

**A REPORT ON FOREIGN EXCHANGE MANAGEMENT  
NEPAL RASTRA BANK. (NRB)**

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**Internship**



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The satisfaction, which accompanies the successful completion of the report in Foreign Exchange Management department, it is incomplete without the mention of a few names. I take this opportunity to acknowledge the efforts of the many individuals who helped me make this internship possible.

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# **CHAPTER I**

## **ORGANIZATION PROFILE**

### **1.1 INTRODUCTION**

Nepal Rastra Bank (NRB) has been incorporated as the Central Bank of Nepal, was established on April 26 1956 under the Nepal Rastra Bank Act, 1955, to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Since inception, there has been a significant growth in both the number and the activities of the domestic financial institutions.

The central office of NRB is located at Baluwatar in Kathmandu. There are 16 departments and one division established to carry out its functions. The central administrative departments are located at Baluwatar. The Banking office, Currency management department, Public debt management department and bankers' training centre are located at Thapathali. Mint Division resides at Sundhara. There are 7 offices outside Kathmandu Valley. They are located at Biratnagar, Janakpur, Birgunj, Pokhara, Siddharthanagar, Nepalgunj and Dhangadhi.

To reflect this dynamic environment, the functions and objectives of the Bank have been recast by the new NRB Act of 2002, the preamble of which lays down the objectives of the Bank as:

- To formulate necessary monetary and foreign exchange policies to maintain the stability in price and consolidate the balance of payments for sustainable development of the economy of Nepal;
- To develop a secure, healthy and efficient system of payments;
- To make appropriate supervision of the banking and financial system in order to maintain its stability and foster its healthy development; and
- To further enhance the public confidence in Nepal's entire banking and financial system.

The Bank is eminently aware that, for the achievement of the above objectives in the present dynamic environment, sustained progress and continued reform of the financial sector is of utmost importance. Continuously aware of this great responsibility, NRB is seriously pursuing various policies, strategies and actions, all of which are conveyed in the annual report on monetary policy.

#### **Vision**

To become “A modern, dynamic, credible and effective Central Bank”.

#### **Mission**

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

## 1.2 MAJOR MARKETS AND CUSTOMERS

The market of NRB is concerned with the economy of Nepal. In the arena of the globalization there is the trading within and outside the country. The financial institutions and banks plays the crucial role for safeguarding the economic factors that may be due to the imports, exports and the balance of payment. The monetary and the fiscal policy formed and implemented by the Nepal government is prominent for the market growth through the customer satisfaction, which leads to the economic development.

Imports/Exports

**Table : Market Analysis**

### **DIRECTION OF TRADE\***

Rs in million

	2005/06	2006/07P	2007/08P	% Change		
				2005/06	2006/07	2007/08
<b>TOTAL EXPORTS</b>	<b>55027.2</b>	<b>54172.4</b>	<b>54386.0</b>	<b>2.9</b>	<b>-1.6</b>	<b>0.4</b>
To India	37363.5	38035.2	34968.8	5.5	1.8	-8.1
To Other Countries	17663.7	16137.2	19417.2	-2.1	-8.6	20.3
<b>TOTAL IMPORTS</b>	<b>155706.5</b>	<b>175541.7</b>	<b>204520.5</b>	<b>16.6</b>	<b>12.7</b>	<b>16.5</b>
From India	95602.3	104224.8	130951.3	20.8	9.0	25.6
From Other Countries	60104.2	71316.9	73569.2	10.4	18.7	3.2
<b>TOTAL TRADE BALANCE</b>	<b>-100679.3</b>	<b>-121369.3</b>	<b>-150134.5</b>	<b>25.6</b>	<b>20.6</b>	<b>23.7</b>
With India	-58238.8	-66189.6	-95982.5	33.1	13.7	45.0
With Other Countries	-42440.5	-55179.7	-54152.0	16.7	30.0	-1.9
<b>TOTAL FOREIGN TRADE</b>	<b>210733.7</b>	<b>229714.1</b>	<b>258906.5</b>	<b>12.7</b>	<b>9.0</b>	<b>12.7</b>
With India	132965.8	142260.0	165920.1	16.0	7.0	16.6
With Other Countries	77767.9	87454.1	92986.4	7.3	12.5	6.3

Nepal's merchandise trade balance has improved somewhat since 2000 with the growth of the carpet and garment industries. But in FY 2007-08 exports posted a greater percentage (16.5%) than imports (.4%), bring the deficit. Strong export performances, including earnings from tourism, and external aid have helped improve the overall balance-of-payments situation and increase international reserves. Nepal receives substantial amounts of external assistance from the United Kingdom, the United States, Japan, Germany, and the Scandinavian countries. Several multilateral organizations, such as the World Bank, the Asian Development Bank, and the UN Development Programme also provide assistance.

Growth rebounded strongly in 2010-11, after the dip in 2008-09 in the wake of the global financial crisis and the recovery in 2009-10. However, inflation rose and remained stubbornly high throughout 2010-11 as supply-side shocks got generalized amidst strong aggregate demand. With added risks to growth from inflation above the threshold level where growth-inflation trade-off can work, the Reserve Bank responded with eleven rate hikes between March 2010 and July 2011. This lifted effective policy rates by 475 basis points in the current interest rate cycle. As a result of monetary tightening and deteriorating global economic conditions, some moderation in growth and significant moderation in inflation from the later part of the year is anticipated going forward. However, risk to demand compression remains from likely slippage on envisaged fiscal consolidation.

The number of banks and financial institutions licensed by NRB has increased in 2010/11. As of mid-April 2011, the total number of class "A" to class "D" banks and financial institutions reached 219 comprising 31 commercial banks, 87 development banks, 80 finance companies and 21 micro-finance development banks compared to 203 in mid-July 2010. The number of commercial banks' branches reached 1,085 in mid-April 2011 from 990 in mid-July 2010. Of the total bank branches, 35.7 percent are located in Kathmandu valley, 25.3 percent in mountain and 39 percent in terai.

Progress has been made in exploiting Nepal's natural resources, tourism and hydroelectricity. With eight of the world's 10 highest mountain peaks, including Mount Everest at 8,848 m. In the early 1990s, one large public sector project and a number of private projects were planned; some have been completed. The most significant private sector financed hydroelectric projects currently in operation are the Khimti Khola (60 MW) and the Bhote Koshi Project (36 MW). The project is still undergoing and has dependency on India to take the further steps.

The environmental impact of Nepal's hydroelectric projects has been limited by the fact that most are "run-of-the-river" with only one storage project undertaken to date. The largest under active consideration is the private sector West Seti (750 MW) storage project which is dedicated to exports. Negotiations with India for a power purchase agreement have been underway for several years, but agreement on pricing and capital financing remains a problem. Currently demand for electricity is increasing at 8%-10% a year whereas Nepal's option to have agreement with India will make this fulfillment against demand.

Population pressure on natural resources is increasing. Over-population is already straining the "carrying capacity" of the middle hill areas, particularly the Kathmandu Valley, resulting in the depletion of forest cover for crops, fuel, and fodder and contributing to erosion and flooding. Although steep mountain terrain makes exploitation difficult, mineral surveys have found small deposits of limestone, magnesite, zinc, copper, iron, mica, lead, and cobalt.

The development of hydroelectric power projects also cause some tension with local indigenous groups, recently empowered by Nepal's ratification and Foreign Investments and Taxation.

The economic flows in the market are shown in the table. The market share of different banks, Insurance companies, Finance companies, Industries, hotel, trading, hydro and others are shown which can illustrate the NRB market.

**TABLE : MARKET SHARE TURNOVER DETAILS**

Particulars	Mid June								
	2006			2007			2008		
	Share Units ('000)	Rs in million	% Share of Value	Share Units ('000)	Rs in million	% Share of Value	Share Units ('000)	Rs in million	% Share of Value
	1	2	3	4	5	6	7	8	9
<b>Total</b>	3881.7	559.1	100.0	1863.1	824.6	10308.0	2594.0	2227.9	100.0
Commercial Banks	560.3	359.6	64.3	927.7	602.5	7531.4	842.8	999.7	44.9
Development Banks	9.0	2.9	0.5	59.0	26.8	335.4	466.5	436.9	19.6
Insurance Companies	54.5	20.4	3.7	44.6	13.2	165.4	77.4	28.1	1.3
Finance Companies	203.6	32.7	5.9	179.1	54.6	682.4	553.1	514.4	23.1
Manufacturing & Processing	1.2	0.9	0.2	19.5	3.2	39.6	4.2	0.4	0.0
Hotel	3.5	0.2	0.0	27.1	2.7	34.3	10.8	2.7	0.1
Trading	2.1	4.8	0.9	0.2	0.6	7.4	3.1	6.9	0.3
Hydropower	362.5	107.2	19.2	584.0	120.7	1508.4	438.7	173.2	7.8
Others				0.0	0.0		0.0	0.0	0.0
Mutual Fund	2685.1	30.4		21.9	0.3	0.0	0.0	0.0	0.0
Preferred Stock				0.0	0.0		18.1	16.4	0.7
Promoter Share				-	-		179.6	49.4	2.2

Source: <http://www.nepalstock.com/reports/>

## Macro-economic trend

This is a chart of trend of gross domestic product of Nepal at market prices estimated by the International Monetary Fund and EconStats with figures in millions of Nepalese Rupees.

