



Financial Institutions Supervision Report

(FY 2020/2021)



Nepal Rastra Bank
Baluwatar, Kathmandu, Nepal
May 2022

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Table of Contents

1. AN OVERVIEW OF FINANCIAL INSTITUTIONS IN NEPAL	1
Branch Network of Development Banks and Finance Companies	3
2. FINANCIAL INSTITUTION SUPERVISION	4
Supervision Function	4
Supervision Methodology	5
On-site Inspection and Enforcement	5
Analysis and Compliance	6
Problematic Financial Institutions Resolution (PFIR) and Special Inspection	8
AML/CFT	8
3. OPERATIONAL PERFORMANCE OF DEVELOPMENT BANKS	10
Performance of Development Banks	10
Assets of Development Banks	10
Composition of Assets	11
Composition of Liabilities	11
Capital	12
Deposit	13
Sector-wise Loan and Advances	15
Security-wise Loan and Advance	17
Product-wise Loan and Advance	17
Non- Performing Loans	18
Non-Banking Assets	19
Investment	20
Profitability	20
Liquidity	21
Deprived Sector Lending	23
Base Rates and Spread Rates	23

Electronic Banking	23
Stress Testing of Development Banks	23
Actions and Penalties	26
4. OPERATIONAL PERFORMANCE OF FINANCE COMPANIES	27
Performance of Finance Companies	27
Assets of Finance Companies	27
Composition of Liabilities	28
Deposit	29
Loans and advances	29
Sector-wise Loan and Advances	30
Security-wise Loan and Advance	31
Product-wise Loan and Advance	32
Non- Performing Loans	33
Non-Banking Assets	33
Investment	35
Profitability	35
Liquidity	36
Deprived Sector Lending	38
Base Rates and spread rates	38
Stress Testing of Finance companies	38
5. KEY ONSITE OBSERVATIONS, ISSUES AND CHALLENGES	42
Key Onsite Observations	42
Issues and Challenges	46

List of Figures

Figure 1.1	Growth of Development Banks (As of Mid-July, 2021)	2
Figure 1.2	Provincial Presence of Financial Institutions (As of Mid July 2021)	3
Figure 3.1	Total Assets of the Development Banks (Mid July 2021)	10
Figure 3.2	Composition of Assets of Development Banks (Mid July 2021)	11
Figure 3.3	Composition of Equities and Liabilities of Development Banks (Mid July 2021)	12
Figure 3.4	Capital Fund of the Development Banks (Mid July 2021)	13
Figure 3.5	Deposit of the Development Banks (Mid July 2021)	13
Figure 3.6	Deposit Mix of Development Banks (Mid July 2021)	14
Figure 3.7	Loan and Advances of the Development Banks	15
Figure 3.8	Non-performing loans of the Development Banks(Mid July 2021)	19
Figure 3.9	Non-banking Assets of the Development Banks (Mid-July 2021)	19
Figure 3.10	Investment Portfolio of the Development Banks (Mid July 2021)	20
Figure 3.11	Operating Efficiency of the Development Banks (Mid July-2021)	21
Figure 3.12	Liquidity Position of the Development Banks (Mid July – 2021)	22
Figure 4.1	Composition of Assets of finance companies (Mid July 2021)	27
Figure 4.2	Composition of Equities and Liabilities of Finance Companies (Mid July 2021)	28
Figure 4.3	Capital Fund of the Finance Companies (Mid July 2021)	28
Figure 4.4	Composition of Deposits	29
Figure 4.5	Loan and Advances	30
Figure 4.6	Non-performing loans of the Finance Companies(Mid July 2021)	33
Figure 4.7	Non-banking Assets of the Finance Companies (Mid-July 2021)	33
Figure 4.8	Investment Portfolio of the Finance Companies (Mid July 2021)	35
Figure 4.9	Liquidity Position of the Finance Companies (Mid July – 2021)	37

List of Tables

Table 1.1	List of Approved Mergers/Acquisitions fy 2020/21	2
Table 2.1	Important Directives regarding Capital, Credit and Liquidity for Financial Institutions (Effective for FY 2020/21)	7
Table 3.1	Sector-wise Loan and Advances of Development Banks (Mid July 2021)	16
Table 3.2	Securities against Loans and Advances (Mid July 2021)	17

Table 3.3	Product-wise Loan and Advances (Mid July 2021)	18
Table 3.4	Use of Electronic Banking (Mid July 2021)	23
Table 3.5	Summary Result on Stress Testing of Development Banks As on Mid July 2021	25
Table 4.1	Sector-wise loan and advances of Finance Companies (Mid July 2021)	31
Table 4.2	Security wise loan and advance position of finance companies	32
Table 4.3	Product-wise Loan and Advances (Mid July 2021)	32
Table 4.4	Summary Result on Stress Testing of Finance Companies As on Mid July 2021	39

List of Annexure

Annex 1: Number of Banks and Financial Institutions	49
Annex 2: Asset Size of Banks and Financial Institutions	49
Annex 3: List of Development Banks	50
Annex 4: Full-Scope Onsite Inspection of Development Banks	50
Annex 5: Special Inspection of Development Banks	51
Annex 6: Consolidated Statement of Financial Position of DBs	52
Annex 7: Consolidated Statement of Profit & Loss A/C of DBs	58
Annex 8: Loan & Advances of Development Banks	61
Annex 9: Sector-wise Statement of Loan of Development Banks	62
Annex 10: Product-wise Statement of Loan of Development Banks	63
Annex 11: Investment Details of Development Banks	64
Annex 12: Industry Statistics	65
Annex 12.1: DB's Operations	65
Annex 12.2: Capital Fund	65
Annex 12.3: Deposit Mix	65
Annex 12.4: Non Performing Loan	66
Annex 12.5: Non Banking Assets	66
Annex 12.6: Investment	77
Annex 12.7: Liquid assets to Deposits & Liquid assets to Total assets	67
Annex 12.8: Operation Efficiency of Development Banks	67
Annex 12.9: Consolidated Statement of Financial Position of Development Banks	68
Annex 13: Number of Branches, Depositors and Borrowers	70
Annex 14: List of Finance Companies	71
Annex 15: Consolidated Statement of Financial Position of Finance Compnies	72
Annex 16: Industry Statistics	73
Annex 16.1: Finance Company's Operation	73
Annex 16.2: Capital Fund	73
Annex 16.3: Deposit Mix	73
Annex 16.4: Non Performing Loan	73

