms of capital requirement.

During the year, the Bank strengthened its capital base by raising NPR 200 million through the issue of long-term Unsecured Redeemable Non-Convertible

The Bank has become the first commercial Bank in Nepal to be ISO 9001:2000 certified for quality management service.

Subordinated Debentures. The subordinated debt, with a tenor of 7 years carries a fixed coupon rate of 6% per annum. Based on the balance term to maturity as at 16 July 2006, the entire amount of the subordinated debt is considered as Tier II capital for the purpose of capital adequacy computation. The Issue received an overwhelming response and was oversubscribed before the issue closure date, reflecting the market's strong confidence in the Bank confirming its ability to raise capital at low cost when required.

4. Post Balance Sheet Event

No material events have occurred subsequent to 16 July 2006, as 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 quarter of the current fiscal year as compared to the same period last year are as under:

Particulars	NPR million		
	First Quarter ended Oct. 006 FY 2006/07	First Quarter ended Oct. 2005 FY 2005/06	Growth (%)
Operating Profit before Provision	56.69	28.99	95
Net Profit	34.26	13.49	154
Total Deposits	8,668.18	6,700.85	29
Loans and Advances	7,252.43	5,686.91	28

The performance of the Bank in the current financial year is satisfactory. The Bank will continue to strive for improving its performance

and your directors are confident of delivering even better results in the current year.

6. Branch Network and Branding

Owing to the subdued economic condition prevailing in the country the Bank did not establish any new branch in the review year. However, the Bank will open two branches in the current year one in Nepalgunj western Nepal and another in Lalitpur, which is the fastest growing urban centre after Kathmandu, to expand our reach and network. In this context the Bank acquired a property for its own corporate office at Kamaladi in the heart of the city. The Bank expects to start construction of the corporate office in FY 2007/08. The Bank has launched various campaigns to promote the Bank and its products. The Bank has also bought a building for its branch in prime location in Birgunj, and we will be moving from the rented premises this year itself.

The Bank has continuously enriched its brand building to increase value to its business. The Bank believes that branding is a valuable intangible asset.

7. Technology Development

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 on centralising its data processing and other

back-office functions in order to enhance processing efficiencies and to establish a reliable disaster recovery mechanism.



The Bank continues to achieve steady progress in the realm of risk management. We aim at the delivery of superior shareholder value by achieving an appropriate trade-off between risk and return. The Bank has already put in place an integrated risk management mechanism comprising of the management of credit risk, market risk and operational risk. The policies and procedures established for this purpose are continuously benchmarked with international best practice.

- Tulsi Ram Agrawal
Director



We had identified retail credit as a key area of opportunity and rapidly strengthened our positioning in the retail credit market, with continuous innovation and product development. We continue to focus on optimal utilization of our retail distribution and service delivery capabilities to offer enhanced customer convenience and a wide range of products. We are expanding our presence to new locations and increasing the depth of our penetration in the existing markets.

- Ashok Kumar Agrawal,
Director

8. Human Resource Management

The Bank continued 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 in products and services and meeting customer expectations.

9. Directors

There has been no change in the Board of Directors except the director representing Rastriya Banijya Bank (RBB) who discontinued after RBB's divestment of its shareholding as per regulatory requirements.

10. Auditors

Mr T R Upadhyay, Chartered Accountant, retires at the forthcoming AGM and is eligible for re-appointment. Based on the audit committee recommendation, the Board at its meeting has proposed the re-appointment of T R Upadhyay, Chartered Accountants as Auditors to audit the accounts of the Bank for fiscal year 2006/07.

11. Directors' Responsibility Statement

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

- In the preparation of the annual accounts, the applicable accounting standards have been followed;
- 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 the end of 16 July 2006 and of the profit of the Bank for the year ended on that date;
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Company Ordinance for safeguarding the assets of the Bank and for preventing and detecting frauds and other irregularities;
- The annual accounts of the Bank have been prepared on a going concern basis.
- There is no amount receivable by the Bank from Directors, Chief Executive Officer, substantial shareholders and their close relative and associated firms, companies etc.

12. Management Discussion and Analysis

The Management Discussion and Analysis Report which also includes reports required by Company Ordinance 2062 forms a part of this report.

13. 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 day-to-day management, and the constitution of different Board Committees with independent Directors to oversee critical issues.

NIC Bank, 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 Bank, corporate governance is a continuous journey, seeking to provide an enabling environment to harmonise the goals of maximising shareholder value and maintaining a customer centric focus.

NIC Bank maintains that efforts to institutionalise corporate governance practices cannot solely rest upon adherence to a regulatory framework. NIC Bank 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 support and are 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 and Bank and Financial Institution Ordinance 2062. Directors of the Bank have signed a declaration as to observance of the regulations relating to the code of ethics issued by the NRB (Central bank). The Board of Directors comprises six members and all are independent directors, i.e. 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 experience 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 shareholders' behalf. 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 normally held at the registered office in Biratnagar. Meetings are generally scheduled well in advance and the notice of each Board meeting is given in writing to each Director. The company secretary in consultation with the Chairman and the Chief Executive Officer prepares a detailed agenda for the meetings. The Board papers comprising the agenda and



Technology upgradation has been a key driver of the bank's growth strategy and the Bank continues to leverage information technology as a strategic tool for its business operation to gain competitive advantage by offering customer convenience and improved service, productivity and efficiency.

- Nirmal Kumar Agrawal,
Director



We are committed to being a full compliance bank in terms of regulatory and statutory requirements. Accordingly, we have a "zero tolerance" policy on matters of compliance. The Internal Audit and Compliance department is responsible for assessment and management of compliance issues with close oversight by the Audit committee. Every staff member and Board Director are fully aware of regulation and compliance issues and are appreciative of the need to maintain the highest standards.

- Rajendra Aryal,
Director

Directors	Board Meeting		Annual General Meeting Attendance
	Number of Meeting Attend	Sitting Fees Paid NPR	
Mr Jagdish Prasad Agrawal, Chairman	14	84,000	Yes
Mr Tulsi Ram Agrawal	14	70,000	Yes
Mr Ashok Kumar Agrawal	13	65,000	Yes
Mr Nirmal Kumar Agrawal	13	65,000	Yes
Mr Rajendra Aryal	14	70,000	Yes
Mr Brendra Kumar Sanghai	10	50,000	Yes
Mr Sashin Joshi, CEO (Invitee)	14	-	Yes
Mr Shyam Sapkota (Company Secretary)	14	-	Yes

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. Senior Management is also invited to attend the Board meetings, and an when required, so as to provide additional inputs to the issues being discussed by the Board.

During the year under review, the Board met fourteen times. The attendance of each Director at the Board meetings and the last Annual General Meeting along with sitting fees paid is enlisted below:

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 prepare the groundwork for decision-making and report at the subsequent Board meeting.

■ Board Credit/Management Committee

The Board Credit/Management Committee comprises solely 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 betterment of the Bank. The Committee assists the Board in credit approvals exceeding the Credit Approval Discretion delegated by the Board to the Chief Executive Officer. The Committee also assists the Board in any other assignments/responsibilities assigned by the Board from time to time. The quorum for the Committee is two members.

■ 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.

Board Credit / Management Committee		
Members	Number of Meeting Attend	Sitting Fees Paid NPR
Mr Tulsi Ram Agrawal, Co-ordinator	7	35,000
Mr Ashok Kumar Agrawal	7	35,000
Mr Brendra Kumar Sanghai	6	30,000
Mr Sashin Joshi, CEO	7	-

(The Committee has been reconstituted in the current Year)

The terms of reference of the Audit Committee is 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 and statutory auditors and ensuring adequate follow-up action is taken by Management on observations and

Audit Committee		
Members	Number of Meeting Attend	Sitting Fees Paid NPR
Mr Tulsi Ram Agrawal, Co-ordinator	7	35,000
Mr Ashok Kumar Agrawal	7	35,000
Mr Rajendra Aryal	7	35,000
Mr Purna Man Napit (Member Secretary)	7	-

(The Committee has been reconstituted in the current Year)

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, wherever necessary.

The Committee has reviewed the internal audit reports and made suggestions to improve internal control. The Committee has reviewed annual account and preliminary statutory audit report issued by statutory auditors and recommended their adoption by the Board of Directors. The management has been instructed to follow the auditor's recommendations.

The Committee met six times during the year under review. The Audit Committee also met prior to the finalisation of the accounts for the year ended July 15, 2006.

iv) Annual General Meetings

The detail of Annual General Meetings (AGM) for the last three years are given below:

AGM	Date	Venue
Sixth General Meeting	5 January 2004	Hotel Namaskar, Biratnagar
Seventh General Meeting	3 April 2005	Hotel Namaskar, Biratnagar
Eight General Meeting	9 December 2005	Meeting hall of Udhog Sangathan Morang, Biratnagar

At the last AGM, shareholders of the Bank holding in aggregate 67.12% 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.

v) Communication and Relationships with Shareholders

NIC Bank has close to 35,000 shareholders. The main channel of communication to the



We view human capital as the single-most key resource for ensuring competitive advantage. As such, the development of human resources and ensuring continued staff motivation are an essential element of our strategy. We are committed to harnessing human talent to offer our customers enhanced banking experience on a consistent basis.

- Birendra Kumar Sanghai, *Director*

shareholders is through the annual report which includes inter alia, the Chairman's Statement, Directors' Report, Management Discussion & Analysis, Chief Executive Officer's comments and the audited financial results. The AGM is the principal 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 ensure that the Bank's strategy is being clearly understood.

Shareholders are also intimated through the press and the Bank website, www.nicbank.com.np and the quarterly performance and financial results of the Bank results are also published in leading newspapers.

The annual report also contains general shareholder information including list of major shareholders. The management statement on the integrity and fair presentation of the financial statements is also provided.

vi) Related Party Transactions

There were no materially significant related party transactions with Directors, Management, subsidiaries or relatives of Directors 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.

14. 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 through. 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 support and guidance to the Bank from time to time.

For and on behalf of the Board

JAGDISH PRASAD AGRAWAL
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Economic Overview

The major economic indicators in FY 2005/06 portrayed a less than satisfactory economic condition attributed mainly to the unfavorable impact on tourism, manufacturing and transport sectors due to frequent disruptions and security problems even though there appeared to be some improvement in the security situation in the country, especially towards the end of FY 2005/06. The Nepalese economy in FY 2005/06 is estimated to have grown by 1.9% as against a growth of 2.7% in FY 2004/05. During FY 2005/06 agriculture and non-agriculture GDP have grown by only 1.7% and 2.8% as against a growth of 3% and 2.1%, respectively, last year.

Total government expenditure, on cash basis, grew by 11.8% to NPR 101.0 billion compared to a growth of 11.4% in the previous year. The share of regular expenditure, capital expenditure, principal repayment and freeze expenditure stood at 63.5%, 20.1%, 14.1% and 2.3% of the total expenditure respectively as against last year at 65.3%, 18.2%, 15.0% and 1.5%, respectively.

As against the double-digit growth of 12.5% in the previous year, the revenue receipt registered a growth of only 3.1% in FY 2005/06. The reduction of custom duty rates in

the half-yearly budget announcement and the decrease in dividends from government enterprises are said to be responsible for the low growth rate. The budget deficit widened by 32.9% compared to 11.9% previous year, and was financed by domestic loans amounting to NPR 11.8 billion, Overdraft from Nepal Rastra Bank of NPR 3.4 billion and foreign cash loans amounting to NPR 3.8 billion.

During the review year, annual inflation, based on national urban consumer price index, stood at 8% against 4.5% last year mainly due to the effect of increase in price of petroleum products.