## Statistics

<b>Currency</b>	1 Nepalese Rupee (NPR) = 100 paisa
<b>Fiscal year</b>	16 July - 15 July
<b>Trade organizations</b>	WTO
<b>Statistics</b>	
<b>GDP</b>	35.81 billion (2010 est.)
<b>GDP growth</b>	4.6% (2010 est.)
<b>GDP per capita</b>	\$1,200 (2010 est.)
<b>GDP by sector</b>	Agriculture (40%), industry (20%), services (40%) (2002 est.)
<b>Inflation (CPI)</b>	8.6% (September 2010 est.), 10.6% (October 2011 est. source: myrepublica)
<b>Population</b>	24.7% (2008 est.) <b>below poverty line</b>
<b>Main industries</b>	Tourism, garment, food and beverages, metal manufactures, herbs.
<b>Ease of Doing Business Rank</b>	107th <sup>[1]</sup>
<b>External</b>	
<b>Exports</b>	\$849 million (2009) f.o.b.; note - does not include unrecorded border trade with India (2008)

<b>Export goods</b>	carpets, clothing, leather goods, jute goods, grain, herbs, tea
<b>Main export partners</b>	European Union 42.5%, United States 8%, Bangladesh 6.04%, Germany 5% (2009)
<b>Imports</b>	\$5.26 billion f.o.b. (2008)
<b>Import goods</b>	Petroleum Products, Gold, Machinery
<b>Main import partners</b>	India 57%, China 13% (2009)
<b>Public finances</b>	
<b>Revenues</b>	\$3 billion (FY 2010)
<b>Expenses</b>	\$4.6 billion (FY 2010)

The economic variables such as GDP, Inflation, Inflation, trade, Per capita Income, Imports and exports are summarized in the above. This can show the figure of Nepalese market. In FY 2009/10, total exports declined by 9.7 percent (Rs. 6.57 billion) to Rs. 61.12 billion. In the previous year, total exports had increased by 14.2 percent. Total imports, on the other hand, rose by 33.2 percent (Rs. 94.33 billion) to Rs. 378.80 billion in comparison to a growth of 28.2 percent in the previous year. As a result, in the review year, total trade deficit expanded by 46.5 percent to Rs. 317.67 billion. The annual average consumer price inflation moderated to 10.5 percent in 2009/10 compared to an increase of 13.2 percent in 2008/09. The annual average wholesale price index increased by 12.6 percent in 2009/10 compared to a rise of 12.8 percent in the previous year.

## CUSTOMER

The Central Bank of Nepal issues direction on customer protection in licensed banks; covers banks' commitments to customers and ways customers must also behave to ensure safe banking practices. The customers of Central bank are profound for performing all the economic activities as well as different environmental aspects.

The central bank conveys it had acted "in view of safeguarding the interests of the bank customers, building up a healthy relationship between customers and banks and thereby ensuring customer confidence and stability in the banking sector".

The key requirements to be fulfilled by the banks, as set out in the license covered many elements of the banking sector. First was that banks must provide relevant factual information to customers, for example, accurate descriptions of products and services; financial and other benefits; fees and charges; commissions; interest rates; procedures to be followed; major terms and conditions; complaint procedures; restrictions on accounts and transactions; compensation in relation to premature withdrawal, termination or cancellation of products or services by banks or by customers and procedures to be followed on foreclosure of properties.

The central bank also called on financial institutions to assist customers in fully understanding the terms and conditions relating to products and services. The new directions will cover the information presented in advertisements and the display of materials in branches. Customers must also be protected from any harassment, such as abusive debt collection practices or disclosure of personal information to others by agents appointed by the banks.

Banks must also in future assist the elderly, disabled, or customers with low financial literacy, to have fair access to banking services. The charter also incorporated customer obligations toward banks. These would cover disclosing of all relevant information and any changes relating to the customers that may concern the banks, ensuring they have acquired full knowledge and understanding of the product or service offered by banks before entering into contract, exercising due care in all transactions and notifying the bank of any fraudulent transactions.

The direction was issued to the banks after a consultative process with representatives of all stakeholders.

### Customer Care

An approved BC/DR policy is in place. In case any branch is unable to function due to any calamity or disaster, its customers can continue their transactions through any other branch.

Customer related Services such as MSME Care Centers, ATM Help Desk, Mobile Banking, SMS Banking, Internet Banking and Call Center Toll Free No. as well.

All the services offered by the banks and financial institutions are the products and services accessible to the prominent customers.

### 1.3 PRODUCTS AND SERVICES

The products and services provided by the Nepal Rastra Bank are banks and the financial institutions and the services provided by them. The Central bank also formulates policies for efficient infrastructure development through policies i.e. fiscal and monetary policy.

Macroeconomic management should contribute to higher economic growth without disturbing the macroeconomic stability, which is essential for attaining sustained higher level of economic growth. Sound macroeconomic management would also improve the external sector competitiveness of the economy on a sustainable basis, a precondition for reducing the external sector vulnerability of the economy. Balance of payments crises and foreign debt problems are often caused and aggravated by imprudent fiscal policy the solution of which would involve some combination of cutting public spending and raising additional revenue, thereby freeing resources for export and debt servicing. With increased fiscal expansion or fiscal deficit, current account deficit widens and the level of government debt in proportion to GDP increases accordingly. Unsustainable fiscal deficit would encourage capital flight which would deteriorate the debt problem.

Monetary policy seeks to regulate money supply and thereby liquidity by changing the availability and cost of credit for influencing the volume of aggregate demand in the economy and, therefore, inflation. The usual expansionary impact of fiscal policy is offset by a rise in the value of the currency. Under fixed exchange rates, only fiscal policy can affect income. The normal potency of monetary policy is lost because the money supply is dedicated to maintaining the exchange rate at the announced fixed level. Only a system of floating exchange rates leaves monetary policy free to pursue other goals, such as employment or prices. As the most important instrument in implementing the monetary policy, the central bank buys or sells government securities, which affects the level of liquidity and short-term interest rates that prompt the banks to let their reserves grow at a level consistent with the objectives of monetary policy. It can be expected that the role of the monetary policy to contribute to create sound macroeconomic fundamentals and foster sustained economic growth through increased emphasis on the secondary market operation will remain potent in the days to come.

Fiscal policy is that instrument by which a government adjusts its levels of spending in order to monitor and influence a nation's economy. Fiscal policy is based on the theories of J.M. Keynes. This theory states that governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending.

After long peoples struggle and the historic u-term in political system through people's movement, Nepal is now in the process of making a great leap forward from one era to another. After the change in political system in country, Nepal has adopted several fiscal policy measures in order to boost economic activity and growth. This policy has been introduced with the view of increasing revenue, rationalizing recurrent expenditure, maintaining public debt and enhancing public investment to encourage private sector economic activities for public private partnership.

## **Personal Banking**

### **Checking Accounts**

From free checking accounts to online checking accounts, there are a variety of options to serve your unique needs.

### **Loans**

Whether you're heading back to school, buying a car or eyeing your dream home, they have a loan solution that's perfect for you.

### **Savings**

Putting money aside for the future is an important part of any sound financial plan. We'll help you tailor a savings plan that will let you reach your personal financial goals.

### **Credit Cards**

Banks' card is different! No annual fees, a competitive interest rate, and no hidden fees, as well as all of the benefits that Mastercard® has to offer.

### **Classic**

Join our exclusive Classic created specifically for our customers– and get access to a full range of first-class services and benefits that help make banking a complement to your lifestyle.

### **Property For Sale**

Browse lists of bank-owned property for sale. Commercial and residential real estate as well as cars, trucks and recreational vehicles.

### **Online Services**

Make banking fit your lifestyle with a complete line of convenient and secure online banking services.

### **Health Savings Account**

Health care can be expensive. So we created a tax-exempt savings account designed to help you save money for health care expenses.