<u>Annex 16.5: Non Banking Assets</u>	<u>74</u>
<u>Annex 16.6: Investment</u>	<u>74</u>
<u>Annex 16.7: Liquid assets to Deposits & Liquid assets to Total assets</u>	<u>74</u>
<u>Annex 16.8: Operation Efficiency of Finance companies</u>	<u>74</u>
<u>Annex 17 : Number of Branches, Depositors and Borrowers</u>	<u>75</u>
<u>Annex 18 : Circulars issued to Bank and Financial Institutions</u>	<u>76</u>
<u>Annex 19 : Existing Acts, Bylaws and Guidelines</u>	<u>77</u>

Acronyms Used

ADB/N	:	Agricultural Development Bank , Nepal
AGM	:	Annual General Meeting
AML/CFT	:	Anti Money Laundering/Combating the Financing of Terrorism
BAFIA	:	Bank and Financial Institutions Act
BFI	:	Bank and Financial Institution
BFIRD	:	Bank and Financial Institution Regulation Department
BSD	:	Bank Supervision Department
CAR	:	Capital Adequacy Ratio
CPG	:	Credit Policy Guideline
CRR	:	Cash Reserve Ratio
DBs	:	Development Banks
DBSD	:	Development Bank Supervision Department
FCs	:	Finance Companies
FINGO	:	Financial Non-governmental Organization
FISD	:	Financial Institution Supervision Department
ICAAP	:	Internal Capital Adequacy Assessment process
KYC	:	Know Your Customer
ML	:	Money Laundering
NBA	:	Non-Banking Asset
NBL	:	Nepal Bank Limited
NFRS	:	Nepal Financial Reporting Standard

NIDC	:	Nepal Industrial Development Corporation
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
PE	:	Politically Exposed Person
RBB	:	Rastriya Banijya Bank
RWA	:	Risk Weighted Asset
SACCO	:	Saving & Credit Cooperative
SLF		Statutory Liquidity Facility
SLR	:	Statutory Liquidity Ratio
STR	:	Suspicious Transaction Reporting
SSA	:	Simplified Standardized Approach
CCB	:	Capital Conservation Buffer

1. AN OVERVIEW OF FINANCIAL INSTITUTIONS IN NEPAL

- 1.1 The history of formal banking in Nepal dates back to the year 1937 AD with the establishment of Nepal Bank Limited as the first commercial bank of Nepal. Later in the year 1956, Nepal Rastra Bank was established as the Central Bank of Nepal. Three government-owned financial institutions were later established by the Government of Nepal, namely, Nepal Industrial and Development Corporation (NIDC) in 1959, Rastriya Banijya Bank (RBB) in 1966 and Agriculture Development Bank Nepal (ADB/N) in 1968.
- 1.2 The Nepalese financial system witnessed major shifts in the policy measures with the introduction of liberalized economic policies in 1984. Some major changes in policies were the opening of the financial sector to private and foreign investors, interest rate deregulation, indirect monetary control and convertibility of current account. During this period many joint-venture and private banks and other financial institutions entered the financial market. After enactment of Banks and Financial Institutions Act 2006, financial institutions have been categorised in four categories namely, Commercial Banks as 'A-class', Development Banks as 'B-Class', Finance Companies as 'C-Class' and Microfinance Financial Institutions as 'D-Class'. These institutions are regulated, supervised and monitored by Nepal Rastra Bank (NRB) as per Section 5 of Nepal Rastra Bank Act, 2002 (Second Amendment 2017). Bank and Financial Institution Act, 2017 as an umbrella act, abolished five other acts enacted for the establishment of Government-owned banks and financial institutions.
- 1.3 Till 1995, there were only a few development banks (DBs) in the Nepalese banking industry. However, after 1999, there was a surge in the number of development banks along with other financial institutions over a decade. The number of DBs reached the highest in history at 88 in 2012. Similarly, establishment of finance companies also gained momentum along with liberalization in licensing policy of financial institutions. There were 79 finance companies in mid-July 2011.
- 1.4 NRB suspended the issuance of licenses for establishing new A, B and C category financial institutions in December 2009. Restriction on issuing of a new license for commercial banks, development banks and finance companies contributed towards financial sector consolidation through mergers and acquisitions measures.
- 1.5 NRB is encouraging mergers and acquisitions of BFIs. It introduced Merger Bylaw in 2068 and Acquisition Bylaw in 2070. Both bylaws were unified to form Merger and Acquisition Bylaw, 2073. The objective of merger and acquisition was to downsize the number of BFIs to boost their strength and efficiency through the consolidation of existing BFIs. The number of development banks and finance companies has decreased dramatically with the introduction of this policy. As of mid-July 2021, the total number

of financial institutions stood at 131 comprising of 27 Commercial Banks, 18 Development Banks, 17 Finance Companies and 70 Microfinance Financial Institutions. As of mid-July 2020, there were a total of 20 development banks in Nepal, with 8 'National Level' and 12 'Province/Regional Level' and 22 finance companies (Annex 3 and 14).