On the trade sector, exports increased by 4.2% as compared to a rise of 8% in the previous year. Imports increased by 17.1% compared to an increase of 9.7% in the previous year.

The overall balance of payment registered a surplus of NPR 25.6 billion in FY 2005/06 as compared to a surplus of NPR 5.7 billion in the previous year.

The gross foreign exchange reserve of the country in mid-July 2006 stood at NPR 165 billion, which is adequate to cover service and merchandise imports of 9.5 months.

(Source: Macro Economic Situation 2005/06 published by Nepal Rastra Bank)



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 18 full-fledged commercial banks, 25 development banks, 65 - odd finance companies and hundreds of other credit and savings co-cooperatives in addition to 3 new banks currently in the pipeline. This has led to an unprecedented level of competitive behavior resulting in continuous erosion of margins, high customer expectations, difficulty in maintaining market share in an economy which is virtually stagnant, 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 one-step 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 16 July 2006, total loans and advances of the commercial banks aggregated NPR 173.38 billion and total deposits aggregated NPR 291.24 billion with paid-up capital of NPR 10.57 billion. The Bank has a market share of 4% of loans and advances and 3% of deposits. Market share of 28% of deposits and 23% of loans and advances are held by two state-owned banks.

Review of Operation

Financial Condition

Despite the difficult circumstances prevailing in the country, the Bank was able to achieve impressive growth in total assets. Total assets increased by 38% to NPR 10,383.60 million. Similarly Net worth of the Bank increased to NPR 766.46 million from NPR 684.19 million in the previous year. The significant increase in assets is expected to bear fruit in terms of increase in profitability in the current year.

During the year paid up capital of the Bank increased by NPR 100 million to NPR 600 million due to issuance of 20% bonus 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.

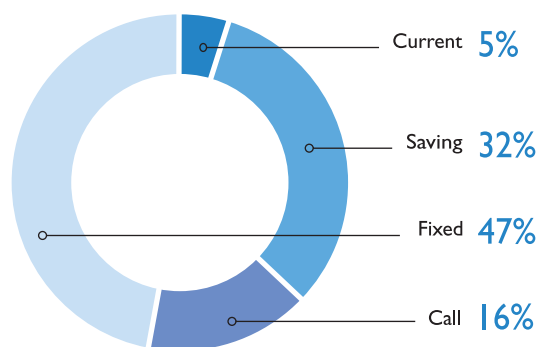
i. Deposits

On 16 July 2006, the share of the Bank's Deposits in total resources was at 84%, with outstanding total Deposits at NPR 8,765.95 million, registering a growth of 40% over the previous year. Out of the total Deposits, Foreign Currency deposits grew significantly by 115% as compared to the previous year.

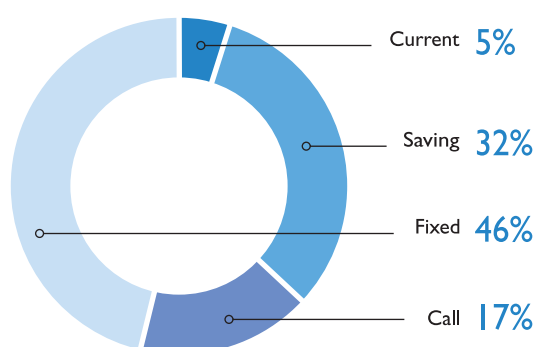
Non-interest bearing deposits grew significantly by 50% over the previous year. Similarly, Savings Bank Deposits, an important part of low cost deposits, grew by 38% over the previous year and more stable long term deposits grew by 39%. The Bank has been able to improve its deposit mix even with the significant growth in total deposit with a more diversified and stable deposit portfolio.



**FY 2004/05
Deposit mix (%)**



**FY 2005/06
Deposit mix (%)**



The Bank continued its focus on retail deposits. The Bank achieved significant growth in deposit base and reduced funding cost by replacing high cost, volatile, institutional Call deposits with growth in savings deposits which has enabled us to create a stable funding base with over 15,000 customers.

The Bank offers differentiated liability products to various categories of customers. During the review year the Bank launched "NIC Sikshaya Kosh", a savings bank deposit product with an aim of inculcating the habit of putting aside

NIC Bank's deposit products continue to be a preferred investment for households and individuals, despite higher rates of return being offered by other financial institutions.

ii. Subordinated Debt

During the review year the Bank raised NPR 200 million through the issue of long-term Unsecured Redeemable Non- Convertible Subordinated Debentures. The subordinated debt with a tenor of 7 years carries a fixed coupon rate of 6% per annum. The debt qualifies as Tier II capital.

COMPOSITION OF FUNDS:

Particulars	NPR million		
	Year ended 16 July 2006	Year ended 15 July 2005	Growth (%)
Deposits			
Local Currency	5,835.06	7,892.11	35
Foreign Currencies	873.76	406.32	115
Borrowings including subordinate debt	657.70	450.31	46

iii. Loan Portfolio

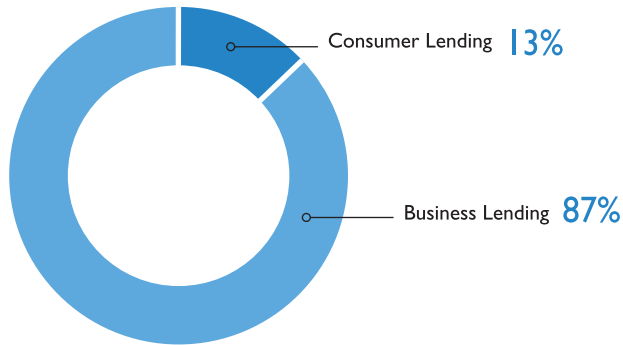
During the year, the Bank posted a significant growth in loans and advances of 41% over the previous year. Loans written off amounted to NPR

small amounts of money every now and then to ensure one's children's future university education. Over 4,500 accounts were opened within period of 4 month of the launch of this product.

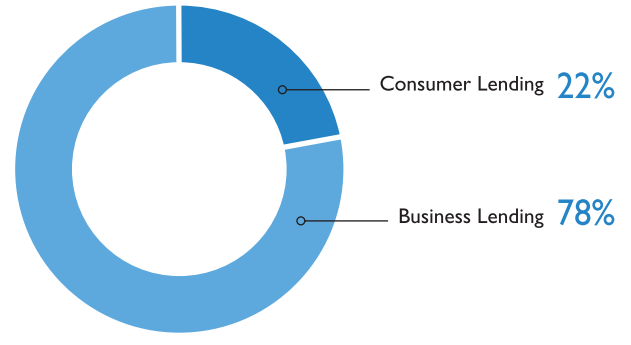
The Bank also launched USD Savings Bank Deposits product during the last quarter of the review year with a host of facilities bundled together which has gained popularity amongst individuals with foreign currency income.

10.36 million. Consumer lending, a new growth engine increased from NPR 623.38 million as at 15 July 2005 to NPR 1,462.79 million as at 16 July 2006, reflecting a growth of 136% over the previous year. The share of consumer lending to total loans and advances has increased to 22% from 13% in the previous year. "NIC Ghar Subidha" a home loan suite was the major contributor to the consumer lending growth during the year as its share to total consumer lending and total loans and advances stood at 76% and 16% respectively.

**FY 2004/05
Lending mix (%)**



**FY 2005/06
Lending mix (%)**



Consumer lending has emerged as a rapidly growing opportunity for banks. Over the last few years the banking system as a whole has seen a significant expansion of consumer lending. Over the last 2 years the Bank increased its consumer portfolio significantly by offering a wide range of consumer products, mainly home loans. From a virtual non-entity in the home loan league, the Bank strengthened its position to the top 3 in the league, leveraging strong distribution capabilities backed by risk management skills and technology, riding on unique product innovation and promotional strategy. The Bank continued its focus on consumer lending to capitalise on the robust growth in this sector. Innovative products, parity pricing, cross selling, customer convenience and customer focus are the key element of the Bank's consumer strategy.

During the review year the Bank launched "NIC Small Business Loan" a SME product to cater to this growing market as the SME segment is full of promise and potential. The Bank has a full fledged cell to support this product. The Bank will focus more in this segment in the coming year.

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 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.

DEPLOYMENT OF FUNDS

NPR million

Particulars	Year ended 16 July 2006	Year ended 15 July 2005	Growth (%)
Loans and Advances	6,902.12	4,909.35	41
Investments			
- Local Currency	1,974.42	1,285.82	54
- Foreign Currency	505.49	287.08	76

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 2.60% of total loans and advances from 3.78% in the previous year ended 15 July 2005. 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 246.16 million as at 16 July 2006. The loan loss provision has been strengthened during the year by a transfer of NPR 50.55 million through a charge to the Profit and Loss Account, of which NPR 2.04 million was on account of provision for Non-banking assets. As a result of prudential norms followed by the Bank net NPA reduced to 0.06% from 0.82% in the previous year.

Investment

Total investment of the Bank registered a growth of 58% over the previous year. Out of the total investment, investment in government securities grew by 47% over the previous year with a share to total investment of 71% of total investment.

During the review year the Bank increased its holding in Rural Microfinance Development Centre Ltd (RMDC) by 22% over the previous year by way of equity participation. Investment in RMDC equity qualifies for Deprived and Priority Sector lending.

The principal responsibilities of Treasury included management of liquidity and exposure to market risk, mobilization of resources and optimization of returns on investible surplus. Further, the Treasury leveraged its strong relationships with financial institutions to provide a wide range of banking services. This has resulted in a significant growth of 140% in investment in local financial institutions over previous year.

All the investments were made by the Bank as per its investment policy approved by the Board. The policy mandate includes ensuring adequate levels of liquidity to support core business requirements, maintaining a high degree of safety and optimizing the level of returns, consistent with acceptable levels of risk. The Board reviews the investment portfolio of the Bank regularly.

Unclaimed Dividend

The Bank distributed 10% cash dividend in FY 2000/2001 and 30% cash cum stock dividend in FY 2004/05. As at 16 July 2006, dividend amounting to NPR 10.95 million has not been claimed by shareholders of the Bank. Of the total unclaimed dividend, NPR 3.04 million is related to FY 2000/2001. The Bank has been intimating the shareholders to lodge their claim for dividend from time to time through newspaper notices.

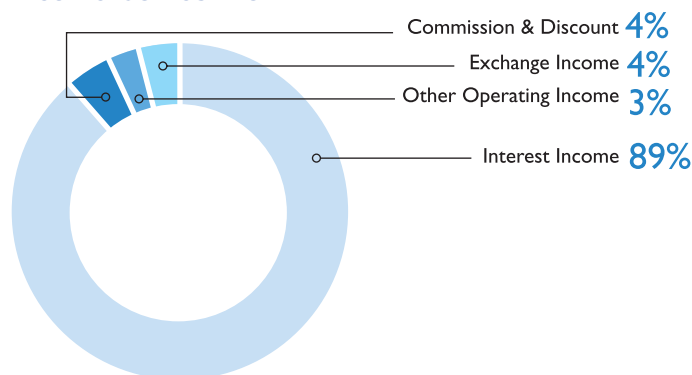
Operating Result

Net Interest Income

During the year Net Interest Income increased by 4% to NPR 239.76 million mainly due to an increase of NPR 1,588.09 million or 25% in the average volume of interest earning assets primarily due to the increase in average risk assets by NPR 1,588.22 million. The net interest margin for the review year was 3.0% as compared to previous year at 3.6%. While the yield on average advances declined by 53 bps to 8.19% in fiscal year 2005/06, the yield on average investments increased by 70 bps to 4.55% in fiscal 2005/06.