### **Retirement Services**

You've worked hard for your retirement. With the help of our experts, you can make sure that retirement is as great as you've imagined.

### **Additional Services**

Your needs can go beyond just savings and checking accounts. We offer services from travel planning to investing advice and more!

### **Financial Checkup**

We are all on our own personal financial journey. The success of which is dependent upon our ability to identify and address the financial needs we encounter along the way.

## **Business Accounts**

We offer a variety of checking accounts to meet the unique needs of your business. Call us and we'll help you find the options that are right for you.

## **Loans**

No matter the business, no matter the size, we have the products and expertise to give your business the resources it needs.

## **Savings**

We offer a variety of savings and investment accounts to meet your business's specific needs. Give us a call to see what options are right for you.

## **Credit Cards**

Our MasterCard® Business Card is designed to be flexible enough to meet the individual needs of each business and cardholder.

## **Employee Benefits**

Offering a retirement plan or other benefits to your employees can be a key factor in attracting and retaining a productive work force. We have a range of options for you to consider.

## **Merchant Services**

Faster payments are at your fingertips with a little help from our Merchant Services Center. You can increase customer satisfaction by taking debit or credit cards. You can increase funds availability. You can operate your business better!

## **Business Online Services**

Bank from your home, office or while traveling. Our online services gives you access to your accounts 24 hours a day, 7 days a week, 365 days a year.

## **Business Resource Center**

Learn how to create a business plan, gain a better understanding of financial reports and master your sales and marketing strategies in the Business Resource Center.

## **Cash Management**

Our Cash Management products are intended to help your business operate at the most effective and efficient level possible.

## **Wealth Management**

Successfully optimizing holdings and increasing the value of your portfolio takes common sense and diligence, as well as a little courage.

## **Health Savings Account**

Health care can be expensive. So we created a tax-exempt savings account designed to help you and your employees save money for health care expenses.

## 1.4 ORGANIZATION DESIGN AND STRUCTURE

Organization Design in Nepal Rastra Bank is a formal, guided process for integrating the people, information and technology of an organization to the different departments and section. It is used to match the form of the organization as closely as possible to the purpose(s) the organization seeks to achieve. Through the design process, organizations act to improve the probability that the collective efforts of members will be successful.

The importance of organizational design and structure are as follows:

- Decision Making
- Crucial for the flow of communication
- Evaluating employee performance
- Achieving goal and objectives
- Prevention and solution

Organizational structure is particularly important for decision making. The central bank has both tall and flat organizational structure. Assistant can report directly to the deputy governor instead of a director, and her assistants are only two levels below the Governor. Flat structures in NRB enable to make quicker decisions, as they are often growing rapidly within the same section as in Foreign exchange management department and need this flexibility. As they are crucial for making policy. In Forex department, the investment is done in different central bank by employees as per portfolio analysis but if any decision the team make decisions.

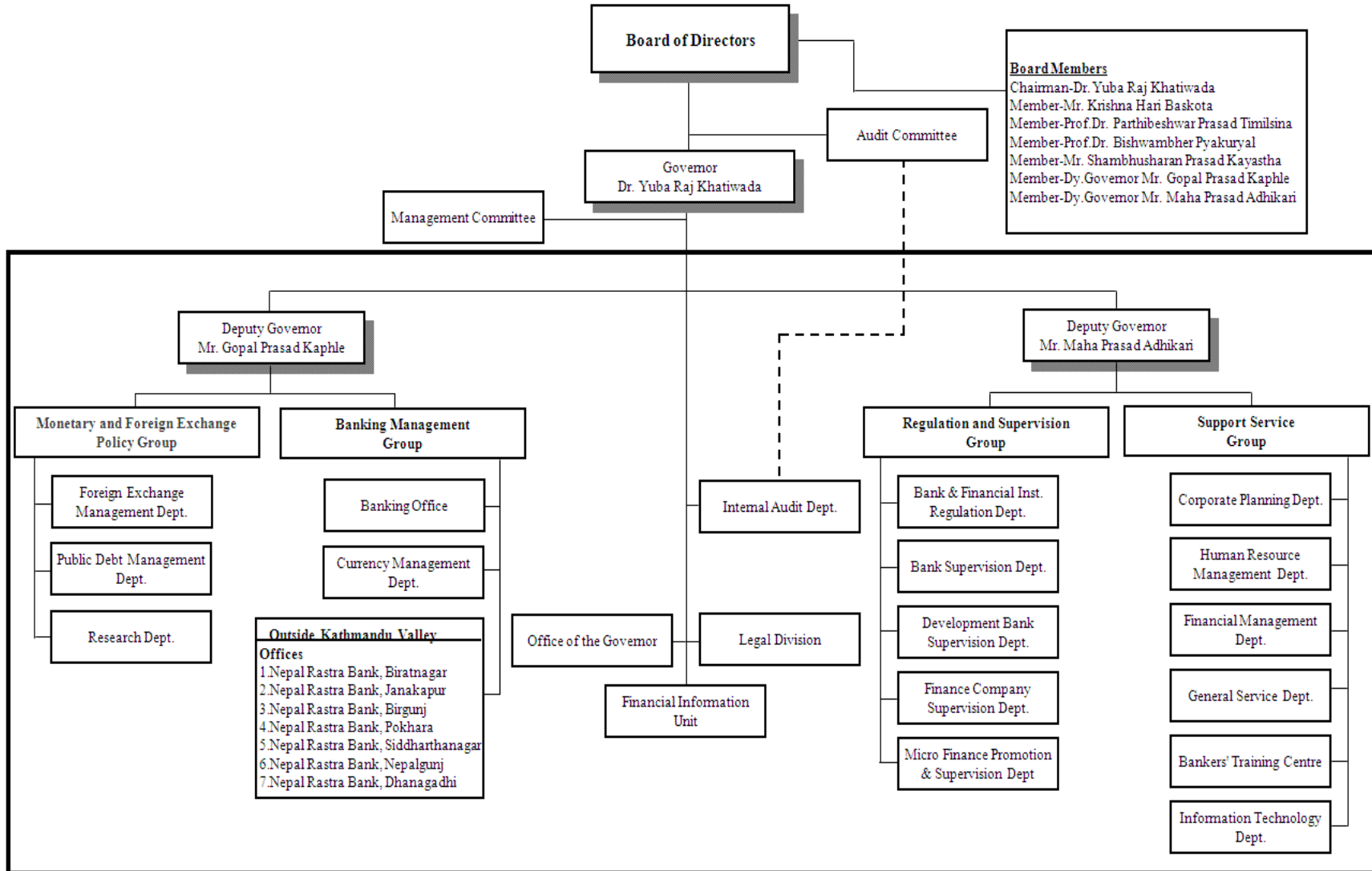
The importance of organizational structure is particularly crucial for communication. Organizational structure enables the distribution of authority. When a person starts a job, he knows from day one to whom he will report of different designation. In Forex department funnel their communication through department head.

Organizational structure is important for evaluating employee performance. The linear structure of organization allows supervisors\ directors to better evaluate the work of their subordinates. Supervisors can evaluate the skills employees demonstrate, how they get along with other workers, and the timeliness in which they complete their work and also appraise them.

Organizational design and structure is particularly important in achieving goals and results. Organizational structure allows for the chain of command. Department leaders are in charge of delegating tasks and projects to subordinates so the department can meet project deadlines. In essence, organizational structure fosters teamwork, where everyone in the department works toward a common goal.

It enables companies to better manage change in the marketplace, including policy needs, government regulation and economic environment. Department heads and managers can meet, outline in various problem areas, and come up with a solution as a group.