Figure 1. 1: Growth of Development Banks and Finance Companies (As of Mid-July, 2021)

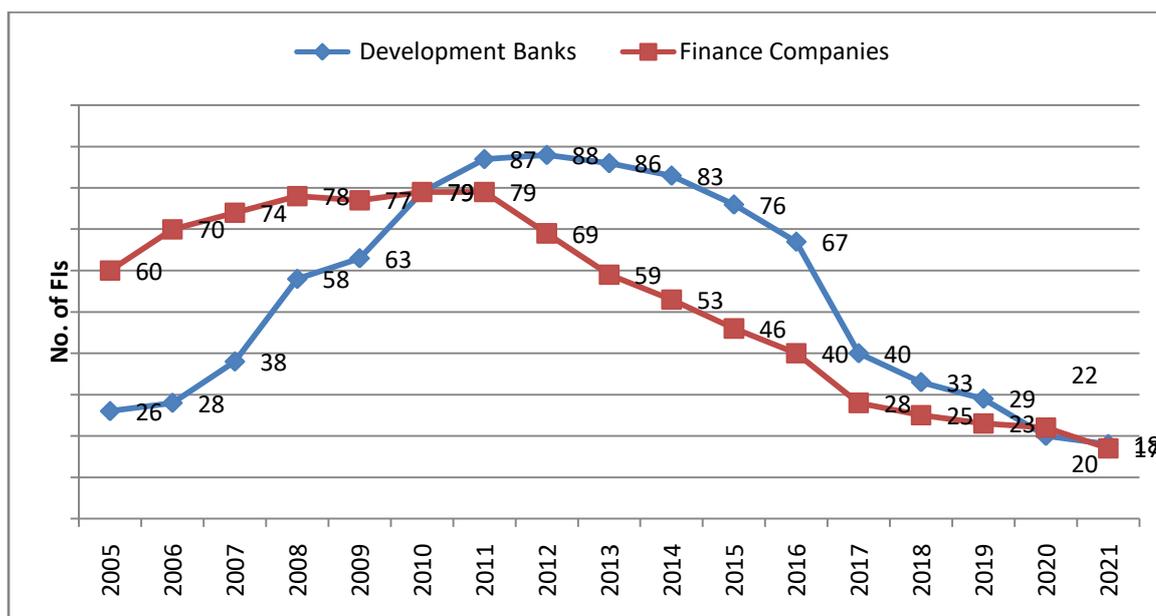


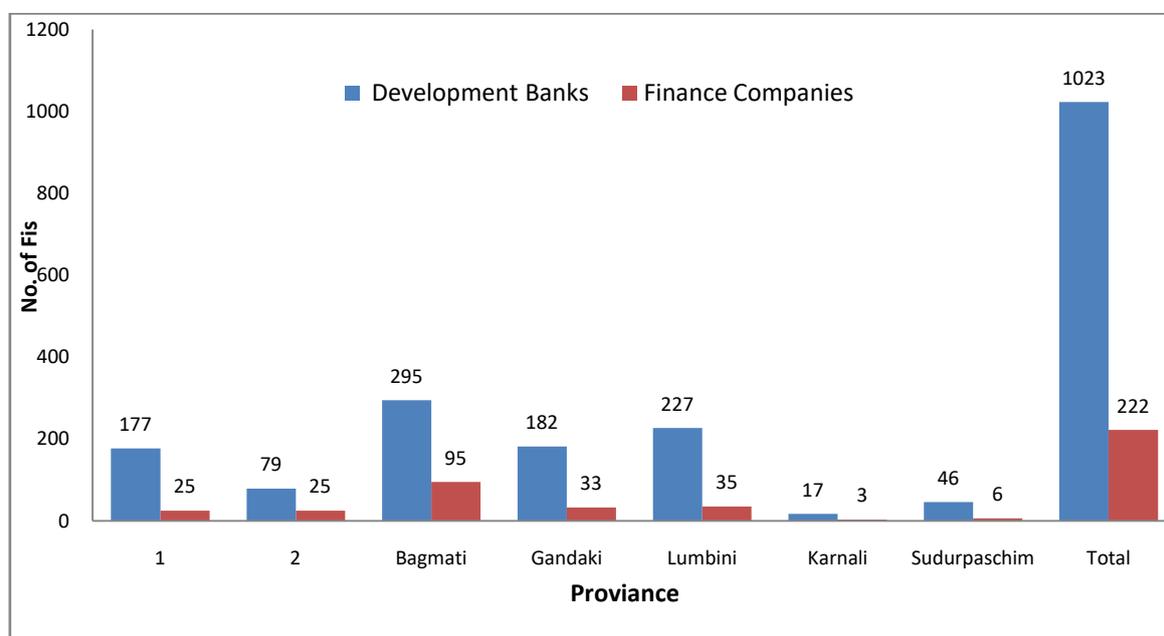
Table 1. 1 : List of Approved Mergers/Acquisitions in FY 2020/21

Merged BFIs	Name after Merger/ acquisition
Garima Bikas Bank Ltd. Sahara Development Bank Ltd.	Garima Bikas Bank Ltd.
Lalitpur Finance Ltd. Nepal Finance Ltd.	Nepal Finance Ltd.
United Finance Ltd. Nabil Bank Ltd.	Nabil Bank Ltd.
Shrijana Finance Ltd. Citizens Bank Ltd.	Citizens Bank Ltd.
City Express Ltd. Nepal Investment Bank Ltd.	Nepal Investment Bank Ltd.