Income Comes From



Cost of deposits increased to 4.13% in fiscal 2005/2006 from 4.03% in the previous year consequent to the general increase in interest rates, in particular the increase in short-term interest rates.

Total income from treasury-related activities increased by 20% to NPR 106.92 million in fiscal year 2005/2006 primarily due to increase in yield and optimum use of funds. The share of total income from Treasury to Total Revenue increased to 34% from 30% last year.

ii. Other Income

Other income includes Fee income and FX income which increased by 23% to NPR 75.08 million in fiscal year 2005/2006 primarily due to growth in service charges on account of increase in consumer loans.

iii. Non-interest expense

Non-interest expense increased by only 13% to NPR 102.85 million primarily due to a 17%

increase in employee expenses. Increase in employee expenses is on account of increase in the number of employees and revision in salary during the last quarter of previous year. However, the increase in number of employees commensurate with the growth in business.

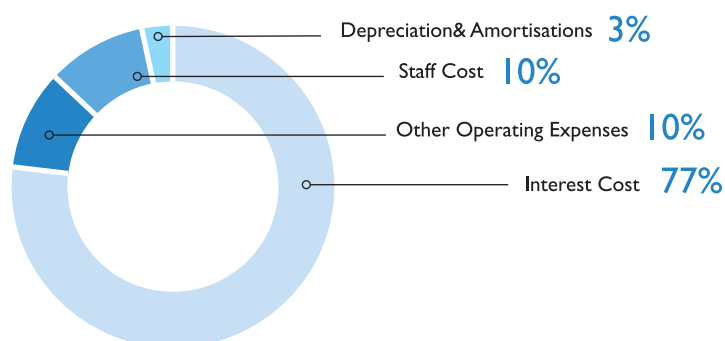
Risk Management

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 policies and procedures established for this purpose are continuously benchmarked with international best practices.

Credit Risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender. 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. The Bank has standardized credit approval processes, which include a well-established procedure of comprehensive credit appraisal and rating. The Bank followed 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 decentralised, with varying approval limits. Approval of

Expenditure Goes Towards



lending proposals beyond certain limits delegated to Management is referred to the Board Credit/Management Committee (BCMC). Larger proposals, as appropriate, are referred to the Board of Directors.

In Consumer lending operations, the Bank has standardized products, policies, procedures and service delivery standards. Sales of consumer loans and credit assessment are made distinct and independent. 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 and maintains the accounts regularly. Performance of the consumer lending portfolio is reviewed regularly on a monthly basis 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, equity prices 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 minimise 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 discuss the product pricing for deposits and advances, maturity profiles of assets and liabilities, articulating interest rate view of the Bank, funding policy, transfer pricing policy and balance sheet management of the Bank. Treasury ensures adequate liquidity at all times through systematic funds planning and maintenance of liquid investments as well as by focusing on more stable funding sources such as retail deposits. 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 and are also reported to the 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 a variety of factors, including failure to obtain proper internal authorisations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors. 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 minimising 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 minimise the impact 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 audit plan. This plan allocates audit resources based on an assessment of the operational risks in the various businesses.

So far as the Basel II readiness is concerned, Nepal Rastra Bank had issued draft guidelines in August 2006 to adopt a more risk sensitive approach to capital requirements in accordance with the Document issued by the Basel Committee on Banking Supervision (popularly known as Base II). In line with these guidelines, the Bank is in readiness for implementation of Simplified Standardized Approach for Credit Risk and Basic Indicators Approach for Operational Risk.

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.

Networking

Owing to the subdued economic condition prevailing in the country the Bank did not established any new branch in the review year. However, the Bank will open two branches in the current year one in a Nepalgunj, an urban business centre in western Nepal and another branch in Lalitpur, the fastest growing urban centre after Kathmandu, to expand our reach and network.

Recently, the Bank has acquired a property for its own corporate office at Kamaladi in the heart of the city. The Bank expects to start construction in FY 2007/08. The Bank has also bought a building for its branch in prime location in Birgunj, and we will be moving from rented premises in the current year itself.



NPR in 000

Human Resources

The Bank has a tradition 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 recognises that accelerating the learning process within the organisation 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, customised 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 0.47 million (previous year NPR 0.56 million) in training to enhance the development of the human resources of the Bank.

A new HR Policy has been formulated to take care of various needs of the Bank. As per the policy, the Bank review 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 is in the process of introducing a new Performance Management System which effectively measures and rewards employee performance and identify potential.

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

Staff	16 July 2006 (FY 2005-06)	15 July 2005 (FY 2004-05)
Managerial level staff	48	46
Support staff	88	81
Auxiliary staff	30	30
Total staff	166	157
Total Staff cost NPR in million	45.49	39.00
Staff cost to total cost %	44.23	43.03
Staff cost per employee NPR in 000	274.06	248.43
Business per employee NPR in million	107.84	79.78

Office car with driver is provided to CEO. The managers are given vehicle loan facility with fuel as per the Bank policy. Insurance coverage includes accidental insurance and medical insurance.

Community Development

As a part of the Bank's Corporate Social Responsibility (CSR) the Bank is actively involved in community welfare activities. While the Bank as a corporate citizen pays tax from its profit every year contributing to the national revenue, it would be appropriate for the Bank as a good corporate citizen to do its bit for the betterment of the



NPR in 000

Particulars	Chief Executive Officers	Managers / officers
Salary	4,620	11,848
Allowances	1,320	6,009
Dashain Allowances	385	981
Provident Fund	462	1,185
Leave Fare Allowances	385	981
Vehicle Loan	-	Yes
Home Loan	-	Yes
Insurance Coverage	Yes	Yes
Total Number	1	48

disadvantaged people of the community where the Bank does its business. To start with the Bank has initiated a scholarship program for 10 girl children of poor and underprivileged communities studying in a community-managed school at Dhapasi, Kathmandu. The Bank has intends to expand its philanthropic services by creating a charitable foundation whose sole purpose will be to help communities. Towards this the Bank is committed to ploughing back a certain percentage of its profit every year for helping society in the areas of education and health.

Future Prospects

Given the fact that the prevailing political and security situations in the country are having an impact on the investment climate and business confidence, significantly large new investments are expected to remain scarce in the near future. In this state of the economy, aggressive

growth of risk assets could be counterproductive. 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 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. As a follow up to the overwhelming success of NIC Ghar Subidha home loans with its unique features, NIC Small Business Loan and NIC Shikshya Kosh Savings account which were launched in the previous year and in line with our strategy enumerated above a number of broad-based credit and deposit products are planned to be introduced in the coming year.

THE SHAREHOLDERS OF
NEPAL INDUSTRIAL AND COMMERCIAL BANK LIMITED

INDEPENDENT
AUDITOR'S REPORT

We have audited the accompanying Balance Sheet of **Nepal Industrial & Commercial Bank Limited**, as of 16 July 2006 (Corresponding to 32 Ashad 2063), the related Profit and Loss Account and the Cash Flow Statement for the year then ended. These financial statements are the responsibility of the management of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As per the requirement of the Companies Ordinance 2062 and Bank and Financial Institution Ordinance 2062 we also report that:

- a) we have obtained information and explanations, which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- b) in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of such books;
- c) in our opinion, the returns received from branches of the Bank were adequate for the purpose of the audit;
- d) in our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report have been prepared in the format prescribed by Nepal Rastra Bank and are in agreement with the books of account maintained by the Bank;

- e) in our opinion, so far as appeared from our examination of the books, the Bank has maintained adequate capital funds and adequate provisions for possible impairment of assets in accordance with the directives of Nepal Rastra Bank;
- f) in our opinion, so far as appeared from our examination of the books, the business of the Bank has been conducted satisfactorily;
- g) to the best of our information and according to explanations given to us and from our examination of the books of account of the Bank necessary for the purpose of our audit, we have not come across cases where Board of Directors or any employees of the Bank have acted contrary to the provisions of law, or committed any misappropriation or caused loss or damage to the Bank and violated any directives of Nepal Rastra Bank or acted in a manner to jeopardise the interest and security of the Bank, its depositors and investors.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 16 July 2006 (Corresponding to 32 Ashad 2063), the results of operations and its cash flows for the year then ended in accordance with Nepal Accounting Standards, except accumulated leave which is accounted for on cash basis as disclosed in note xviii of schedule 32 of financial statement and generally accepted accounting principles and comply with the provisions of the Company Ordinance 2062 and Bank and Financial Institution Ordinance 2062.

T R Upadhyay

Senior Partner
For and on behalf of
T R Upadhya & Co.
Chartered Accountants

Date: 30 October 2006 (13 Kartik 2063)
Kathmandu

NEPAL INDUSTRIAL & COMMERCIAL BANK LTD.
BALANCE SHEET
AS AT 32 ASHAD 2063 (16 JULY 2006)

Capital & Liabilities	Schedule	Current Year NPR	Previous year NPR
1. Share Capital	1	600,000,000	500,000,000
2. Reserves and Funds	2	166,462,479	184,193,958
3. Debentures & Bonds	3	200,000,000	-
4. Borrowings	4	457,705,060	450,371,046
5. Deposit Accounts	5	8,765,950,638	6,241,378,160
6. Bills Payable	6	91,508,236	28,329,320
7. Proposed Dividend and Dividend Payable		10,954,038	54,011,043
8. Income Tax Liabilities		4,630,863	2,040,229
9. Other Liabilities	7	86,390,394	50,072,809
Total		10,383,601,708	7,510,396,565

Assets	Schedule	Current Year NPR	Previous year NPR
1. Cash Balance	8	139,186,303	69,777,858
2. Balance with Nepal Rastra Bank	9	455,769,231	837,300,718
3. Balance with Banks/Financial Institutions	10	154,183,545	103,307,989
4. Money at Call and Short Notice	11	353,515,103	89,880,961
5. Investments	12	2,479,912,524	1,572,902,035
6. Loans, Advances and Bills Purchased	13	6,655,964,020	4,711,712,301
7. Fixed Assets	14	39,863,854	59,495,866
8. Non-banking Assets	15	2,645,625	3,465,000
9. Other Assets	16	102,561,503	62,553,837
Total		10,383,601,708	7,510,396,565

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 form integral part of this Balance Sheet

Arun Parajuli
Manager Treasury & Finance

Ashok Kumar Agrawal
Director

Nirmal Kumar Agrawal
Director

Tulsi Ram Agrawal
Director

Sashin Joshi
Chief Executive Officer

Rajendra Aryal
Director

Birendra Kumar Sanghai
Director

Jagdish Prasad Agrawal
Chairman

Kathmandu
Date: 30 October 2006

As per our report of even date

Tirtha Raj Upadhyay
T.R.Upadhyay & Co. Chartered Accountants.