## Nepal Rastra Bank Organization Chart



## 1.5 FINANCIAL STRUCTURE

Presentation of Financial Statements:

NEPAL RASTRA BANK			
BALANCE SHEET AS ON 32nd ASHADH, 2067 (16th JULY, 2010)			
			NRS
Particulars		As on 32-3-2067	As on 31-3-2066
<b>ASSETS</b>			
<b>Foreign Currency Financial Assets</b>			
Cash and Bank Balances		14,896,995,310	14,370,677,637
SDR Holdings - with IMF		7,042,007,705	555,366,917
Investments		190,486,661,053	210,080,645,913
Other Receivables		295,175,848	419,083,326
	<b>Sub-Total</b>	212,720,839,916	225,425,773,792
Other Assets			
Gold		4,206,133,922	3,319,458,932
	<b>Sub-Total</b>	4,206,133,922	3,319,458,932
<b>Total Foreign Currency Assets</b>		<b>216,926,973,838</b>	<b>228,745,232,724</b>
<b>Local Currency Financial Assets</b>			
Cash in Hand		3,756,191,628	1,824,859,620
Investments in Government Securities		38,022,709,404	29,255,862,582
GON Overdraft		16,711,491,611	8,835,795,125
Investments in Financial and Other Institutions		325,035,500	320,035,500
Other Investments		9,689,100,000	4,934,769,000
Refinance & Loans		8,112,165,241	2,327,394,002
Other Receivables		3,185,510,203	3,340,144,403
	<b>Sub-Total</b>	79,802,203,587	50,838,860,232
<b>Other Assets</b>			
Gold and Silver		298,184,530	312,298,030
Other Inventories		622,632,522	336,447,591
Property, Plant & Equipment		522,408,959	532,930,222
Intangible Assets		3,642,638	2,506,945
Assets received in grant		656,648	
Project Assets		461,098,098	493,664,078
	<b>Sub-Total</b>	1,908,623,395	1,677,846,866
<b>Total Local Currency Assets</b>		<b>81,710,826,982</b>	<b>52,516,707,098</b>
<b>TOTAL ASSETS</b>		<b>298,637,800,820</b>	<b>281,261,939,822</b>

NEPAL RASTRA BANK			
BALANCE SHEET AS ON 32nd ASHADH, 2067 (16th JULY, 2010)			
			NRS
Particulars		As on 32-3-2067	As on 31-3-2066
<b>LIABILITIES</b>			
<b>Foreign Currency Financial Liabilities</b>			
Deposit from Banks and Other Agencies		741,560,336	904,923,484
IMF Related Liabilities		16,245,357,425	6,975,677,693
Other Liabilities		7,899,401	2,373,545
<b>Total Foreign Currency Liabilities</b>		<b>16,994,817,162</b>	<b>7,882,974,722</b>
<b>Local Currency Financial Liabilities</b>			
Deposit and Other Balances		68,388,913,171	73,676,923,159
Bills Payable		921,594,753	1,121,290,448
Staff Liabilities		4,495,476,850	3,787,307,462
Other Payables		197,882,080	206,191,569
	<b>Sub-Total</b>	74,003,866,854	78,791,712,639
<b>Other Liabilities</b>			
Currency in Circulation		161,300,000,000	141,210,000,000
Surplus Payable to GON		3,110,000,000	2,530,000,000
Sundry Liabilities		3,806,355,376	3,423,198,222
Project Liability		461,098,098	493,664,078
	<b>Sub-Total</b>	168,677,453,474	147,656,862,300
<b>Total Local Currency Liabilities</b>		<b>242,681,320,328</b>	<b>226,448,574,938</b>
<b>EQUITY</b>			
Share Capital		3,000,000,000	3,000,000,000
Reserves		35,961,663,330	43,930,390,162
	<b>Total Equity</b>	38,961,663,330	46,930,390,162
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>298,637,800,820</b>	<b>281,261,939,822</b>

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 32nd ASHADH, 2067 (16th JULY, 2010)**

<b>Particulars</b>	<b>2066-67</b>	<b>2065-66</b>
Operating Income:		
<b>Income from Foreign Currency Financial Assets</b>		
Interest Income	3,219,016,664	4,477,104,007
Commission Income	363,649,585	311,117,876
	<b>3,582,666,248</b>	<b>4,788,221,884</b>
<b>Expenses on Foreign Currency Financial Liabilities</b>		
Interest Expenses	32,960,431	41,443,694
Agency and Service Charge	5,782,910	5,148,289
	<b>38,743,341</b>	<b>46,591,983</b>
<b>Net Income from Foreign Currency</b>	<b>3,543,922,908</b>	<b>4,741,629,901</b>
<b>Income from Local Currency Financial Assets</b>		
Interest Income	3,751,664,518	1,579,568,703
Commission Income	4,808,469	4,217,594
	<b>3,756,472,987</b>	<b>1,583,786,297</b>
<b>Expenses on Local Currency Financial Liabilities</b>		
Interest Expenses	61,713,970	172,458,274
Agency and Service Charge	578,524,781	583,759,774
	<b>640,238,751</b>	<b>756,218,048</b>
<b>Net Income from Local Currency Financial assets</b>	<b>3,116,234,236</b>	<b>827,568,250</b>
Other Operating Income	626,028,570	546,610,074
<b>Total Net Operating Income</b>	<b>7,286,185,714</b>	<b>6,115,808,224</b>
General, Administrative Expenses & Provisions	29 3,754,759,643	2,921,425,027
<b>Profit for the year before Foreign Exchange, Gold and Silver</b>		
<b>Revaluation Gain/(Loss) and prior year adjustment</b>	<b>3,531,426,071</b>	<b>3,194,383,197</b>
Foreign Exchange Gain/(Loss) (Net)	-9,189,754,117	9,357,932,645
Gold and Silver Revaluation Gain/(Loss) (Net)		
Amount Transferred from Gold & Silver Equalisation Reserve	886,674,990	215,361,177
Securities Revaluation		251,810,964
Other		
<b>Prior Year Adjustment</b>	<b>-87,730,424</b>	<b>14,472,960</b>
<b>Net Profit/(Loss) for the year</b>	<b>-4,859,383,480</b>	<b>13,033,960,943</b>

	2066-67	2065-66
<b>Net Profit/(Loss) for Appropriation</b>		
Net Profit/(Loss) for the year	-4,859,383,480	13,033,960,943
Amount Transferred (to)/from Exchange Equalisation Fund (EEF)	9,189,754,117	-9,357,932,645
Amount Transferred (to)/from Gold & Silver Equalisation Reserve	-886,674,990	-215,361,177
Amount Transferred to Gold Replacement Fund	-44,081,584	-48,900,460
Securities Revaluation Fund	520,067,241	-251,810,964
<b>Profit available for distribution</b>	<b>3,919,681,304</b>	<b>3,159,955,697</b>
General Reserve	432,800,000	319,300,000
Monetary Liability Reserve	196,000,000	160,000,000
Development Fund	140,281,304	139,524,248
Dev. Fin. Projects Mob. Fund	23,100,000	8,631,449
Liquidity Stabilization Fund	17,500,000	2,500,000
Surplus to be transferred to GON	3,110,000,000	2,530,000,000
<b>TOTAL</b>	<b>3,919,681,304</b>	<b>3,159,955,697</b>

- Excess provision of Rs. 12,045 thousands for cash in transit insurance premium has been made for the fiscal year 2065/66 and reflected in prior year adjustment.
- Loan of Rs. 1,83,80,70 thousands and Rs. 2,43,04,53 thousands provided by NRB to Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) respectively from loan received under subsidiary loan agreement from Nepal Government has not been incorporated as assets and liability in the financial statements including commitment! service charges of US Dollar 869 thousand payable to the World Bank (International Development Association).
- Community Ground Water Irrigation Sector (CGWIS) Project being managed by the Micro Finance Department of NRB has not been consolidated in the financial statements.
- Priority Sector Development Committee (PDSC) being managed by Micro Finance Department of NRB has not been consolidated in the financial statements.

Accounting Policies, Changes in Accounting Estimates and Errors (IAS): Prior Year net expense amounting to Rs. 87,730 thousands has been presented on the face of the Income Statement instead of reinstatement of the comparative amounts of the prior period.

#### Property, plant and Equipment (IAS-16):

- Fixed assets purchased in the current year costing up to Rs. 25,000 per unit have been charged to revenue.
- Fixed assets are not recognized on the basis of ownership, status, useful life, derecognition, depreciation and certain disclosure requirements have also not been complied with.
- Breakdown of land along with corresponding value of total land is not available. Land ownership certificates of certain plots of land are not available.
- Details of assets under construction amounting to Rs.3,366 thousands are not available to ascertain the actual "Capital Work in Progress" reflected in Financial Statement. These assets have been carried forward since years and include negative balance of Rs. 95 thousands for consultancy in Dhangadi Branch.
- Buildings include a written down value of Rs. 1,390 thousands without details of building it - represents.
- Assets reported as short/missing in the physical verification report have not been eliminated from the financial statement. The amount for such lost assets has not been quantified.

#### Employees Benefits :

- Liability of Rs. 2,328,745 thousands was short provided for gratuity and pension based on the actuarial valuation carried out for the period up to 16th July 2010.
- Liability of Rs.250,708 thousands was short provided for Staff Security Fund based on the actuarial valuation carried out as of 16th July 2010.
- The liability for medical fund is being provided based on predefined factors and not ,on the actuarial valuation. The adequacy of such provisions could not be confirmed and its effect could not be quantified.