Branch Network of Development Banks and Finance Companies

1.6 The development banks and finance companies are providing services from 1023 branches and 222 branches respectively till mid-July 2021. NRB has been encouraging BFIs to open branches to rural areas to expand financial access to all the citizens. Despite the increment in branches of financial institutions, the concentration has remained in urban areas. As of mid-July 2021, there has been presence of 390 branches (295 DBs and 95 FCs) in Bagmati province followed by 262 branches (227 DBs and 35 FCs) in Lumbini province and presence is nominal in Karnali. The major reasons behind the weak presence of financial institutions in Karnali Province are geographical complexities, poor infrastructure and low degree of economic activities.

Figure 1.2 : Provincial Presence of Financial Institutions (As of Mid July 2021)



(Source: Bank and Financial Institutions Regulation Department, NRB)

2. FINANCIAL INSTITUTION SUPERVISION

Supervision Function

- 2.1 With the legal jurisdiction defined by Nepal Rastra Bank Act, 2002 (Second Amendment 2017) and the Bank and Financial Institution Act, 2017, NRB regulates, supervises and monitors licensed BFIs. Inspection and supervision bylaw, manuals, guidelines, directives and circulars are the main basis of supervision. NRB supervisory system has been conducted through periodic assessments, including quarterly, semi-annually and annually. The supervision activities focus on financial situation, good governance, compliance with laws and regulations, and risks that may affect the business. Supervision of BFIs promotes prudent banking system by continuous feedback and monitoring of their activities. Regular supervision and monitoring effort provides early warning signals (EWS) and proactive measures to maintain overall financial stability.
- 2.2 Development Bank Supervision Department and Finance Company Supervision Department merged together from 1st Falgun, 2078 to form Financial Institution Supervision Department (FISD). The FISD is responsible for executing the supervisory policies and practices in development banks and finance companies as per governing laws, regulations and policies. These included on-site examinations and off-site monitoring of development banks and finance companies through the use of a compliance and risk-based supervision approach. Compliance based supervision focuses on both qualitative and quantitative aspects of financial institutions and ensures compliance with the governing laws, regulations and policies. Risk-based supervision is a structured supervisory process designed to identify key risk factors through qualitative and quantitative assessment of an institution's risk profile, assess the adequacy of the risk management policies and practices that are used to mitigate risk and implement supervisory resources (including examination time) based on the risk characteristics of the institutions.
- 2.3 The FISD is responsible for executing supervisory policies and practices as per governing laws, regulations and policies. It prepares annual onsite supervision plan and supervises development banks and finance companies. The supervisory process includes mainly full-scope on-site examination, special inspection, targeted inspection and follow up inspection as per requirements. An onsite inspection is supported by an offsite supervision function which is responsible for continuous monitoring of the financial statements of development banks and finance companies and develops the indicators related to financial soundness and stability. Offsite supervision observes the early warning signals and ensures that the institutions comply with all regulatory norms along with managing the overall inherent risks. Furthermore, enforcement system facilitates correction if any and continuously monitors the progress regarding the corrective action for the remarks and observations made by onsite inspection.

Supervision Methodology:

- 2.4 The FIRD continues to adopt and implement the core principles for effective banking supervision (core principles) prescribed by the Basel Committee on Banking Supervision (BCBS).
- 2.5 Onsite Inspection is risk based for National Level Development Banks and compliance based for regional level development banks and finance companies
- 2.6 NRB has adopted the Simplified Standardized Approach (SSA) based on BASEL II principles for offsite reporting of national level development banks and finance companies. The regional level Development Banks and Finance Companies are still observed under BASEL I core principles. Though supervision is compliance based for regional development banks and finance companies, the different elements of CAMELS (Capital Adequacy, Asset Quality, Management Competence, Earning, Liquidity, and Sensitivity to Market Risk) are closely analyzed to assess compliance, stability, sustainability, governance and overall risk exposure of all development banks and finance companies.
- 2.7 FIRD collects and compiles information regarding liquidity and monitor the liquidity position of financial institutions on a daily basis. It also reviews and analyses returns of financial institutions to detect emerging problems and early warning signals to evaluate the exposure to risks. The statutory returns are the basis for computing basic ratios (financial soundness indicators) to analyze capital adequacy, assets quality, earnings, liquidity and sensitivity to market risk (CAELS). Besides, FIRD also reviews and analyzes the audited financials of financial institutions for dividend approval as well as for clearance for publishing audited financials through AGM. Financial institutions are encouraged to follow Stress Testing System and ICAAP for proper management of assets, liabilities and capital.

On-site Inspection and Enforcement:

- 2.8 The prime responsibility of on-site inspection is to carry out onsite inspection of financial institutions as per the approved annual plan based on the Onsite Inspection Manual. It includes supervision, by way of visiting financial institutions and verifying records thereon. According to the bylaws each financial institution shall be visited annually for onsite inspection. The objective of onsite inspection is to assess the health and financial soundness of the FIs.

On-site examination includes the following:

- ❖ *Initial examination*, generally conducted within six months of commencement of operation for a newly established institution.

- ❖ *Routine full-fledged*, corporate-level inspection, which is the regular examination, generally carried out once a year.
- ❖ *Targeted inspection*, which addresses on specific areas of operation or transaction based on the risk profile of financial institutions.
- ❖ *Special inspection*, carried out based on offsite reports, press allegation, legal charges or any information obtained from external sources that appear as a complaint against possible wrong action by development banks, undertaken against general welfare of public interest and any pertinent issue felt by the bank. The special inspection undertaken by the department in the review year is summarized in Annex 5.
- ❖ *Follow-up* inspection is carried out to examine on adherence on the enforcement instructions given to institution in a previous inspection. None of the follow up inspections were carried out in review year.