NEPAL INDUSTRIAL & COMMERCIAL BANK LTD.
PROFIT & LOSS ACCOUNT
FOR THE PERIOD FROM 1 SHRAWAN 2062 TO 32 ASHAD 2063
(16 JULY 2005 TO 16 JULY 2006)

Particulars	Schedule	Current Year NPR	Previous year NPR
1. Interest Income	18	579,979,428	457,609,969
2. Interest Expenses	19	340,221,921	225,992,488
Net Interest Income		239,757,507	231,617,481
3. Commission & Discount	20	29,447,261	27,101,792
4. Other Operating Incomes	21	20,242,413	9,180,305
5. Exchange Fluctuation Income	22	25,387,941	24,605,930
Total Operating Income		314,835,122	292,505,508
6. Staff Expenses	23	45,494,167	39,003,504
7. Other Operating Expenses	24	57,356,334	51,629,103
8. Exchange Fluctuation Loss	22	-	-
Operating Profit Before Provision for Possible Loss		211,984,621	201,872,901
9. Provision for Possible Loss	25	60,913,102	19,952,248
Operating Profit		151,071,519	181,920,653
10. Non - Operating Income/Expenses	26	59,335	284,887
11. Loan Loss Provision Written Back	27	10,359,202	5,085,849
Profit from Regular Operations		161,490,056	187,291,389
12. Profit/(Loss) from Extra-Ordinary Activities	28	(10,359,202)	(4,261,599)
Profit after considering all activities		151,130,854	183,029,790
13. Provision for Staff Bonus		13,739,169	18,302,979
14. Provision for Income Tax		40,804,011	50,971,077
Current Year's		40,804,011	50,971,077
Previous Year's		-	-
Net Profit/(Loss)		96,587,674	113,755,734

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

Arun Parajuli
Manager Treasury & Finance

Ashok Kumar Agrawal
Director

Nirmal Kumar Agrawal
Director

Tulsi Ram Agrawal
Director

Sashin Joshi
Chief Executive Officer

Rajendra Aryal
Director

Birendra Kumar Sanghai
Director

Jagdish Prasad Agrawal
Chairman

Kathmandu
Date: 30 october 2006

As per our report of even date

Tirtha Raj Upadhyay
T.R.Upadhya & Co. Chartered Accountants.

NEPAL INDUSTRIAL & COMMERCIAL BANK LTD.
PROFIT AND LOSS APPROPRIATION ACCOUNT
FISCAL YEAR 2062/2063 (2005/2006)

Particulars	Current Year NPR	Previous year NPR
Income		
1. Accumulated Profit upto Last Year	22,683,051	32,115,167
2. Current Year's Profit	96,587,674	113,755,734
3. Exchange Fluctuation Fund	-	-
Total	119,270,725	145,870,901
Expenses		
1. Accumulated Loss upto Last Year	-	-
2. Current Year's Loss	-	-
3. General Reserve Fund	19,317,535	22,751,147
4. Contingent Reserve	-	-
5. Institutional Development Fund	-	-
6. Dividend Equalization Fund	-	-
7. Employees' Related Fund	-	-
8. Proposed Dividend	31,57,895	50,000,000
9. Proposed Issue of Bonus Share	60,000,000	50,000,000
10. Special Reserve Fund	-	-
11. Exchange Fluctuation Fund	629,772	436,703
12. Capital Redemption Reserve Fund	-	-
13. Capital Adjustment Fund	-	-
14. Depreciation relating to earlier years	11,161,259	-
Total	94,266,461	123,187,850
15. Accumulated Profit (Loss)	25,004,264	22,683,051

Arun Parajuli
Manager Treasury & Finance

Ashok Kumar Agrawal
Director

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Director

Tulsi Ram Agrawal
Director

Sashin Joshi
Chief Executive Officer

Rajendra Aryal
Director

Birendra Kumar Sanghai
Director

Jagdish Prasad Agrawal
Chairman

Kathmandu
Date: 30 october 2006

As per our report of even date

Tirtha Raj Upadhyay
T.R.Upadhyay & Co. Chartered Accountants.

NEPAL INDUSTRIAL & COMMERCIAL BANK LTD
STATEMENT OF CHANGES IN EQUITY

FISCAL YEAR 2062/63

Particulars	Amount in NPR							
	Share Capital	Accumulated Profit/Loss	General Reserve	Capital Adjustment Fund	Share Premium	Exchange Fluctuation Fund	Other Reserve & Fund	Total Amount
Opening Balance as at 1st Shrawan 062	500,000,000	22,683,051	57,459,499	100,000,000	-	4,051,408	60,000,000	684,193,958
Adjustments	100,000,000	2,321,213	19,317,535	(100,000,000)	-	629,772	-	82,268,520
Net profit for the year		96,587,674						96,587,674
Transfer to General Reserve		(19,317,535)	19,317,535					-
Capital Adjustment Fund		(60,000,000)		60,000,000				-
Declaration of Dividend		(3,157,895)		(100,000,000)				(3,157,895)
Issue of Bonus Share	100,000,000							-
Exchange Fluctuation Fund		(629,772)				629,772		-
Depreciation Adjustments		(11,161,259)		(60,000,000)			60,000,000	(11,161,259)
Proposed issue of Bonus Share								-
Closing Balance as at 32 Ashad 2063	600,000,000	25,004,264	76,777,034	-	-	4,681,180	60,000,000	766,462,478

NEPAL INDUSTRIAL & COMMERCIAL BANK LTD.
CASH FLOW STATEMENT

FROM 1 SHRAWAN 2062 TO 32 ASHAD 2063 (16 JULY 2005 TO 16 JULY 2006)

Previous Year NPR	Particulars	Current Year NPR
63,748,134	(A) Cash Flow from Operation	(17,739,079)
523,861,132	1. Cash Receipts	665,467,980
457,609,969	1.1 Interest Income	579,979,428
27,101,792	1.2 Commission and Discount Income	29,447,261
24,605,930	1.3 Exchange Gain	25,387,941
-	1.4 Recovery of Write off Loan	-
14,543,441	1.5 Other Income	30,653,350
460,112,998	2. Cash Payments	683,207,059
225,992,488	2.1 Interest Expenses	340,221,921
39,003,504	2.2 Staff Expenses	45,494,167
51,629,103	2.3 Office Overhead Expenses	57,356,334
50,971,077	2.4 Payment of Income Tax	40,804,011
92,516,826	2.5 Other Expenses	199,330,626
634,894,937	Cash Flow Before Working Capital Activities	(562,816,019)
(874,839,672)	Decrease/(Increase) in Current Asset from Operating Activities	(3,153,752,641)
39,781,877	1. Changes in Money at Call and Short Notice	(263,634,142)
188,528,593	2. Changes in Other Short Term Investments	(906,678,489)
(1,150,573,521)	3. Changes in Loans, Advances and Bills Purchased	(1,944,251,719)
47,423,378	4. Changes in Other Assets	(39,188,291)
1,509,734,609	Increase/(Decrease) in Current Liability from Operating Activities	2,590,936,622
1,094,895,110	1. Changes in Deposits	2,524,572,478
-	2. Changes in Certificate of Deposits	-
381,046,472	3. Changes in Short Term Borrowings	7,334,014
33,793,027	4. Changes in Other Liabilities	59,030,130
(16,909,742)	(B) Cash Flow from Investing Activities	19,307,612
(707,000)	1. Changes in Long Term Investments	(332,000)
(16,210,342)	2. Changes in Fixed Assets	19,632,012
-	3. Changes in Interest Income from Long Term Investments	-
7,600	4. Changes in Dividend Income	7,600
40,500	(C) Cash Flow from Financial Sources	300,000,000
-	1. Changes in Long Term Borrowings (Bond , Debenture)	200,000,000
40,500	2. Changes in Paid in Capital	100,000,000
-	3. Changes in Other Liabilities	-
-	4. Changes in Refinance from Nepal Rastra Bank	-
-	(D) Income/(Expense) Due to Fluctuation in Exchange rate of Cash and Bank Balance	-
681,773,828	(E) Net Cash Flow of the Year	(261,247,486)
328,612,737	(F) Opening Cash and Bank Balance	1,010,386,565
1,010,386,565	(G) Closing Cash and Bank Balance	749,139,079

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Director

Birendra Kumar Sanghai
Director

Jagdish Prasad Agrawal
Chairman

Kathmandu
Date: 30 october 2006

As per our report of even date

SHARE CAPITAL AND OWNERSHIP

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 1

Previous Year NPR	Particulars	Current Year NPR
1,000,000,000 1,000,000,000	1. Share Capital 1.1 Authorised Capital a) 10,000,000 Ordinary Shares of Rs 100 each b) Non-Redeemable Shares of Rs _ each c) Redeemable Shares of Rs _ each	1,000,000,000 1,000,000,000
500,000,000 500,000,000	1.2 Issued Capital a) 6,000,000 Ordinary Shares of Rs 100 each b) Non-Redeemable Shares of Rs _ each c) Redeemable Shares of Rs _ each	600,000,000 600,000,000
500,000,000 500,000,000	1.3 Paid Up Capital a) 6,000,000 Ordinary Shares of Rs 100 each b) Non-Redeemable Shares of Rs _ each c) Redeemable Shares of Rs _ each	600,000,000 600,000,000

Note : Paid Up Capital includes Rs 100,000,000 issued as bonus shares from Capital Adjustment fund.

SHARE OWNERSHIP

Share Capital (Previous Year)		Particulars	Share Capital (This Year)	
NPR	%		%	NPR
500,000,000	100	1. Local Ownership 1.1 Government of Nepal 1.2 "A" Class Licensed Institutions 1.3 Other Licensed Institutions 1.4 Organised Institutions 1.5 General Public 1.6 Others (Promoters)	100	600,000,000
175,000,000	35		35	210,000,000
325,000,000	65		65	390,000,000
-	-	2. Foreign Ownership	-	-
500,000,000	100	Total	100	600,000,000

SHAREHOLDERS HOLDING MORE THAN 0.5% SHARES

AS AT 32 ASHAD 2063 (16 JULY 2006)

SN	Name	Number of shares held	Amount in NPR	% of Shareholding
1	Sushila Devi Sanghai	36,360	3,636,000	0.61
2	Raja Ram Joshi	39,954	3,995,400	0.67
3	Govinda Lal Sanghai	58,248	5,824,800	0.97
4	Nirmal Kumar Agrawal	105,000	10,500,000	1.75
5	Jagdish Prasad Agrawal	234,762	23,476,200	3.91
6	Nikunj Agrawal	252,857	25,285,700	4.21
7	Ashok Kumar Agrawal	253,925	25,392,500	4.23
8	Anuj Agrawal	256,656	25,665,600	4.28
9	Vishal Agrawal	283,820	28,382,000	4.73
10	Basu Dev Golyan	300,000	30,000,000	5.00
11	Pawan Kumar Golyan	300,000	30,000,000	5.00
12	Tulsi Ram Agrawal	305,262	30,526,200	5.09
13	Diwakar Golchha	327,961	32,796,100	5.47
14	Lokmanya Golchha	327,966	32,796,600	5.47
15	Trilok Chand Agrawal	351,791	35,179,100	5.86
16	Subhash Chandra Sanghai	600,000	60,000,000	10.00

RESERVE AND FUNDS

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 2

Previous Year NPR	Particulars	Current Year NPR
57,459,499	1. General Reserve Fund	76,777,034
100,000,000	2. Proposed Bonus Shares	60,000,000
-	3. Capital Reserve Fund	-
-	4. Capital Redemption Fund	-
-	5. Capital Adjustment Reserve	-
-	6. Other Reserve Fund	-
-	a. Contingent Reserve	-
-	b. Institution Development Fund	-
-	c. Dividend Equalisation Fund	-
-	d. Special Reserve Fund	-
-	e. Assets Revaluation Reserve	-
-	f. Other Reserve Fund	-
22,683,051	7. Accumulated Profit	25,004,264
4,051,408	8. Exchange Fluctuation Reserve	4,681,181
184,193,958	Total	166,462,479

DEBENTURE & BOND

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 3

Previous Year NPR	Particulars	Current Year NPR
-	1.6% NIC Bond of Rs 1,000 each Issued on 26 June 2006 and Maturity on 25 June 2013 (Redemption Reserve : - Nil)	200,000,000
-	Total	200,000,000

BORROWINGS

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 4

Previous Year NPR	Particulars	Current Year NPR
	A. Local	
-	1. Government of Nepal	-
-	2. Nepal Rastra Bank	-
	3. Repo Liability	
450,000,000	4. Inter-bank and Financial Institutions	450,000,000
	5. Other Financial Institutions	
-	6. Others	-
450,000,000	Total	450,000,000
	B. Foreign	
371,046	1. Banks	7,705,060
-	2. Others	-
371,046	Total	7,705,060
450,371,046	Total (A+B)	457,705,060

Note: Credit balance in Nostro account as per bank book at the year end is classified as borrowing under Foreign Banks.