#### Accounting for Government Grants and Disclosure of Government Assistance:

- Grant Assets representing Vehicles and Computers amounting to Rs. 42 thousands (written down value) received under Rural Micro Finance Project have been charged off to Misc. Expenses by crediting Other Income in FY 2063-64 and accordingly not been accounted for as grant assets and not disclosed.

#### Impairment of Assets :

- The status and physical condition of stationery and spare parts and fixed assets are not mentioned in the physical verification report to assess the impairment losses.

#### Provisions, Contingent Liabilities and Contingent Assets :

- Provision for expenses incurred for studying abroad, attending training programs and seminars, travel, and office expenses are not made in the year of expenses.
- Provision for land rent payable to Guthi Sansthan for 1-15-7-2 bigha of land of Janakpur from the beginning has not been ascertained and provided for.
- Claim for brokerage commission on primary issue has neither been made from Government of Nepal nor accounted for during the current fiscal year. This has not been disclosed in the notes as contingent assets.
- Provision of Rs. 8,716 thousands for non-moving stock carried forward since fiscal year 2061/62 could not be confirmed regarding the stock it represents.
- Contingent liabilities in respect of outstanding letters of credit as of 32nd Asadh 2067 (excluding letters of credit under Government Grants and offsetting LIC margin) amounting to Rs. 1,969,362 thousands have not been disclosed.

#### Financial Instruments: Presentation and Recognition & Measurement :

- Employees' Loan amounting to Rs.2,738,964 thousands given under different schemes have not been recognized, measured and presented as Financial Instruments at amortized cost through effective interest rate method with possible impairment losses. Its impact could not be quantified.
- Domestic Government Treasury bills (Rs. 29,926,489 thousands) have been classified as originated loans but has not been measured at amortized cost using effective interest rate method. The categorization has differed from Foreign Treasury Bills which has been categorized as Held to Maturity.
- Investment in Domestic Saving Certificates has been classified as Available for sale but has not been measured at fair value.
- Government Bonds (Domestic) have been classified as Held to Maturity but have not been measured at amortized cost since these bonds are interest free.
- Investments in Financial & Other Institutions amounting to Rs 386,085 thousands, though categorized as "Available for Sale", has not been measured and presented at "Fair Value" and accordingly its effect could not be quantified.

Non-current Assets Held for Sale and Discontinued Operations : List of damaged, unusable and obsolete fixed assets which are not in uses and cannot be used from economical point of view is not prepared. The financial impact of such assets could not be quantified.

Financial Instruments: Disclosures: Disclosure requirements to be presented by category of instrument based on "Measurement Categories" and other disclosures required by class of financial instruments regarding the significance of financial instruments and the nature of extent of risks arising from financial statements have not been fully complied with.

There is a difference of Rs. 50,916 thousands between the balances shown in books of account and the records maintained at Public Debt Department for interests and principal on Government Bonds.

There is a difference of Rs. 600,487 thousands in investment in Government Treasury Bills and Saving Certificates between the books of accounts and records maintained at Public Debt Department resulting in overstatement of accrual interest income by Rs 1,464 thousands (approx.)

Ad hoc provision of Rs. 200,000 thousands (Previous year Rs 160,000 thousands) for Staff Welfare Provident Fund as staff incentive has been made in addition to Rs. 42,867 thousands charged at the rate of 12 percent of salaries.

Contingent Liability of Rs. 99,843 thousands represents unclaimed amounts transferred to Miscellaneous Income covering the period from fiscal years 2054-55 to 2066-67. Except for memorandum record of Unclaimed Amount transferred to Income during the year amounting to Rs.4,257 thousands for the year 2066-67, memorandum records for balance amount representing earlier years have not been maintained.

The general accounts representing interoffice transactions have credit balance of Rs. 668,573 thousands. The balance represents unreconciled balances which is net of credit balance of Rs.776,915 thousands ( pending items identified) and debit balance of Rs. 108,342 ( pending items not identified). Some of the interoffice accounts in the Branch Offices show debit balance instead of credit balances and vice versa. Though the total identified un-reconciled balance (Rs.776,915 thousands) in reconciliation statement tallies with total book balance, branch-wise balances are not tallied with book balance.

Interoffice transactions relating to Note Kosh shows net credit balance of Rs. 314,400 thousands (Previous year credit balance of Rs 43,587 thousands) in Note Kosh Account instead of nil balance.

Additional information provided in account numbers 1 & 2 under Currency Holding as shown in Summary Statement Position of IMF Assets and Liabilities as on 320d Asadh 2067 does not tally with the actual book balances as shown in Note 16 (Deposit and Other Balances) of the financial statement.

A separate Management Letter highlighting audit observations in detail has been issued on 24th February 2011 to the management for improvement.

In our opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements read with notes give true and fair view of the financial position of Nepal Rastra Bank as of 32nd Ashadh 2067 (16th July 2010) and the results of its operations and its Cash flows and Changes in the Equity for the year then ended in accordance with *IAS/IFRS*, relevant practices and prevailing Laws.

## 1.6 ORGANIZATION PERFORMANCE

The present policy is being implemented at a time of continued BOP deficit, high inflation, liquidity crisis and high credit-deposit ratio in the banking sector, slowdown in real estate and share market activities, liquidity problem arising from excessive lending by some financial institutions and a sizable part of general people lacking access to formal financial services. This policy is expected to address above-mentioned challenges. Monetary policy also emphasizes on creation of favorable environment for high economic growth through employment generation, which is a must for sustainable poverty alleviation.

The implementation of monetary policy is expected to help in improving the BOP imbalance, containing inflation, maintaining financial stability, increasing access of banking services to general people and facilitating in the achievement of targeted economic growth.

The total assets of the banks increased by 13.22 percent in the fiscal year 2009/10 compared to a growth of 36.23 percent in 2008/09. The total assets increased by 7.74 percent in the public banks and by 15.10 percent in the private banks in the review year deposit procedure. The largest source of fund of commercial banks as on mid July 2010 was deposit, which amounted Rs.630.83 billion, of which Rs. 487.61 billion was held by private banks and rest by public banks.

The capital increased from Rs.9.38 billion in 2007/08 to Rs.32.67 billion in 2008/09 and Rs.48.84 billion in 2009/10. In the same year; the growth in capital of private banks increased by 26.49 percent to Rs.51.44 billion, whereas, it improved from negative Rs.8 billion to negative Rs.2.6 billion in public banks.

The banks should be able to honor the demand for payment to its depositors and its other commitments. In order to do so, banks should maintain certain volume of liquid assets, the size and volume determined by the bank's size of operations and the past trends. Commercial banks' liquid assets (including the investment in government security) registered a growth of 10.77 percent to Rs.189 billion in 2009/10 compared to a growth of 32.34 percent last year.

Nepalese banking sector gained momentum after the liberalization process started in mid-eighties. Rapid growth in term of number as well as transaction of the banks and financial institutions has been creating new challenges every year. Number of commercial banks in mid July 2010 reached to 27 from 5 in 1990. Similarly total assets of the commercial banks increased to Rs 787.11 billion in mid July 2010 from Rs 26.68 billion in mid July 1990. In the last decade, it is observed a huge change in the banking practices, banking regulation and supervision.

Banking business has been becoming more complex and challenging along with the use and introduction of modern technology, service proliferation and rising cutthroat competition. Such a challenge demands for the increasing role of financial market players and all stakeholders as well. Domestically, there are challenges to address issues raised by the rapid pace of the banking sector; on the other hand there is a need of cautiousness towards any possibilities of transmission of vulnerabilities observed during the recent global financial crisis.

As a result of the rapid growth, overall risk exposure of the commercial banks is also increasing day by day. Some banks are facing the problem of a repeated liquidity shortfall. Asset quality of some banks seems to be degrading due to their exposure in real estate and shares. Moreover, stagnant price of the assets has further looming the position of the commercial banks. There is an urgent need for continuous improvement in the assets liability management of banks to cope with their increasing exposure in the unproductive sectors of the economy. The issues in liquidity management, assets quality and profitability are challenging to make commensurate with the growth of the financial sector.

As well as, Nepal Rastra Bank Act, 2058 BS has prescribed the rights, duties and functions of NRB as follows: The NRB will perform to:

- a) To issue currency notes and coins in the market;
- b) To formulate and implement necessary monetary policy for price stability;
- c) To formulate and implement foreign exchange policy;
- d) To determine the foreign exchange rate adjustment regime;
- e) To operate and manage foreign exchange reserves;
- f) To issue license to commercial banks and financial companies for carrying out financial transactions and regulate, inspect, supervise and monitor such transactions;
- g) To function as the banker, advisor and fiscal agent of His Majesty's Government;
- h) To function as a bank of commercial banks and financial institutions, and as a lender of last resort;
- i) To establish, promote and regulate the systems of payments, clearing and settlements; and
- j) To carry out other important functions as necessary towards realizing the objectives enjoined by the Act.