2.9 The on-site examination obtains feedback from the offsite unit, studies past reports and reviews current financial positions of financial institutions. A dedicated inspection team analyzes risk levels of financial institutions including compliance issues and guidelines issued by NRB, ensuring proper implementation of contemporary laws, acts and other regulations and adequacy of in-house guidelines and manuals. Issues regarding corporate governance, internal control and budget are also scrutinized comprehensively. The findings of the onsite inspection are forwarded to respective development banks and necessary direction is provided to address the areas that require further compliance and improvement. On-site inspection undertaken in the review year is summarized in Annex 4.

2.10 Enforcement starts after completion of on-site inspection when inspection team submits the final report to department. A follow up inspection may also be conducted to access the implementation of issues raised during various prior inspections. The enforcement matrix is also maintained as per implementation of enforcement issues along with risk matrix and risk profile of financial institutions.

Analysis and Compliance

2.11 The off-site surveillance function of the FIs is to analyze periodic financials of FIs in order to identify potential problems and to assess whether an organization is in compliance as per directives and laws. Apart from these, compliance in terms of Cash Reserve Ratio (CRR), Capital Adequacy Ratio(CAR), Statutory Liquidity Ratio (SLR), Productive Sector Lending , Deprived Sector Lending and Sectoral Credit etc. Are regularly monitored and necessary fines are imposed as per directives in case of non-compliance.

Table 2. 1: Important Directives regarding Capital, Credit and Liquidity for Financial Institutions (Effective for FY 2020/21)

SN	Particulars	Percentage	Days/ Year	Remarks I	Remarks II
1.	Minimum Capital Fund "B" Class Financial Institutions Core Capital \geq 6% Capital Fund \geq 10%			Minimum capital fund to be maintained based on the risk-weight assets/exposures (percent)	
2.	Bank Rate	5 %			
3.	Repo & Reverse Repos	Max. 14 days			
4.	CRR	3%			
5.	SLR for "B" class financial institutions	8%			
	SLR for "C" class financial institutions	7%			
6.	SLF	5% (Bank Rate)	Max 7 days		
7.	Lender of Last Resort	5% (Bank Rate)	Max. 6 Months		Against deposit at NRB for CRR Purpose / Govt. Securities and Pass Loan
8.	Deprived Sector Lending	5%			of Total Loan and Advances
9.	Specified Sector Lending Development Banks Finance Companies	20% 15%			of Total Loan and Advances

Cash Reserve Ratio (CRR)

2.12 Banks and financial institutions need to maintain a minimum proportion of deposits mobilized from public in the form of liquid cash in Nepal Rastra Bank as CRR. The CRR position of BFIs is monitored on fortnightly basis. Failure to maintain regulatory requirement is subject to fines as per directives which escalates along with repetition in violation. Two finance companies couldn't meet regulatory CRR requirement in the review year.

Deprived Sector Lending

2.13 Financial institutions have a regulatory requirement to disburse five percent of total loan in deprived sector. Unified directives 077/78 has defined sectors that shall be considered as deprived sector. The average deprived sector lending of the development banks stood at 14.60 percent in the review year and that of finance companies stood at 10.49 percent. Failure to meet regulatory requirements of deprived sector lending is subject to monetary penal. In the review year, all the finance institutions, except

Lalitpur Finance Limited, City Express Finance Limited, Janaki Finance Company Limited and Sahara Development Bank Ltd, have complied with the provision.

Statutory Liquidity Ratio (SLR)

2.14 Development banks and finance companies require maintaining SLR of 8 percent (including CRR) and 7 percent of their total domestic deposit liabilities respectively. Non-compliance to this regulatory ratio calls for monetary penalties computed on the basis of bank rate as per directives. During the review year, all financial institutions complied with directives regarding SLR.

Capital Adequacy Ratio (CAR)

2.15 Financial institutions are required to maintain CAR on the basis of Capital Adequacy Framework, 2007 (Updated July 2008). All financial institutions require maintaining core capital ratio of at least 6 percent and total capital adequacy ratio of 10 percent. of total Risk Weighted Assets(RWA). The overall Core Capital Ratio of the development banks in the review year is 11.70 percent and Capital Fund ratio is 13.21 percent. Similarly, such ratios of finance companies are 19.70 percent and 22.09 percent respectively.

Problematic Financial Institutions Resolution (PFIR) and Special Inspection:

2.16 The PFIR function includes off-site surveillance of the problematic FIs as well as final approval of all material effect events occurred in problematic finance institutions. The core objective of this function is to facilitate day to day operational work. The periodic financial reviews are also carried out in order to identify potential problems and their resolution.

Special inspection is carried out based on offsite reports, media reporting, direction or requests by governmental and other bodies or information obtained from external sources including complaints against the company,.

AML/CFT:

2.17 AML/CFT related inspections are conducted as per the approved annual plan based on the AML/CFT Inspection Manual. AML/CFT Inspection/Supervision assures if the policies, practices, procedures and internal controls are adequate with regard to

- AML/CFT related directives and laws,
- Compliance with laws and regulations.
- Type of corrective actions needed if policies, practices, procedures or internal controls are deficient or when violations of laws or regulations have been noted.

- Money Laundering(ML) vulnerability of the bank or financial institution based on the inherent ML risk of its products/services and rating of the general and specific control measures applied.