DEPOSIT LIABILITY

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 5

Previous Year NPR	Particulars	Current Year NPR
	1. Non-Interest Bearing Accounts	
	A. Current Deposits	391,871,597
233,161,387	1. Local Currency	357,144,850
206,314,107	1.1 Government of Nepal	17,622,575
-	1.2 "A" Class Licensed Institutions	5,540,463
1,863,336	1.3 Other Licensed Financial Institutions	89,347,923
28,244,148	1.4 Other Organized Institutions	207,131,780
149,850,457	1.5 Individuals	37,502,109
26,356,166	1.6 Others	-
-		
26,847,280	2. Foreign Currency	34,726,747
-	2.1 Government of Nepal	-
-	2.2 "A" Class Licensed Institutions	-
11,430	2.3 Other Licensed Financial Institutions	986,615
26,835,850	2.4 Other Organized Institutions	33,740,132
-	2.5 Individuals	-
-	2.6 Others	-
	B. Margin Deposits	52,942,215
63,430,657	1. Employees' Guarantee	-
-	2. Guarantee Margin	17,917,916
14,316,204	3. Letters of Credit Margin	35,024,299
49,114,453		
-		
-	C. Others	-
-	1. Local Currency	-
-	1.1 Financial Institutions	-
-	1.2 Other Organized Institutions	-
-	1.3 Individuals	-
-		
-	2. Foreign Currency	-
-	2.1 Financial Institutions	-
-	2.2 Other Organized Institutions	-
-	2.3 Individuals	-
296,592,044	Total of Non-Interest Bearing Accounts	444,813,812

DEPOSITS LIABILITY

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 5

Previous Year NPR	Particulars	Current Year NPR
	2. Interest Bearing Accounts	
2,024,258,932	A. Savings Deposits	2,797,420,661
2,016,657,901	1. Local Currency	2,745,846,551
163,527,797	1.1 Institutions	216,312,552
1,853,130,104	1.2 Individuals	2,529,533,999
-	1.3 Others	-
7,601,031	2. Foreign Currency	51,574,110
1,735,224	2.1 Institutions	21,888,077
5,865,807	2.2 Individuals	29,686,033
-	2.3 Others	-
2,930,619,941	B. Fixed Deposits	4,064,500,981
2,559,270,501	1. Local Currency	3,296,222,101
2,164,468,119	1.1 Institutions	3,032,080,871
394,802,382	1.2 Individuals	264,141,230
-	1.3 Others	-
371,349,440	2. Foreign Currency	768,278,880
371,349,440	2.1 Institutions	768,278,880
-	2.2 Individuals	-
-	2.3 Others	-
989,907,243	C. Call Deposits	1,459,215,184
989,385,059	1. Local Currency	1,440,039,597
-	1.1 "A" Class Licensed Institutions	-
581,105,594	1.2 Other Licensed Financial Institutions	722,222,488
343,416,259	1.3 Other Institutions	686,870,359
64,863,206	1.4 Individuals	30,946,750
-	1.5 Others	-
522,184	2. Foreign Currency	19,175,587
-	2.1 "A" Class Licensed Institutions	-
522,184	2.2 Other Licensed Financial Institutions	19,175,587
-	2.3 Other Institutions	-
-	2.4 Individuals	-
-	2.5 Others	-
-	D. Certificate of Deposits	-
-	1. Institutions	-
-	2. Individuals	-
-	3. Others	-
5,944,786,116	Total of Interest Bearing Accounts	8,321,136,826
6,241,378,160	Total Deposits (1+2)	8,765,950,638

BILLS PAYABLE

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 6

Previous Year NPR	Particulars	Current Year NPR
21,127,387	1. Local Currency	17,647,264
7,201,933	2. Foreign Currency	73,860,972
28,329,320	Total	91,508,236

OTHER LIABILITIES

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 7

Previous Year NPR	Particulars	Current Year NPR
-	1. Pension/Gratuity Fund	-
-	2. Employees' Provident Fund	-
-	3. Employees' Welfare Fund	-
18,302,979	4. Provision for Staff Bonus	13,739,169
-	5. Interest Payable on Deposits	-
1,154,183	6. Interest Payable on Borrowings	1,975,245
-	7. Unearned Discount and Commission	200,000
27,910,236	8. Sundry Creditors	67,656,740
-	9. Branch Adjustment Account	-
2,705,411	10. Others	2,819,240
50,072,809	Total	86,390,394

CASH BALANCE

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 8

Previous Year NPR	Particulars	Current Year NPR
59,460,550	1. Local Currency (Including Coins)	129,250,028
10,317,308	2. Foreign Currency	9,936,275
69,777,858	Total	139,186,303

BALANCE AT NEPAL RASTRA BANK

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule:9

Previous Year NPR	Particulars	Local Currency NPR	Foreign Currency			Current Year NPR
			INR	Other	Total	
837,300,718	1. Nepal Rastra Bank	452,322,307	-	3,446,924	3,446,924	455,769,231
832,463,578	a. Current Account	447,280,385	-	3,446,924	3,446,924	450,727,309
4,837,140	b. Other Account	5,041,922	-	-	-	5,041,922

BALANCE WITH BANKS/FINANCIAL INSTITUTIONS

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule10

Previous Year NPR	Particulars	Local Currency NPR	Foreign Currency			Current Year NPR
			INR	Other	Total	
19,373,666	1. Local Banks	33,634,152	-	746,355	746,355	34,380,507
19,373,666	a. Current Account	33,634,152	-	746,355	746,355	34,380,507
-	b. Other Account	-	-	-	-	-
83,934,323	2. Foreign Banks	-	16,224,848	103,578,190	119,803,038	119,803,038
83,934,323	a. Current Account	-	16,224,848	103,578,190	119,803,038	119,803,038
-	b. Other Account	-	-	-	-	-
103,307,989	Total	33,634,152	16,224,848	104,324,545	120,549,393	154,183,545

Note: Balance at Nepal Rastra Bank and with Banks/Financial Institutions as per the confirmation and statement received from respective banks is NPR 697,329,834 and the difference amounts are under reconciliation.

MONEY AT CALL AND SHORT NOTICE AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 11

Previous Year NPR	Particulars	Current Year NPR
-	1. Local Currency	167,515,103
89,880,961	2. Foreign Currency	186,000,000
89,880,961	Total	353,515,103

INVESTMENTS AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 12

Previous Year NPR	Particulars	Purpose		Current Year NPR
		Trading NPR	Others NPR	
967,928,300	1. Nepal Government's Treasury bills	1,616,473,452.	-	1,616,473,452
-	2. Nepal Government's Savings Bonds	-	-	-
226,385,577	3. Nepal Government's Others Securities	140,111,698	-	140,111,698
-	4. Nepal Rastra Bank Bonds	-	-	-
-	5. Foreign Securities	-	-	-
90,000,000	6. Local Licenced Institutions	216,000,000	-	216,000,000
287,081,158	7. Foreign Banks	505,488,374	-	505,488,374
1,507,000	8. Corporate Shares	-	1,839,000	1,839,000
-	9. Corporate Bonds & Debentures	-	-	-
-	10. Other Investments	-	-	-
1,572,902,035	Total Investment	2,478,073,524	1,839,000	2,479,912,524
-	Less : Provision	-	-	-
1,572,902,035	Net Investment	2,478,073,524	1,839,000	2,479,912,524

INVESTMENTS IN SHARES, DEBENTURES AND BONDS AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 12 (A)

Previous Year NPR	Particulars	Current Year		Provision
		Cost Price	Market Value	
1,507,000	1. Investment in Shares	1,839,000		-
1,154,000	1.1 Rural Microfinance Development Centre Ltd. 14,860 Ordinary Shares of Rs. 100 each	1,486,000	Not listed	-
-	1.2 Credit Information Centre Ltd.	-	-	-
353,000	3,530 Ordinary Shares of Rs. 100 each	353,000	Not listed	-
-	2. Investment in Debentures and Bonds	-	-	-
1,507,000	Total Investment	1,839,000		-
-	3. Provision for Loss	-		-
-	3.1 Upto Previous Year	-		-
-	3.2 Adjustment This Year	-		-
-	Total Provision	-		-
1,507,000	Net Investment	1,839,000		-

CLASSIFICATION OF LOANS, ADVANCES AND BILLS PURCHASED AND PROVISIONS As at 32 ASHAD 2063 (16 JULY 2006)

Schedule: 13

Previous Year NPR	Particulars	Advances						Bills Purchased & Discounted			Current Year NPR
		Domestic			Foreign NPR	Total Advances NPR	Local NPR	Foreign NPR	Total Bills Purchased & Discounted		
		Priority Insured NPR	Non Insured NPR	Others NPR							
4,723,924,389	1. Performing Loan	-	443,920,256	6,259,394,477	-	6,703,314,733	5,289,092	13,965,684	19,254,776	6,722,569,509	
4,679,182,770	A. Pass loans	-	443,920,256	6,226,326,477	-	6,670,246,733	5,289,092	13,965,684	19,254,776	6,689,501,509	
44,741,619	B. Restructured Loan	-	-	33,068,000	-	33,068,000	-	-	-	33,068,000	
185,430,811	2. Non Performing Loan	-	1,797,815	177,756,620	-	179,554,435	-	-	-	179,554,435	
45,970,000	2.1 Sub Standard	-	654,368	-	-	654,368	-	-	-	654,368	
11,389,883	2.2 Doubtful	-	-	7,864,500	-	7,864,500	-	-	-	7,864,500	
128,070,928	2.3 Loss	-	1,143,447	169,892,120	-	171,035,567	-	-	-	171,035,567	
4,909,355,200	Total Loans (A)	-	445,718,071	6,437,151,097	-	6,882,869,168	5,289,092	13,965,684	19,254,776	6,902,123,944	
46,791,827	3. Loan Loss Provision	-	4,439,202	62,263,265	-	66,702,467	52,891	139,657	192,548	66,895,015	
5,592,702	3.1 Pass Loans	-	-	4,133,500	-	4,133,500	-	-	-	4,133,500	
11,492,500	3.2 Restructured Loan	-	163,592	-	-	163,592	-	-	-	163,592	
5,694,942	3.3 Sub Standard	-	-	3,932,250	-	3,932,250	-	-	-	3,932,250	
128,070,928	3.4 Doubtful	-	1,143,447	169,892,120	-	171,035,567	-	-	-	171,035,567	
197,642,899	3.5 Loss	-	5,746,241	240,221,135	-	245,967,376	52,891	139,657	192,548	246,159,924	
35,964,974	4. Provision upto Previous year	-	3,847,714	42,764,748	-	46,612,462	59,106	120,259	179,365	46,791,827	
-	4.1 Pass Loans	-	-	5,592,702	-	5,592,702	-	-	-	5,592,702	
170,075	4.2 Restructured Loans	-	-	11,492,500	-	11,492,500	-	-	-	11,492,500	
96,125	4.3 Sub Standard	-	990,319	4,704,623	-	5,694,942	-	-	-	5,694,942	
145,721,076	4.4 Doubtful	-	1,703,500	126,367,428	-	128,070,928	-	-	-	128,070,928	
181,952,250	4.5 Loss	-	6,541,533	190,922,001	-	197,463,534	59,106	120,259	179,365	197,642,899	
(4,261,599)	Total Provision upto Previous year (C)	-	(795,292)	(10,359,202)	-	(10,359,202)	(6,215)	19,398	13,183	(10,359,202)	
19,952,248	Written Back this year (D)	-	439,971,830	6,196,929,962	-	6,636,901,792	5,236,201	13,826,027	19,062,228	58,876,227	
4,711,712,301	Additional during the year	-	-	-	-	-	-	-	-	-	
	Net Loan (A-B)	-			-					6,655,964,020	