## CHAPTER II

### JOB PROFILE AND ACTIVITIES PERFORMED

#### 2.1 ACTIVITIES PERFORMED IN THE ORGANIZATION

There are different activities performed in the Nepal Rastra bank, The Central Bank of Nepal. It is quite crucial for the Nepalese economy. The activities performed in five sections of Foreign exchange management department are

There are five sections in foreign Exchange management department they are as follows:

1. Internal Administration Section
2. License section
3. Import & Export Section
4. Inspection and follow up Section
5. Investment Section

##### 1. Internal Administration Section

Internal administration section administers all the section in the foreign exchange department to provide license to trade the foreign currencies, trading in import and export section, Inspection and supervision section and lastly, Investment section. It also concerns about the human resource management and approval of the proposal from different department.

##### 2. License Section

This section provides license for foreign exchange trading and they renew the license. If any of the institution fails to meet the criteria then the license is cancelled. Till the date of 2068 Ashad NRB have 3589 institutions involved in FOREX trading.

S. No	Institutions (No. By Licence)	2068 Asadh
1	Banks	31
2	Money Transfer	55
3	Money Changer	238
4	Travel and Tours	1406
5	Hotels	283
6	Airways	50
7	Treks	1164
8	Cargo	296
9	Other (Gifts , Donations)	66
	<b>TOTAL</b>	<b>3589</b>

Note: Others include: Handicrafts, bonded warehouse, Reinsurance, also: Bhaktapur municipality receives payment in \$ dollar from tourists.

### 3. Import Export Section

Currency involved in import and export of goods and services. Trading of currencies. If the goods are imported from or exported to the foreign countries the payments and receivables had to be made on foreign currencies i.e. US dollar, Euro, Japanese Yen, INR etc. These are to be exchanged and to be paid or received from the NRB only if they get approval from NRB. All the banks and financial institution had to work with accordance to the circular. For eg :

E Pra Pratitpatra 555 Abroad study foreign exchange

E Pra Pratitpatra 556 Gold Import and export

E Pra Pratitpatra 557 Indian Currency Exchange

Mainly commercial Bank “A Class” is liable for exchange of currencies of goods and commodities but some complicated and higher amount are paid after they get authority from Nepal Rastra Bank.

In case of service sector the amount greater than 6000 paid or received the approval should be taken from NRB. Under certain terms and condition of NRB directives (Circular). The different cases such as: In HBL if the remittance from abroad exceeds the amount that is to be received by the beneficiary than the bank should be send back and pay the actual money by exchanging it. The amount is sent by approval of NRB (Letter).

- Payment to the Bryan Adams in Euro.
- Tara Air, Payment to the Areo engineering (Singapore) for leasing air engine costing \$6912 each.
- Amount of currency paid to HBL by Shikhar Insurance USD 3,000,000 which was crashed at Lalitpur BUDDHA AIR, BOON 9N- ERK
- Jyapu Brothers payment for the install kept in Franch.
- The exports of goods and products through organizations such as Himalayan snacks, Asian Thai foods. (But it is somewhat liberal because it earns foreign currency) and aids in economic development.

The required documents are collected and the approval letter is prepared.

- Letter
- Performa Invoice
- Commercial Invoice
- Tax Payment
- Vat Receipt
- Agreement or Contract (Terms and condition)
- Required documents.

The letter is Valid till 30 days and is renewed if necessary.

The shareholders of Soaltee hotel.

S. No	Organization	No. of shares	Percentage
1.	Soaltee Hotel Ltd		40
2.	Nepal Airlines Corporation		12
3.	Holiday Inns Investment Corporation		10
4.	Oberoi Hotel Ltd.	1020144	7 % (6.84)
5.	General Public		31 %
	TOTAL	14924463	100%

The 1020144 shares (including Bonus shares) of Soaltee is sold to Ravi Bhakta Shrestha. Initially costing 1500000 shares @ 10 Rs. It was sold at Rs 14,24,630 (14 crores).

Reqd:

- Cover letter (To NRB)
- Share Allotment
- Contract or Agreement
- Share Certificate
- Letter from Nepal Stock Exchange
- Documents from Soaltee Hotel ltd.
- Documents Oberio Hotel Ltd.

Sometime NRB not only but also disapprove the letter for the organization to exchange foreign currency by Foreign Exchange Management Department. In case of fraud and lack of required legal documents. For eg: Zamil New Delhi international 2, 16, 000 USD.

The rules and regulation as per the foreign exchange should be met for the balance of payment. It helps in economic development. It regulates the illegal activities that are due to the payment of foreign currency. The transfer of currencies to foreign banks is regulated up to some extent.

#### 4. Inspection and follow up Section

Before providing License you are provided manual that follows rules and regulation (लाइसेन्स दिँदाका सर्तहरू ) Besides these there are various ways to inspect.

Firstly, the question arises, How to inspect? There are two ways to inspect

- a) On site : Field visit . On the particular site.
- b) Off site: Reporting to the NRB , every months and monitoring

Inspection and follow-up is responsible to:

- Look for all those who are provided license and regulated as pledge.
- Work with accordance to the circular
- Examine how they receive payment i.e. in foreign currency.
- Bill and invoices in Bank.

With considered to money exchanger in the Kathmandu Valley NRB sees:

- Whether they use software in their office but outside valley software is not compulsory.
- Know your customer (KYC).
- The location of the money exchanger, e.g. Tourists area Thamel, Lumbini, Lake Side in pokhara.
- For the prizes,gifts , donations they can exchange \$1000.

S. No.	Branch Office	Money Changer	Hotel	Travels	Treking	Others	TOTAL
1	Biratnagar	45	2	4		1	52
2	Janakpur	36					36
3	Birgunj	32	9				41
4	Pokhara	57	27	59	25	7	175
5	Bhairawaha (Siddarthanagar)	61	9	7			77
6	Nepalgunj	14	6	10		1	31
7	Dhangadi	4	1				5
	<b>TOTAL</b>	<b>249</b>	<b>54</b>	<b>80</b>	<b>25</b>	<b>9</b>	<b>417</b>

The major duties and responsibility for overseeing these institution whether they are involved in illegal activities i.e. Anti Money Laundering AML and CFT for terrorism are inspected and required actions are taken.

- Supervision and inspection is done different intuitions such as Banks, Development Banks, Travel agencies, Cargo, Airlines etc which are involved in foreign exchange trading.
- To post the database different intuitions such as Banks, Development Banks, Travel agencies, Cargo, Airlines etc which are involved in foreign exchange trading.
- To inspect, prepare report, inform and take corrective actions for foreign exchange traders such as Banks, Development Banks, Travel agencies, Cargo, Airlines etc which are involved in foreign exchange trading.
- To have special location supervision and survey.

## 5. Investment Section

The investment section in the foreign exchange management is of immense important because this section is liable for effective and efficient circulations of foreign currencies and sustains the NRB through earning. It is the also heart of the central Bank.

Investment section is divided into three parts as per work division Front office, Middle office and back office. The different tasks of investment section are:

### ➤ Rate Update

It updates the foreign exchange rate in NRB site and the respective institutions. Foreign Exchange Dealers Association Of Nepal (FEDAN), sends rates to NRB and through weighted average they display the rates.

### ➤ Daily News

NRB publishes daily news which consists of news about

- (a) Daily INR update
- (b) Daily FOREX market outlook

### ➤ Intervention

It is the process of buying and selling of US dollar from commercial bank. Commercial Bank Quote the amount for selling dollar at 11:00 am & at 12:15 pm from Reuters the rate is fixed and at that rate NRB buys dollar and pays NPR to commercial banks. It is held on Monday, Wednesday and Friday. The commercial banks can't sell foreign currency with in commercial banks.

### ➤ IC purchase

As our country has imports and exports from India in excess way hence Indian Currency is to be paid so NRB purchase IC from banks. E.g. Standard Charter, ICICI etc. Hence, we sell USD and buy Indian Currency.

### ➤ Portfolio Management

It is related with portfolio of investment it NRB sees the overall ranking of the Central and commercial banks and their rating such as AAA AA+ AA- etc and invests and as proportion of 5% , 3% and some banks of India at foreign are deposited 7% rate because of high interest rate.