3 OPERATIONAL PERFORMANCE OF DEVELOPMENT BANKS

Performance of Development Banks

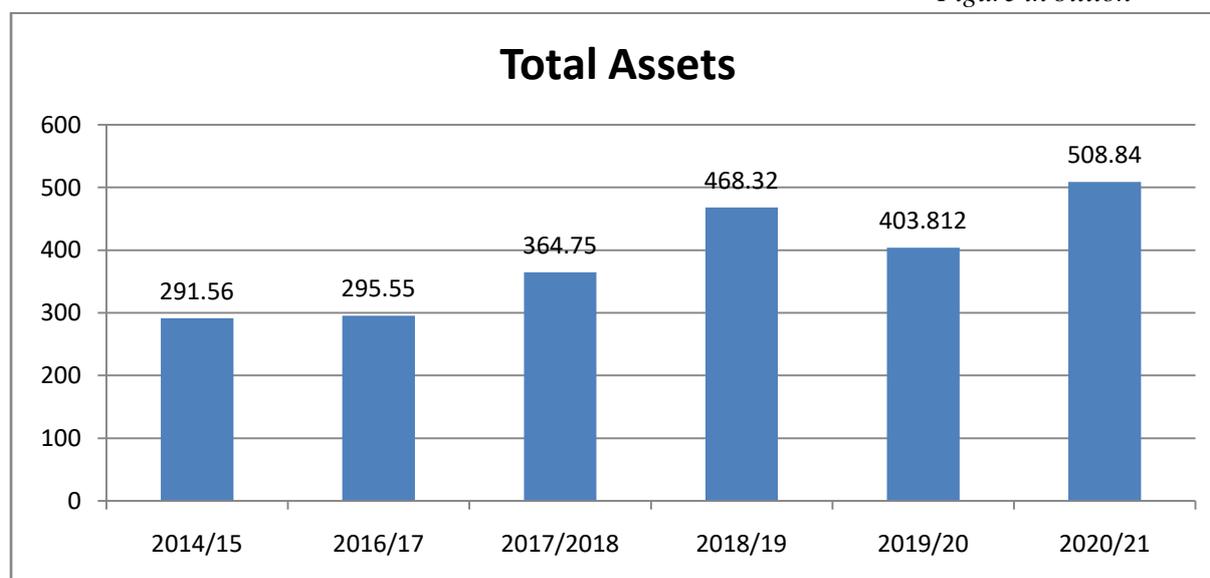
- 3.1 Development banks have maintained buffers on regulatory capital and liquidity over current regulatory requirements. They have also remained profitable and also able to withstand various shocks arisen from Covid-19 pandemic. There has been significant increase in deposits and lending during FY 2020/21 basically due to expansion of business activities in post COVID period. Also, there has been significant increment in business volumes of individual development banks that in turn had a positive impact on profit. Even though development banks have enough capital and liquidity to meet regulatory requirement, there still seems to be a need for greater resilience among development banks to withstand possible liquidity and credit shocks.
- 3.2 There has been slight decrease in base rate and interest rate spread as compared to that in the previous fiscal year. Such decline basically owes to the regulatory requirements and the prevailing market conditions. Mergers and acquisitions have continued this year as well such that the number of development banks has decreased to 18 this year (as on mid-July 2021) from 20 as at the end of last FY 2019/20.

Assets of Development Banks

- 3.3 The development bank sector's total assets increased by 26.01 percent from Rs.403.81 billion in mid July 2020 to Rs.508.84 billion in mid July 2021.

Figure 3. 1: Total Assets of the Development Banks
(Mid July 2021)

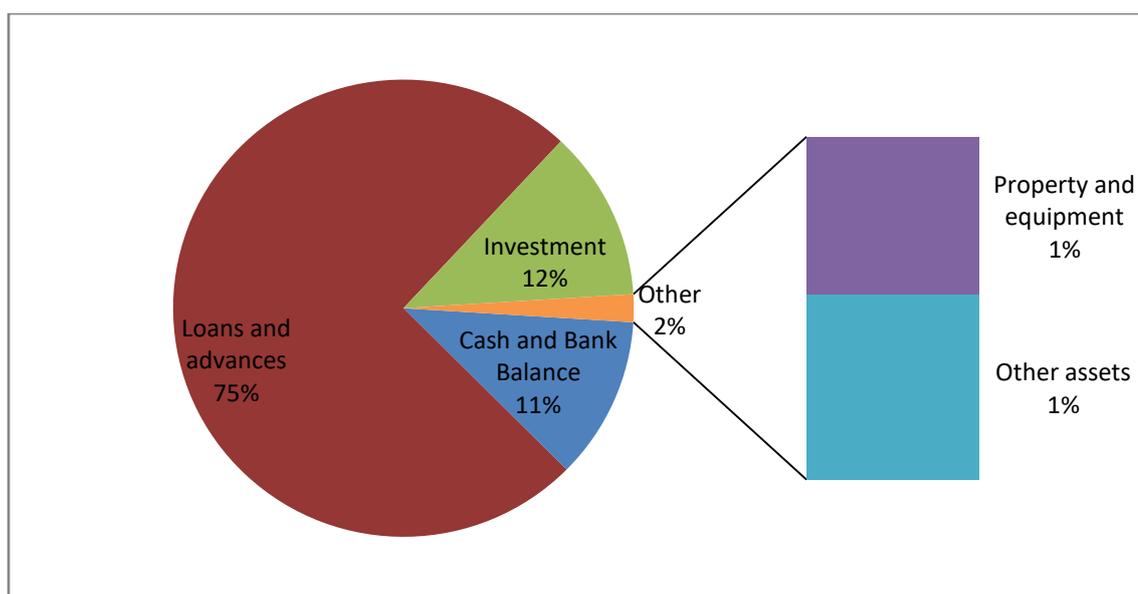
Figure in billion



Composition of Assets

3.4 Loans and advances to customers constitute the largest portion of the total assets i.e. 75 percent followed by investment 12 percent, cash and bank balance 11 percent and property and equipment 1 percent and other assets, 1 percent respectively. Other assets comprises other trading assets, current tax assets, goodwill and intangible assets and deferred tax assets. Detailed figures are shown in Annex 12.9.