SECURITIES AGAINST LOANS, ADVANCES AND BILLS PURCHASED

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 13 (A)

Previous Year NPR	Particulars	Current Year NPR
4,909,355,200	(A) Secured	6,902,123,944
4,650,212,435	1. Collateral of Movable/Immovable Assets	6,334,585,964
116,561,435	2. Guarantee of Local Licensed Institutions	132,500,000
-	3. Guarantee of Government of Nepal	-
-	4. Guarantee of Internationally Rated Banks	-
-	5. Export Documents	-
43,160,861	6. Fixed Deposit Receipts	100,084,578
11,175,323	(a) Own FDR	10,079,660
31,985,538	(b) FDR of other Banks	90,004,918
956,197	7. Government Bonds	5,215,641
-	8. Counter Guarantees	-
-	9. Personal Guarantee	-
98,464,272	10. Other Securities	329,737,761
-	(B) Unsecured	-
4,909,355,200	Total	6,902,123,944

FIXED ASSETS

AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 14

Previous Year NPR	Particulars	Assets					Current Year NPR
		Building NPR	Vehicles NPR.	Machinery NPR	Office Equipment NPR	Other NPR	
	1. At Cost						
72,189,881	a. Previous year's balance	-	24,510,154	5,114,083	47,808,413	12,581,303	90,013,953
20,534,132	b. Additions this year	-	864,084	1,167,222	1,936,147	399,011	4,366,464
-	c. Revaluation/Written back this year	-	-	-	-	-	-
(2,698,800)	d. This year sold	-	-	(418,518)	(211,586)	(6,810)	(636,914)
(11,260)	e. This year written off	-	(95,808)	-	(2,691,877)	(85,912)	(2,873,597)
90,013,953	Total Cost (a+b+c+d+e)	-	25,278,430	5,862,787	46,841,097	12,887,592	90,869,906
	2. Depreciation						
32,994,737	a. Upto previous year	-	8,537,957	2,672,494	23,365,404	4,561,746	39,137,601
7,367,961	b. For this year	-	2,803,216	370,190	4,947,421	1,301,996	9,422,823
-	c. Depreciation on revaluation/written back	-	-	-	-	-	-
(1,225,097)	d. Depreciation on Assets sold/Written off	-	(64,886)	(372,083)	(2,273,547)	(72,975)	(2,783,491)
-	e. Prior years depreciation adjustment *	-	1,930,411	1,200,789	5,016,812	3,013,247	11,161,259
39,137,601	Total Depreciation	-	13,206,698	3,871,390	31,056,090	8,804,014	56,938,192
50,876,352	3. Written Down Value (1-2)	-	12,071,732	1,991,397	15,785,007	4,083,578	33,931,714
-	4. Land	-	-	-	-	-	-
-	5. Capital Construction (to be capitalised)	-	-	-	-	-	-
8,619,514	6. Leasehold Assets (net of amortisation)	-	-	-	-	5,932,140	5,932,140
59,495,866	Total (3+4+5+6)	-	12,071,732	1,991,397	15,785,007	10,015,718	39,863,854

* due to change in estimate of useful life.

NON BANKING ASSETS AS AT 32 ASHAD 2063 (16 JULY 2006)

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	
3,465,000	1. Om Jagdamba Metal Sonapur V.D.C. W.N.1, Sunsari	15/06/2004	6,930,000	75%	5,197,500	1,732,500
-	2. Ashok Rice Mill Ramgadhwa VDC-8, Parsa	13/04/2006	1,217,500	25%	304,375	913,125
3,465,000	Total		8,147,500		5,501,875	2,645,625

OTHER ASSETS AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 16

Previous Year NPR	Particulars	Current Year NPR
2,974,174	1. Stock of Stationery	3,092,623
29,122,513	2. Income Receivable on Investments	39,990,971
8,866,504	3. Accrued Interest on Loans	12,296,309
11,374,996	Accrued Interest on Loans	15,134,490
2,508,492	Less: Interest Suspense	2,838,181
-	4. Commission Receivable	-
4,671,487	5. Sundry Debtors	22,212,758
9,012,865	6. Staff Loans and Advances	15,162,192
2,751,009	7. Prepayments	3,284,831
-	8. Cash-in-Transit	-
-	9. Other Transit Items (including cheques)	-
-	10. Drafts Paid Without Notice	-
5,032,951	11. Expenses not Written off*	6,159,414
-	12. Branch Adjustment Accounts	-
122,334	13. Others	362,405
62,553,837	Total	102,561,503

*Note: NIC Bond 2070 issue expenses NPR 660,190 being amortised over the tenor of the bonds.

OTHER ASSETS (ADDITIONAL STATEMENT) AS AT 32 ASHAD 2063 (16 JULY 2006)

Schedule: 16(A)

Previous Year NPR	Particulars	This Year			
		Upto 1 year NPR	1 to 3 years NPR	Above 3 years NPR	Total NPR
11,374,996	1. Accrued Interest on Loan	15,134,490	-	-	15,134,490
-	2. Draft Paid without Notice	-	-	-	-
-	3. Branch Adjustment Account	-	-	-	-
-	4. Local & Foreign Agency Account	-	-	-	-

CONTINGENT LIABILITIES

AS AT 32 ASHAD, 2063 (16 JULY, 2006)

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
884,457,653	2. Letters of Credit (Full Amount)	507,319,074
884,457,653	a. Letter of Credit With Maturity Less than 6 Months	507,319,074
-	b. Letter of Credit With Maturity More than 6 Months	-
-	3. Rediscounted Bills	-
161,769,310	4. Unmatured Guarantees/Bonds	207,271,881
9,024,711	a. Bid Bond	11,525,934
152,744,599	b. Performance Bond	195,745,947
-	c. Other Guarantee/Bond	-
-	5. Unpaid Shares in Investment	-
-	6. Forward Exchange Contract Liabilities	-
66,573,490	7. Bills under Collection	89,044,451
47,481,894	8. Acceptances and Endorsements	51,910,011
-	9. Underwriting Commitments	-
-	10. Irrevocable Loan Commitments	-
-	11. Guarantees issued against Counter Guarantee of Internationally Rated Foreign Banks	-
443,200	12. Advance Payment Guarantee	9,806,230
-	13. Financial Guarantee	-
-	14. Contingent Liabilities on Income Tax	-
80,075	15. Other Guarantees	-
1,169,748,622	Total	874,294,647

INTEREST INCOME

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 18

Previous Year NPR	Particulars	Current Year NPR
378,369,443	A. On Loans, Advances and Overdrafts	485,246,762
301,470,888	1. Loans and Advances	392,185,900
76,898,555	2. Overdrafts	93,060,862
59,790,480	B. On Investment	60,914,061
59,790,480	1. Nepal Government Securities	60,914,061
45,827,663	a. Treasury Bills	48,065,199
13,962,817	b. Development Bonds	12,848,862
-	c. National Savings Certificates	-
-	2. Foreign Securities	-
-	3. Nepal Rastra Bank Bonds	-
-	4. Debentures and Bonds	-
	a. Financial Institutions	
	b. Other Organizations	
306,857	C. On Agency Balances	960,743
-	1. Local Banks	-
306,857	2. Foreign Banks	960,743
5,432,271	D. On Money at Call and Short Notice	6,888,126
2,594,658	1. Local Banks	3,533,460
2,837,613	2. Foreign Banks	3,354,666
13,710,918	E. On Others	25,969,736
-	1. Certificates of Deposit	-
5,830,548	2. Income from Inter-bank Investments	8,968,183
7,550,608	3. Income from FCY investments	16,437,226
329,762	4. Interest Income on Staff Loans	564,327
457,609,969	Total	579,979,428

INTEREST EXPENSES

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 19

Previous Year NPR	Particulars	Current Year NPR
207,397,066	A. On Deposit Liabilities	330,184,526
101,189,404	1. Fixed Deposits	190,617,259
91,966,073	1.1 Local Currency	171,334,439
9,223,331	1.2 Foreign Currency	19,282,820
53,329,604	2. Savings Deposits	90,323,766
53,296,636	2.1 Local Currency	90,211,033
32,968	2.2 Foreign Currency	112,733
52,878,058	3. Call Deposits	49,243,501
52,802,474	3.1 Local Currency	49,217,773
75,584	3.2 Foreign Currency	25,728
-	4. Certificate of Deposits	-
18,595,422	B. On Borrowings	10,037,395
-	1. Debentures & Bonds	896,144
1,209,864	2. Loan from Nepal Rastra Bank	56,216
17,385,558	3. Inter Bank / Financial Institutions Borrowing	9,085,035
-	4. Other Organised institutions	-
-	5. Other Loans	-
-	C. On Others	-
225,992,488	Total	340,221,921

COMMISSION AND DISCOUNTS

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 20

Previous Year NPR	Particulars	Current Year NPR
1,811,567	A. Bills Purchased and Discounted	1,371,206
544,235	1. Local	462,775
1,267,332	2. Foreign	908,431
21,732,475	B. Commission	20,871,689
10,563,132	1. Letters of Credit	10,044,766
2,678,692	2. Guarantees	4,007,026
1,617,195	3. Collection Fees	1,261,082
4,657,230	4. Remittance Fees	2,764,805
-	5. Credit Cards	-
-	6. Share Underwriting /Issues	-
-	7. Government transactions	-
2,216,226	8. Agency Commission	2,794,010
-	9. Exchange Fee*	-
3,557,750	C. Others	7,204,366
27,101,792	Total	29,447,261

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

OTHER INCOME

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 21

Previous Year NPR	Particulars	Current Year NPR
229,075	1. Rental on Safe Deposit Lockers	288,175
-	2. Issue and Renewal of Credit Cards	-
24,375	3. Issue and Renewal of ATM Cards	58,625
2,110,943	4. Telex/ T. T.	2,751,430
6,542,475	5. Service Charges	16,480,646
-	6. Renewal Fees	-
273,437	7. Others	663,537
9,180,305	Total	20,242,413

EXCHANGE GAIN/LOSS

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 22

Previous Year NPR	Particulars	Current Year NPR
1,746,812	A.. Revaluation Gain	2,519,089
22,859,118	B. Trading Gain (including exchange fee)	22,868,852
24,605,930	Total	25,387,941

STAFF EXPENSES

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 23

Previous Year NPR	Particulars	Current Year NPR
20,682,272	1. Salary	24,913,535
14,299,713	2. Allowances	15,422,459
1,911,216	3. Contribution to Provident Fund	2,343,297
567,080	4. Training Expenses	469,432
471,950	5. Uniform	547,445
-	6. Medical	-
447,760	7. Insurance	626,424
596,029	8. Pension and Gratuity Provision	1,123,575
27,484	9. Others	48,000
39,003,504	Total	45,494,167