Investment is done on treasury bills, time depositis, instruments etc.

In Back office we have other functions they are:

1. SWIFT: (Society For Worldwide Interbank Financial Telecommunication) It is dealt with messaging of sender, receiver and payment settlement.
2. ACU : (Asian Clearing Union), It is the clearing union of asian countries, It consist of nine members including Nepal. For Letter Of Credit payment, (Standard Charter Bank Nepal to NRB ----- Bangladesh Bank Central bank to Standard Charter).
3. Commercial Bank Weekly reconciliation

There is weekly reconciliation on the foreign exchange reserver indifferent central banks which is mainly due to the fluctuation in exchange rates.

4. Voucher Entry

All the transactions are entered into the computer for access of information which is done in back office. All the information about the foreign exchange are stored. It is used to prepare the crucial financial statement.

## 2.2 PROBLEMS SOLVED

Foreign Exchange Management and Control Procedures helped in various ways in five different sections. As the institutions make convenience to the customers through various facilities it is only due to the license provided by NRB. The inspection and follow up procedure helps to inspect whether it is due to illegal activities i.e. Anti Money laundering AML and CFT for terrorism activities. Besides there various problems are solved for trading foreign currencies.

Each institution engaged in foreign exchange activities is responsible for developing, implementing and overseeing procedures to manage and control foreign exchange risk in accordance with its foreign exchange risk management policies. Care should be taken with respect to the investment in foreign central Banks.

- Asset/Liability Management

The management and control, within set parameters, of the impact of changes in the volume, mix, maturity, quality, and interest and exchange rate sensitivity of assets and liabilities on an institution.

- Credit Risk Management

The risk of financial loss resulting from the failure of a debtor, for any reason, to fully honor financial or contractual obligations to an institution.

- Foreign Currency Translation Gain/Loss

The unrealized gain or loss that is recorded when assets and liabilities, both on- and off-balance sheet, denominated in foreign currencies, are translated into Nepalese Rupees on a reporting date and the exchange rates on that date differ from the corresponding rates on the previous reporting date.

- Foreign Exchange Contract

A commitment to buy or sell a specified amount of foreign currency at a set time and rate of exchange. So, that they would not bear loss.

- Foreign Exchange Forward Position

The extent to which forward or future purchases and inflows or a currency exceed future sales and outflows. That is, the net foreign exchange position of the institution's future foreign exchange transactions.

- Foreign Exchange Overnight Position

The net foreign exchange position (i.e. holdings of any commitments in foreign currencies) of the institution at the close of each business day. For e.g. The money invested in Bank of Japan are invested my Bank of Japan themselves and manage portfolio.

- Foreign Exchange Risk

The exposure of the institution to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a loss in Nepalese currency terms to the institution. Hence this problem can be solved in FOREX department.

➤ Foreign Exchange Transactional Position

Foreign exchange exposures that arise from daily foreign currency dealing or trading activities are solved.

➤ Foreign Exchange Translational or Structural Position

Foreign exchange exposures that arise from an institution's overall asset/liability infrastructure, both on- and off-balance sheet.

➤ Hedging

A risk management technique to reduce or eliminate price, interest rate or foreign exchange risk exposures. The elimination or reduction of such exposures is accomplished by entering into transactions that create offsetting risk positions. The concept is that when an institution has an open position which entails a risk that it wishes to avoid or minimise, the institution can undertake a further transaction which compensates for the risk and acts as a hedge. If the hedge is effective, any gain or loss on the hedged risk position will be offset by a loss or gain on the hedge itself.

➤ Interest Rate Risk

The potential impact of movements in interest rates on the institution.

➤ Liquidity

Liquidity is the availability of funds, or assurance that funds will be available, to honour all cash outflow commitments (both on- or off-balance sheet) as they fall due. These commitments are generally met through cash inflows, supplemented by assets readily convertible to cash or through an institution's capacity to borrow. The risk of illiquidity may increase if principal and interest cash flows related to assets, liabilities and off-balance sheet items are mismatched.

➤ Position Risk

The exposure of the institution to the effect of price changes on the market value of the institution's portfolio of securities, both on- and off-balance sheet. Price changes may occur because of several factors, such as those solely related to the specific security (e.g. a change in the credit status of an issuer of a security) or those unrelated to any specific attribute of an individual security (e.g., investor preferences/demand, political and economic developments, and broad market price movements). The effect of the price change is a function of the size of the securities position, and the degree of price movement between the purchase date and the date of valuation or sale, as the case may be.

➤ Risk Management and position.

The process of controlling the impact of risk related events on an institution. A statement of principles and objectives that outlines an institution's willingness to assume risk. An institution's risk philosophy will vary with the nature and complexity of its business, the extent of other risks assumed, its ability to absorb losses and the minimum expected return acceptable for a specific level of risk. The amount of the institution's exposure to a particular risk.

## 2.3 KEY OBSERVATION

The pace of reform in foreign exchange management system has been accelerate along with the adoption of the economic liberalization policy, initiated since mid-1980s. Convertibility of the rupee in current account; introduction of open general license system for imports; freedom to determine the exchange rate of the foreign currencies, except the Indian rupee, to the market; relaxations of rules and regulations for providing foreign exchange facilities; opening foreign currency account in local banks, amendment in foreign exchange management laws, permission to import selected goods from India in convertible currencies etc. are some of the important reform measures adopted over the period. Despite these reforms, there still remain some restrictions in current account transactions. In this context, it is pertinent to direct the foreign exchange management system towards more liberal, efficient and dynamic one. NRB tries to manage the foreign exchange reserve of the country very efficiently and effectively.

### Objectives

To make the foreign exchange management more effective and efficient for external sector stability.

#### **(i) Maintain exchange rate stability of the rupee**

NRB will adopt an appropriate exchange rate policy in order to maintain stability in the domestic exchange rate. For this purpose, it will undertake close monitoring and coordination with the monetary and balance of payment situations of the country. Similarly, it will also closely monitor nominal as well as real effective exchange rate (REER) and pursue appropriate policy measures to maintain it at an optimum level. It will also intervene in the foreign exchange market to maintain domestic exchange rate stability.

#### **(ii) Deregulate foreign exchange operations**

NRB will steadily move towards delegating its authority of conducting foreign exchange operations to the banks and financial institutions. While delegating these authorities, due consideration will be given to its likely impact on national economy, particularly the balance of payments position of the country.

#### **(iii) Open up capital account in phases**

Considering the expected gain through efficient allocation of capital in a liberalized foreign exchange regime, NRB will endeavour to make rupee convertible in capital account in a phased manner. While moving towards this direction, due consideration will be given to its likely impact in the overall economy and its sustainability. The exchange control measures applicable to foreign direct investors and non-resident nationals will be further relaxed through amendment in the Foreign Investment and Technology Transfer Act. Necessary amendment in the Foreign Exchange Management Act will be initiated in the direction of permitting the Nepalese investors to invest abroad.

**(iv) Improve portfolio management of external reserves**

Management of external reserves will be conducted in an efficient manner with the purpose of generating optimum returns while not sacrificing the required liquidity and the safety of the reserves. For this purpose, close monitoring of the international exchange rate movements and interest rate scenario will be undertaken. The possibility of portfolio diversification into new and emerging instruments will also be constantly explored.

**(v) Strengthen supervisory and monitoring mechanism of the foreign exchange market**

In view of the large and growing number of authorized foreign exchange operators, NRB will devise and implement an effective monitoring and supervisory mechanism. It will also facilitate and encourage the flow of remittance from the Nepalese nationals working abroad through foreign exchange operators. In this connection, appropriate international information and communication network will be established.

**CURRENCY MANAGEMENT**

Currency management has been one of the key activities of the NRB particularly in a lowmonetized Nepalese economy. Issuing paper and metallic currencies to meet the demand for currency in the economy has been a challenging task because of the absence of road network in the remote hills and mountains. The printing and minting of currency is costly and time-taking in the absence of currency printing security press and mints domestically. In order to facilitate the availability of required currencies, the existing mechanism needs improvement to ensure circulation of clean and quality currency with adequate security measures in a cost-effective way throughout the country.

**(i) Formulate currency demand forecasting framework**

Following a study on national demand for notes and coins, NRB will develop and institutionalize a forecasting framework for normal, seasonal and spatial demand of currency.