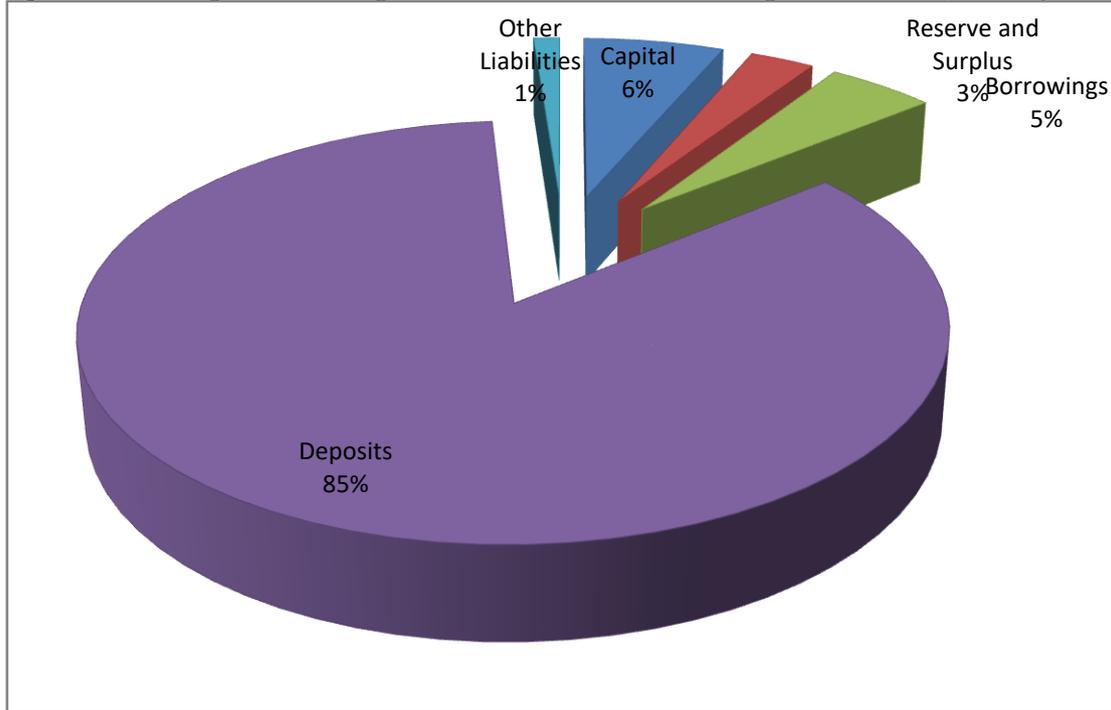
Figure 3. 2: Composition of Assets of Development Banks (Mid July 2021)



Composition of Liabilities

3.5 As on mid July 2021, the total equities and liabilities of the development bank sector amounted to Rs. 508.84 billion which is a significant increase of 26.01 percent compared to the Rs. 403.812 billion in mid July 2020. Major sources of funding for development banks' liabilities continue to be customer deposits. Other sources of funds comprised reserve and surplus, and other liabilities. Detail composition of liabilities is shown below.

Figure 3. 3: Composition of Equities and Liabilities of Development Banks (Mid July 2021)

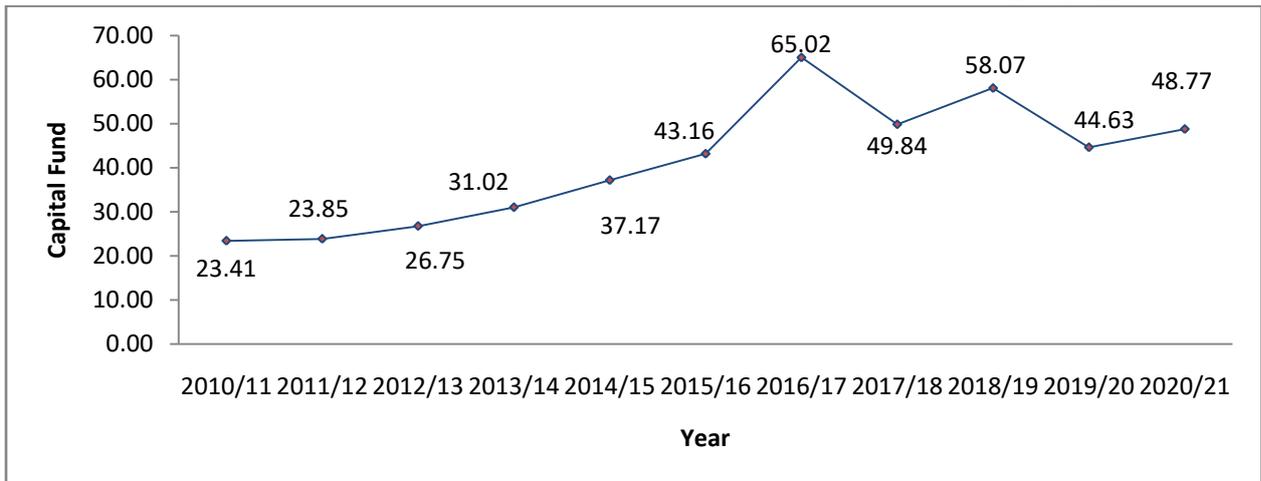


Capital

3.6 Total Capital Fund of the development banks has increased to Rs.48.77 billion on mid July 2021 from Rs. 44.63 billion as of mid July 2020. Individual development banks have increased their capital as required by NRB Directives through issuance of right shares, bonus shares and retained earnings during the review period. Still some regional level development banks need to increase paid up capital as per regulatory requirement. Detailed figures are presented in Annex 12.2.

Figure 3.4: Capital Fund of the Development Banks (Mid July 2021)

Billion Rs.