OFFICE OVERHEAD EXPENSES

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 24

Previous Year NPR	Particulars	Current Year NPR
8,018,648	1. House Rent	8,714,299
2,861,257	2. Electricity and Water	3,903,308
2,484,572	3. Repairs and Maintenance	2,747,589
229,194	a. Building	117,316
464,154	b. Vehicles	533,862
1,791,224	c. Others (Office Equipment and Furnitures)	2,096,411
2,782,705	4. Insurance	2,509,706
6,434,045	5. Postage, Telex, Telephone, Fax	6,267,040
47,942	6. Office Equipment	55,311
2,360,833	7. Travelling Allowance and Expenses	2,311,966
2,122,441	8. Stationery and Printing	2,203,220
80,754	9. Periodicals and Books	66,517
2,025,118	10. Advertisements	2,081,954
921,974	11. Legal Fees & Expenses	1,043,651
2,500	12. Donations	533,284
1,134,862	13. Expenses Relating to Board of Directors	1,793,425
502,000	a. Meeting Fees	644,000
632,862	b. Other Expenses	1,149,425
504,512	14. Annual General Meeting Expenses	476,087
412,392	15. Expenses Relating to Audit	388,644
120,322	a. Audit Fees	132,355
292,070	b. Other Expenses	256,289
247,995	16. Commission on Remittances	294,657
7,367,961	17. Depreciation on Fixed Assets	9,422,823
-	18. Amortization of Preliminary Expenses	-
-	19. Share Issue Expenses	-
-	20. Technical Services Fees	-
754,119	21. Entertainment	430,747
4,586,647	22. Written off Expenses	4,785,264
3,318,043	23. Security Expenses	3,224,439
-	24. Credit Guarantee Premium	-
-	25. Commission and Discount	-
3,159,783	26. Other Expenses	4,102,403
1,170,164	a. Other Fees and Taxes	1,169,564
397,300	b. Membership Fees	392,000
331,131	c. Bussiness Promotional Expense	308,681
321,890	d. Anniversary Expense	533,413
-	e. Credit Information Charges	589,150
-	f. Municipality Tax	275,000
939,298	g. Other Expenses	834,595
51,629,103	Total	57,356,334

PROVISION FOR LOSS

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 25

Previous Year NPR	Particulars	Current Year NPR
19,952,248	1. Increase in Loan Loss Provision	58,876,227
-	2. Increase in Provision for Loss on Investment	-
-	3. Provision for Non Banking Assets	2,036,875
-	4. Provision for Other Assets	-
19,952,248	Total	60,913,102

NON-OPERATING INCOME/LOSS FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 26

Previous Year NPR	Particulars	Current Year NPR
-	1. Profit (Loss) on Sale of Investments	-
277,287	2. Profit (Loss) on Sale of Assets	44,135
7,600	3. Dividend	15,200
-	4. Subsidies Received from Nepal Rastra Bank	-
-	a. Reimbursement of Losses of Specified Branches	-
-	b. Interest Subsidy	-
-	c. Exchange Counter	-
-	5. Others	-
284,887	Total	59,335

LOSS PROVISION WRITTEN BACK FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 27

Previous Year NPR	Particulars	Current Year NPR
4,261,599	1. Loan Loss Provision Written Back	10,359,202
824,250	2. Provision against Non Banking Assets Written Back	-
-	3. Provision against Investment Written Back	-
-	4. Provision against Other Assets Written Back	-
5,085,849	Total	10,359,202

INCOME/(LOSS) FROM EXTRAORDINARY ITEMS FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 28

Previous Year NPR	Particulars	Current Year NPR
-	1. Recovery of Loan Write off	-
-	2. Voluntary Retirement Scheme Expenses	-
(4,261,599)	3. Loan Write Offs (28 (a))	(10,359,202)
-	4. Other Expense/Income	-
(4,261,599)	Total	(10,359,202)

DETAIL OF WRITE OFF LOAN FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 28 (A)

S. N	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	10,359,202	Land	Valued by Bank's valuator	Kamal Giri Assistance General Manager	Properties has auctioned. Suit filed with Debt Recovery Tribunal. Decision in Bank's favour.	
2	Project Loan	-	-	-	-		
3	Fixed Assets Loan	-	-	-	-		
4	Personal Loan	-	-	-	-		
5	Other Loan	-	-	-	-		
	Total	10,359,202	-	-	-		

**STATEMENT OF LOANS & ADVANCES EXTENDED TO DIRECTORS/
CHIEF EXECUTIVE/PROMOTERS/EMPLOYEES AND SHAREHOLDERS
HOLDING MORE THAN 1 PERCENT SHARES
AS AT 32 ASHAD 2063 (16 JULY 2006)**

Schedule 29

Name of Promoter/Director/Chief Executive	Last Year's Balance		This Year's Recovery		This Year's	Balance as at 32 Ashad 2063	
	Principal	Interest	Principal	Interest	Additions	Interest	Additions
	NPR	NPR	NPR	NPR	NPR	NPR	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							
Total	-	-	-	-	-	-	-

CAPITAL ADEQUACY

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 30

Particulars	Current Year NPR	Previous Year NPR
A) Core Capital		
1. Paid up Capital	600,000,000	500,000,000
2. Share Premium	-	-
3. Non-Redeemable Preference Shares	-	-
4. General Reserve Fund	76,777,034	57,459,499
5. Cumulative Profit/Loss (upto previous FY)	22,683,051	32,115,167
6. Current Year's Profit/Loss as per Balance Sheet	2,321,213	(9,432,116)
7. Capital Redemption Fund	-	-
8. Capital Adjustment Fund/Proposed Bonus Share	60,000,000	100,000,000
9. Other Free Reserves		
Less:		
Goodwill		
Loans in excess of Single Obligor Limit		
Intangible Assets	652,331	-
Investment in Associates where the Bank has financial interest		
Total	761,128,967	680,142,550
B) Supplementary Capital		
1. General Loan Loss Provision for Pass Loans	66,895,015	46,791,827
2. Assets Revaluation Reserve	-	-
3. Hybrid Capital Instruments	-	-
4. Unsecured Subordinated Term Debt	200,000,000	-
5. Exchange Equalisation Reserve	4,681,181	4,051,408
6. Additional Loan Loss Provision	4,133,500	-
7. Investment Adjustment Fund		
8. Provision for Loss on Investments		
Total	275,709,696	50,843,235
C) Total Capital Fund (A+B)	1,036,838,663	730,985,785
(D) Minimum Capital Fund required to be maintained on the basis of Risk Weighted Assets		
Capital Fund (@ 11%)	842,174,420	604,937,886
Core Capital (@ 5.5%)	421,087,210	302,468,943
Total Capital Adequacy Ratio	13.54%	13.29%
Capital Fund Excess by 2.54 %	194,664,243	126,047,899
Core Capital Excess by 4.44 %	340,041,757	377,673,607

TABLE OF RISK WEIGHTED ASSETS STATEMENT

FISCAL YEAR 2062/2063 (2005/2006)

Schedule: 30A

Assets Per Balance Sheet	Weightage	Current Year		Previous Year	
		Gross Assets NPR	Risk Weighted Assets NPR	Gross Assets NPR	Risk Weighted Assets NPR
Cash Balance	0%	139,186,303	-	69,777,858	-
Gold (Tradable)	0%	-	-	-	-
Balance With Nepal Rastra Bank	0%	455,769,231	-	837,300,718	-
Investment in Government Securities	0%	1,756,585,150	-	1,194,313,877	-
Investment in NRB Bonds	0%	-	-	-	-
Fully Secured Loan against own Fixed Deposit Receipt	0%	10,079,660	-	11,175,323	-
Fully Secured loan against Government Securities	0%	5,215,641	-	956,197	-
Balance with Domestic Banks and Financial Institutions	20%	34,380,507	6,876,101	19,373,666	3,874,733
Fully Secured FDR Loan against Fixed Deposit Receipt of Other Banks	20%	90,004,918	18,000,984	31,985,538	6,397,108
Balance with Foreign Banks	20%	119,803,038	23,960,608	83,934,323	16,786,865
Money at Call	20%	353,515,103	70,703,021	89,880,961	17,976,192
Loans against the Guarantee of Internationally Rated Banks	20%	-	-	-	-
Other Investments with Internationally Rated Banks	20%	505,488,374	101,097,675	287,081,158	57,416,232
Investment in Shares, Debentures and Bonds	100%	1,839,000	1,839,000	1,507,000	1,507,000
Other Investments	100%	216,000,000	216,000,000	90,000,000	90,000,000
Loans, Advances and Bills Purchased/Discounted	100%	6,796,823,725	6,796,823,725	4,865,238,143	4,865,238,143
Fixed Assets	100%	39,863,854	39,863,854	59,495,866	59,495,866
All Other Assets	100%	105,207,128	105,207,128	66,018,837	66,018,837
Total (A)		10,629,761,632	7,380,372,095	7,708,039,465	5,184,710,975
Off-Balance Sheet Items					
Bills Collection	0%	89,044,451	-	66,573,490	-
Forward Foreign Exchange Contracts	10%	-	-	-	-
Letters of Credit with Maturity of less than 6 months (full value)	20%	507,319,074	101,463,815	884,457,653	176,891,531
Guarantees provided against Counter Guarantee of Internationally Rated Foreign Banks	20%	-	-	-	-
Letters of Credit with maturity of more than 6 months (full value)	50%	-	-	-	-
Bid Bonds	50%	11,525,934	5,762,967	9,024,711	4,512,356
Performance Bonds	50%	195,745,947	97,872,974	152,744,599	76,372,300
Advance Payment Guarantees	100%	9,806,230	9,806,230	443,200	443,200
Financial Guarantees	100%	-	-	-	-
Other Guarantees	100%	-	-	80,075	80,075
Irrevocable Loan Commitments	100%	-	-	-	-
Contingent Liability in respect of Income Tax	100%	-	-	-	-
All other Contingent Liabilities	100%	60,853,011	60,853,011	56,424,894	56,424,894
Total (B)		874,294,647	275,758,996	1,169,748,622	314,724,355
Total Risk Weighted Assets (A+B)		11,504,056,279	7,656,131,091	8,877,788,087	5,499,435,330

PRINCIPAL INDICATORS

Schedule: 31

	Indicators	FY 2001/02	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06
1. Percent of Net Profit/Gross Income	Percent	4.87	14.01	29.28	38.89	30.68
2. Earning Per Share	NPR	1.36	5.19	13.65	22.75	16.10
3. Market Value Per Share	NPR	245	220	218	366	496
4. Price Earning Ratio	Ratio	179.55	42.43	15.97	16.09	30.81
5. Dividend (including bonus) on Share Capital	Percent	-	-	-	30.00	10.53
6. Cash Dividend on Share Capital	Percent	-	-	-	10.00	0.53
7. Interest Income/Loans and Advances	Percent	10.56	9.74	9.40	8.72	8.04
8. Staff Expenses/Total Operating Expenses	Percent	9.98	14.89	13.23	12.32	10.27
9. Interest Expenses/Total Deposits and Borrowings	Percent	6.23	4.57	4.45	3.89	4.03
10. Exchange Gain/Total Income	Percent	5.58	(0.01)	0.90	0.34	0.38
11. Total Cost/Total Revenue	Percent	52.24	45.71	35.46	30.98	32.67
12. Staff Bonus/Total Staff Expenses	Percent	3.49	13.91	30.53	46.93	30.20
13. Staff Cost/Per Employee	NPR	212,516	264,272	251,616	248,430	274,061
14. Net Profit/Per Employee	NPR	53,709	202,673	487,578	724,559	581,853
15. Total Credit/Deposits	Percent	74.84	81.51	72.73	78.66	78.74
16. Total Operating Expenses/Total Assets	Percent	7.18	5.63	3.69	4.22	4.27
17. Adequacy of Capital Fund on Risk Weighted Assets						
Core Capital	Percent	18.54	17.44	12.92	12.37	9.94
Supplementary Capital	Percent	2.36	1.43	0.83	0.92	3.60
Total Capital Fund	Percent	20.90	18.87	13.75	13.29	13.54
18. Liquidity (CRR)	Percent	14.66	9.01	6.53	11.07	6.10
19. Gross Non-Performing Credit/Total Credit	Ratio	8.16	6.66	3.92	3.78	2.60
20. Net Non-Performing Credit/Total Credit	Ratio	5.28	2.33	0.02	0.82	0.06
21. Weighted Average Interest Rate Spread	Percent	3.02	4.03	3.06	3.33	2.74
22. Return on Total Assets	Percent	0.17	0.66	1.37	1.69	1.08
23. Return on Equity	Percent	1.31	4.81	11.64	17.44	13.29
24. Book Net Worth	NPR'000	526,096	552,079	620,398	684,194	766,462
25. Number of Shares		4,998,900	4,999,545	4,999,595	5,000,000	6,000,000
26. Number of Staff		127	128	140	157	166

SIGNIFICANT ACCOUNTING POLICIES

i) General information

Nepal Industrial & Commercial Bank Ltd (iBanki) is a limited liability company domiciled in Nepal. Its registered office is at Main Road, Birtnagar, Nepal. The Bank is listed with Nepal Stock Exchange and is in commercial banking business.