**(ii) Administer efficient currency management**

NRB will set up an efficient currency management system through printing currencies, minting of different denomination of coins, and maintaining stocks as per national demand. Arrangements will be made to maintain sufficient stock of notes and coins. Pre-qualification list of printing and minting agencies will be revised periodically

NRB will review and rationalise the use of security features in higher denomination notes. The mechanization process will be initiated to ensure the circulation of quality currency, verification and sorting of notes and standardisation of currency in circulation. Since the printing of smaller denominations of currency notes is becoming costlier and their life of circulation is low as compared to the coins, NRB's currency policy will be directed to the circulation of coins of smaller denominations.

### **(iii) Explore cost effective funds transfer system**

NRB will develop appropriate mechanism to mobilize funds available locally in areas of sufficient presence of banks and financial institutions. Fund holding limit of the note chests will be increased where financial transaction is high through periodical review of fund holding limits.

NRB will rationalize its currency chests management policy in tandem with the speed of monetization, prevailing security situations and fund transfer costs. Appropriate measures will be adopted to minimize fund transfer costs. With a view to reduce the cost of fund transfer, currency chests presently limited to government transactions only will be extended to cover other financial transactions also to reduce the cost of funds transfer.

### **(iv) Gradually outsource the minting of circulatory and commemorative coins and other minting products**

NRB will gradually outsource the minting of circulatory coins, commemorative coins, gold and silver coins, medals, badges, medallions, souvenir tokens, etc.

### **(v).Initiate involvement of private agencies in the exchange of soiled currencies**

NRB will destroy machine sorted soiled notes with the help of existing furnace for some time and through automatic machines in the later period. Private parties will be encouraged to collect soiled notes on commission basis thereby contributing to adequate supply of the quality notes. General public will be made aware, through media, on the benefits of safe and clean currency.

### **(vi) Provide facilities to the collectors of the Nepalese notes and coins**

NRB will facilitate the collectors of the Nepalese notes and coins by making them available notes and coins easily in coordination with the concerned private agencies.

### **(vii) Facilitate ATM friendly notes to commercial banks and ATM companies**

Commercial banks and ATM companies seeking favour from NRB for special ATM friendly notes will be facilitated with specific arrangements.

## **CHAPTER III**

### **LESSONS AND FEEDBACK**

#### **3.1 KEY SKILLS AND ATTITUDE LEARNT**

In today's tough economic environment – rising interest rates, double digit inflation, soaring fuel prices and currency volatility, business owners could be placing their businesses at unnecessary additional risk by opting for foreign exchange management. In Treasury Solutions, businesses, regardless of their size, have the specialized skills – or time – required to effectively manage their forex exposures.

However, because of the volatility of the fact that even a small move in the currency can spell the difference between comfortable profit and major loss, businesses are being forced to devote considerable time and effort to forex matters. In the first place, there should be special knowledge about the exchange rate will probably have changed.

Also important is the fact that in times of high currency volatility, the pricing from one bank to another could make a significant difference to the all-in price. Businesses should ideally arrange to have forex dealing facilities with at least two banks, which will allow it to trade with the bank that offers the best price.

One of the most important requirements for the management of forex risk is information. Businesses need systems and skills to monitor the forex markets around the world on a 24x7 basis. They need to be able to make informed decisions based on the latest market news and information and to strip the emotion out of these decisions.

In addition, they need to develop a forex dealing strategy that dovetails with their overall business model and risk management policy. This would include having an actively managed stop loss level in place that will limit the damage of a depreciating Rand and pass on some of the upside should the Rand appreciate from the current levels

“Effective, informed and sustainable forex risk management involves more than forex dealing. It requires specialist skills. Unless these skills are present in the organization, the entire business could be at risk”.

The different skills learnt are:

- Interpersonal Skills
- Informational skills
- Negotiatonal skills
- Disturbance handler

## The Forex Trader's Attitude

The forex trader's attitude is an important element that must not be neglected. In order for a trader to elaborate a trading style that matches his mindset, he must identify his key personality traits (both strengths and weaknesses). The trader within you is the result of many things: your beliefs, your personality, your attitude or mindset, your character and your health. You cannot buy these things at the trading store! Instead, you must identify and know yourself, and then make whatever adjustments are necessary.

- Align your beliefs with your trading style.

You must first find or develop a trading system that matches your personality and trading style. Many traders fail because they choose a trading system that is not aligned with their belief system. For example, chances are that if you're a loner and don't like crowds, then you will not be a good trend trader where you would be required to follow the crowd of traders to make money by being with this crowd in the trend. Know yourself well enough to know what your beliefs are so that you can trade in accordance with them.

- Practice to compete against the best traders.

You must hone your trading skills and attitude through education, forex trading, and even more trading. You must practice or "paper trade" until you develop a profitable trading approach. It may take years to develop both the "science" of trading, which represents your trading skills, and the "art" of trading which represents your judgment and attitude. Most new traders fail in this area because they do not have the discipline to work on their trading approach until it is profitable.

Every time you actively trade the financial markets, you are competing against other traders, some of which are the best in the world. You must therefore acknowledge and attitude that all markets are championship arenas and that you are competing against the best traders of any financial market you choose to trade in.

- Achieve a balanced and focused mindset.

Another important part of the trader's attitude is to incorporate balance into both your life and your trading. While it is important to be a focused trader and also one that is focused in pursuit of proficiency, there is a line in which focus can become obsession. Do not cross this line! If you find you are becoming obsessed with your trading, then it is time to pull back and take some time off. Relax regularly to avoid becoming obsessed with trading. If you are not balanced, work on being balanced. Make sure that you devote time to your relationships outside of trading. Get some exercise in order to improve and maintain your health. Do activities that you enjoy besides trading. And don't forget to relax. A well-balanced, skilled trader will usually win more than an obsessed skilled trader because his or her body will be more relaxed, less anxious.

### 3.2 FEEDBACK TO THE ORGANIZATION

It is immense pleasure to learn and know about the foreign exchange management department. Besides these learning some feedback for the excellence is the most. It is worth less to make plan if it is not implemented. Forex brokerage companies connect Forex traders to the interbank network. Without Forex brokers, Forex trading becomes too hard and even impossible. Forex brokers provide everything that Forex traders need to sit at their personal computers and trade. Although there are many honest brokerage companies, some brokers do not offer reliable and honest services. Some of the feedbacks for various sections in Foreign Exchange Management Department are:

➤ Internal Administrative Section

As employees works are to be appraised but the timing also should be considered. The punctuality is one of the crucial factor.

➤ Licensing Section

Till Ashad 2068 we found that 3589 organization are provided License but they are not well operated in such case they are to be supervised and effective steps area to be taken.

➤ Import\Export Section

The letter of credit is paid for the service sector but the time limitation on the letter issued from NRB may not be feasible for payment. The fluctuation on exchange rate also should be considered and portfolio should be managed.

➤ Inspection and follow up section

The different institution involved should report on time and NRB should be care full on such matter. Due to the lack of time and financial efforts all the institutions are not fully inspected so this should be taken under consideration.

➤ Investment Section

The information and Exchanges are to be completely depended upon other or external factor, as employees are well trained the different software such as Bloomberg, Reuters etc. are to be updated timely as per requirement.

The different Banks and financial institution are much concerned where as institution should also be inspected and information also should be conveyed. The diverse training in foreign exchange management is needed. As it is the Central Bank of Nepal the organization is well managed. The information and ideas are to be shared timely.

### 3.3 FEEDBACK TO THE UNIVERSITY

Feedback is an essential part of learning at university and should help us to understand the areas in which we are doing well and what we can do to improve and progress. So, these are to be taken under consideration.

1. Arrange program and training that help us to assess own learning and reflect on our development.
2. Allows you to discuss our learning with experts.
3. Help to understand what is expected of you and what good performance is.
4. Provide information about your learning and the opportunity to progress.
5. Motivates and encourages thinking positively about your learning and also award for best performance.
6. Provides information to teachers that can be used to help shape the teaching.

The strategic approach should adopted by the university. First, that the effective provision of feedback is highly contingent, varying from task to task, from subject to subject and from one course setting to another. The university should develop the crucial relationships to the organizations so that they may not face problems thorough out their internship programs.

A set of Standards and Guiding Principles should be reflected to the University's culture and ethos whilst also embodying research-derived principles for effective feedback drawn from the global literature. A Bookmark is to be produced and circulated to all students, advising them of the University's commitment to providing feedback and their responsibility to make good use of it.

Meetings with senior academic and support staff in each subject area have been arranged to assist them in reviewing the provisions, devising action plans and promulgating innovative good practices more widely across the University.

The website is also part of the enhancement strategy, so social networking sites are to be made. It aims to help individuals and groups to take a fresh look at feedback and explore ways in which its provision might be improved, and to share examples of good practice across the University.

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