The financial statements contained in this report have been approved for publication by the Board of Directors on 26 October 2006.

ii) Summary of Significant Accounting Policies

The presented financial statements have been prepared applying the principal accounting policies as stated below. These policies have been applied consistently over the period of presentation unless otherwise stated.

iii) Basis of Accounting

The financial statements have been prepared in accordance with Nepal Accounting Standards (NAS), Generally Accepted Accounting Principles (iGAAPi), Bank & Financial Institutions Ordinance (iBFIOi), Nepal Rastra Banks (NRB) directives and Companies Act. The financial statements are presented in Nepalese rupees (NPR) on historical cost basis.

iv) Interest Income

Interest income on loans and advances are recognised on cash basis as per NRBs directives except for the interest accrued as on the year end (July 16, 2006) and collected within 1 month of the Balance Sheet date as permitted by NRB although this practice is not in accordance with the Nepal Accounting Standard which prescribes such recognition on accrual basis. Interest income on investments is accounted for on accrual basis.

v) Commission Income

Commission income is accounted for on cash basis. However, it is the policy of the Bank to spread commission income on Letters of Credit and Guarantee having longer than one-year tenor with commission amount in excess of NPR 50,000 on accrual basis over the tenor of the transaction.

vi) Dividend Income

Dividend on equity shares are recognised when the right to receive dividend is established.

vii) Foreign Exchange Transactions

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

Income realised from the difference between buying and selling rates of foreign exchange is accounted for on a daily basis and shown as iTrading Gaini under iExchange Gaini in Schedule 22.

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

viii) Interest Expense

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

ix) Loans and 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. All credit exposures are classified as per NRB Directives. Loans and advances, overdrafts and bills purchased are net of loan loss provisions.

x) Loan Write off

The Bank has iManagement of Deteriorating Credits and Write off Policyi approved by the Board of Directors, to provide a framework for efficient management of deteriorating credits as well as Non-Performing Assets which provides a transparent and effective write-off policy. Write-off of Bad Loans are done for specific loans which meet the criteria stipulated in the policy.

xi) Staff Loans

Loans and advances to staff granted in accordance with the rules of the Bank and are shown under Other Assets.

xii) Loan Loss Provision

The provision for possible losses from loans and advances and bills purchased are provided at the rates ranging from 1% to 100% according to the classification of such risk assets as per NRB Directives.

xiii) Investments

Investments in Treasury Bills & Government Development Bonds are those, which the Bank purchased with the positive intent and ability to hold until maturity. Such securities are carried at their acquisition cost or at amortised 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 regular review as required by NRB Directives.

xiv) Fixed Assets and Depreciation

- a. Fixed assets are stated at cost less accumulated depreciation.
- b. Assets with a value of less than NPR 2,000 are charged off as a revenue expense irrespective of their useful life in the year of purchase.
- c. Depreciation is charged to Profit & Loss Account on a Written Down Value method over the estimated useful life of the fixed assets. The rates of depreciation based on the estimated useful life are as follows:

Nature of Assets	Depreciation Rate (%)
Vehicles	15-20
Office Equipment	25
Computer and Accessories	25
Furniture	25

xv) Non-Banking Assets

Non-Banking Assets (NBA) are valued at the lower of loan principal amount or distress value of the assets acquired. Provisions for NBA are made in accordance with NRB Directives.

xvi) Software Expenses

Software applications purchased by the Bank are capitalised on the basis of cost incurred to acquire and use the specific software. The costs are amortised over a period of five years from the date of acquisition.

xvii) Amortisation

Expenses incurred on improvement and renovation of leasehold property are amortised over the period of five years from the date of such improvements.

xviii) Retirement Benefits

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

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

xix) Stationery Stock

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

xx) Provision for Taxation

Provision for taxation has been made on the basis of the Income Tax Act 2058 and amendments thereto.

xxi) Cash & Cash Equivalents

Cash & cash equivalents comprise cash balances only.

xxii) Rounding off/Previous Years Figures

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

Schedule 33:

NOTES TO ACCOUNTS

1. Interest Income and Interest Suspense

Interest amounting to NPR 6,346,702 collected within one month of the Balance Sheet date have been included under interest income in the current year as allowed by the NRB Directives.

2. Provision for Staff Bonus

Provision for staff bonus has been computed and provided at 10% of profit before tax as per the Bonus Act.

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.

4. General Reserve

As required by NRB Directives, 20% of the current years profit amounting to NPR 19,317,535 has been transferred to General Reserve.

5. Exchange Fluctuation Reserve

Revaluation gain as at the year-end amounted to NPR 2,519,089, of which 25% has been transferred to Exchange Fluctuation Reserve by debiting Profit and Loss Appropriation Account as per NRB directives.

6. Capital Adjustment Fund

NPR 60 million has been transferred to Capital Adjustment Fund from the Profit and Loss Appropriation Account with a view to increasing the Banks paid up capital to a minimum of Rs 800 million by 2009 as per NRB Directives.

7. Income Tax Issues

The Bank has filed tax returns to the Large Tax Payers Office, Inland Revenue Department up to the financial years 2004/05 under self-assessment procedures.

8. Change in accounting estimate

The Bank has changed the rates of depreciation charged on fixed assets based on the managements estimate of useful life of the assets. The change in the estimate has resulted in a decrease in the current year profit by NPR 1,409,840.

Further, as a result of the change in depreciation rates the additional depreciation relating to earlier years on such assets aggregating to NPR 11,161,259 has been charged against retained earnings through Profit and Loss Appropriation Account.

9. Contingent Liability

There is a claim of NPR 8,943,000 made on the Bank relating to underwriting commitment on shares of Himalayan Distillery, which has not been accepted by the Bank. The Bank has challenged the claim by filing a writ petition with Supreme Court. Pending final decision the claim is provided as contingent liability.

10. Summary of Loans and Advances, disbursed, recovered and principal and Interest written off

Particulars	NPR in 000
Loans Disbursed	23,885,901
Loans Recovered	21,893,141
Loans Written Off	10,359
Interest Written Off	19,358

11. Summary of Changes in Deposit Liabilities

Amount in NPR

Particulars	Current Year	Previous Year	Changes
Current and Margin Accounts	444,813,812	296,592,044	148,221,768
Savings Bank Account	2,797,420,661	2,024,258,933	773,161,728
Call Deposits	1,459,215,185	989,907,242	469,307,942
Fixed Deposits	4,064,500,981	2,930,619,941	1,133,881,040

12. Summary of concentration of exposure:

Amount in NPR

	Loans & Advances and Bills	Deposits & Borrowings	Contingent
Total Amount as on 16 July 2006	6,902,123,944	9,223,655,698	776,307,197
Highest Exposure to a Single Unit	179,382,136	1,925,097,451	71,008,110
Core Capital	764,286,862	-	764,286,862
Concentration of exposure	23.47%	20.87%	9.29%

13. Weighted Average Interest Spread:

Particulars	Rate (%)
Average Rate of Advances and Investments	7.15
Average Rate on Deposits	4.41
Net Spread	2.74

14. Particulars of Amortised Expenses yet to be Expensed Off

Particulars	NPR
Software Application	3,844,583
Leasehold Assets	5,932,140
V-SAT Licence Fee	1,662,500
NIC Bond 2070 related Expenses	652,331

15. 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
Assets						
Cash Balance	139	-	-	-	-	139
Balance with Banks	484	-	-	-	121	605
Investment in Foreign Banks	162	-	376	123	-	662
HMG Securities	231	396	543	447	140	1,757
Nepal Rastra Bank Bonds	-	-	-	-	-	-
Inter Bank Lending	227	-	186	-	-	413
Loans, Advances & Bills Purchased	1,299	631	528	2,123	2,075	6,656
Other Assets	87	-	-	-	60	147
Total Assets	2,629	1,027	1,633	2,693	2,396	10,379
Liabilities						
Borrowings	458	-	-	-	-	458
Current and Margin Deposits	105	50	50	45	196	445
Saving Bank Deposits	979	-	-	-	1,818	2,797
Fixed and Call Deposits	1,000	410	810	470	2,834	5,524
Debentures	-	-	-	-	200	200
Other Liabilities, Capital & Reserves	74	-	-	-	881	955
Total Liabilities	2,616	460	859	514	5,929	10,379
Net Financial Assets	13	567	774	2,179	(3,533)	-
Cumulative Net Financial Assets	-	580	1,354	3,533	-	-

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

17. 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 2063
Non Banking Assets	6,930,000	1,217,500	-	8,147,500

18. Detail of Amortization expense:

Amount in NPR

	Amortization up to last year	Amortization for this year	Total amortization
Leasehold Assets	2,876,618	23,262,836	26,139,454
Software Application	1,540,868	6,985,357	8,526,225
NIC Bond Related Expenses	-	7,859	7,859

Directive issued by Nepal Rastra Bank while approving the publication of the Annual Report for the fiscal year 2005/06

Approval has been granted to Nepal Industrial & Commercial Bank limited to publish their financial statements for the fiscal year 2062/63 submitted along with Final Audit report after adjusting the preliminary financial statements; except profit & loss appropriation; submitted along with preliminary audit report based on the following directives:

1. Errors in format of the financials are to be corrected.

SENIOR MANAGEMENT

Sashin Joshi
Chief Executive Officer

Niraj Shretha
Head Business Banking

Laxman Risal
Chief Operating Officer

Bimal Daga
Manager Credit Business Banking

Arun Parajuli
Manager Treasury & Finance

Punaman Napit
Head Audit & Compliance

Bhanu Dawadi
Manager Credit Consumer Banking

Sushil Bhattarai
Incharge – Information & Technology

Branch Managers

Kumud Khanal
New Road, Kathmandu

Sudhir Agrawal
Main Road Biratnagar

Bal Narshing Gharti
Adarsh Nagar, Birganj

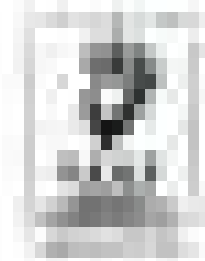
Bhesh Raj Khatiwada
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Chintamani Rai
Mahendrapath, Dharan

Binaya Dahal
Ram Mandir Chowk, Janakpur

Prajeeta Joshi
Kamaladi, Kathmandu

Samir Acharya
Mahendra Pool, Pokhara



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