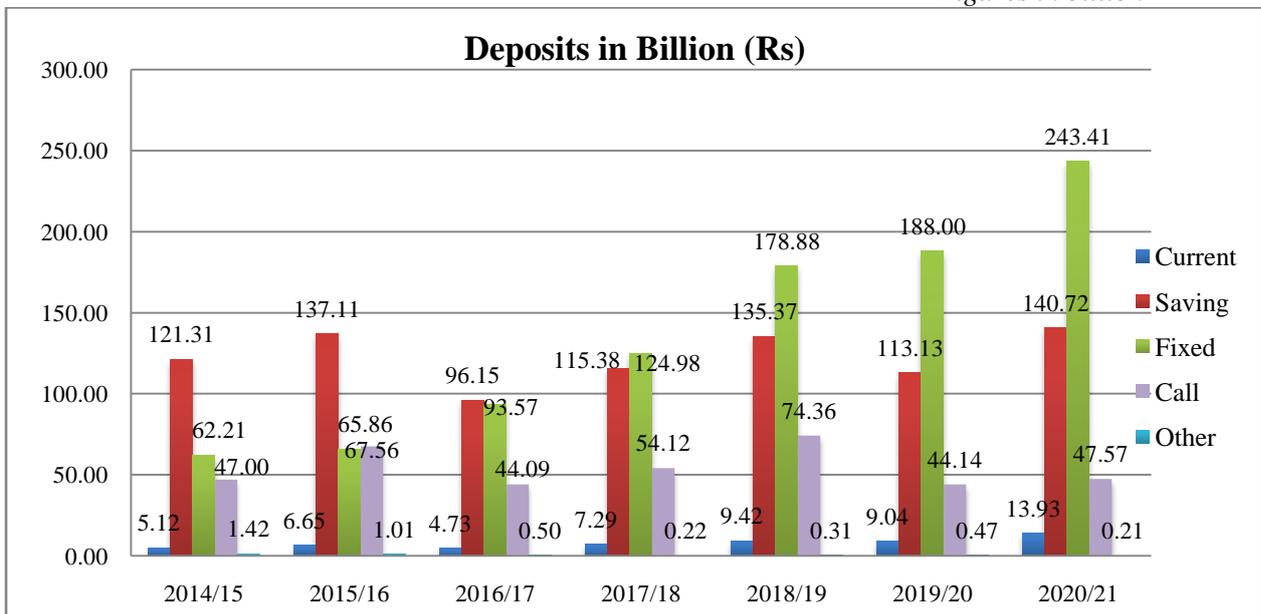


Deposit

3.7 Total deposits have increased by 25.67 percent to Rs. 445.84 billion from Rs. 354.79 billion during FY 2020/21. Out of total deposits, fixed deposit comprises the highest portion of Rs.243.41 billion, followed by saving deposits of Rs. 140.72 billion as at mid July 2021. Deposit figures are shown in Annex 12.3.

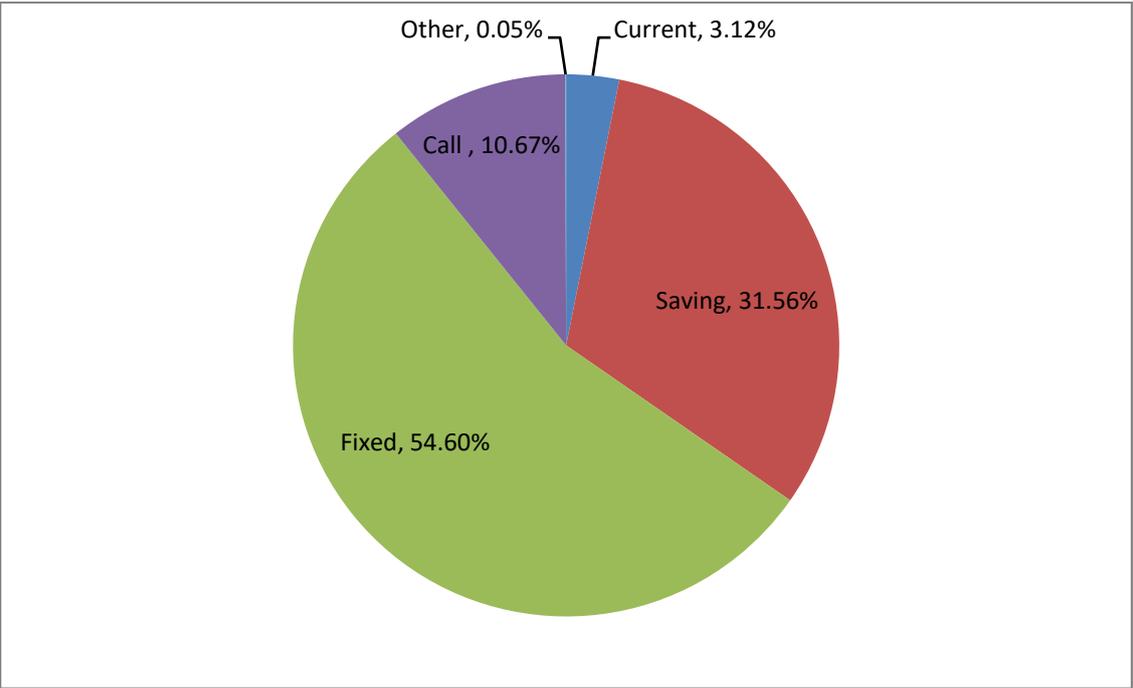
Figure 3.5: Deposit of the Development Banks (Mid July 2021)

Figures in billion



3.8 While looking into the deposit composition of the development banks, fixed, saving, call and current deposit comprises 54.60 percent, 31.56 percent, 10.67 percent and 3.12 percent of total deposits respectively. Other deposits consist of nominal share in total deposits. Detailed figures are shown in Annex 12.3.

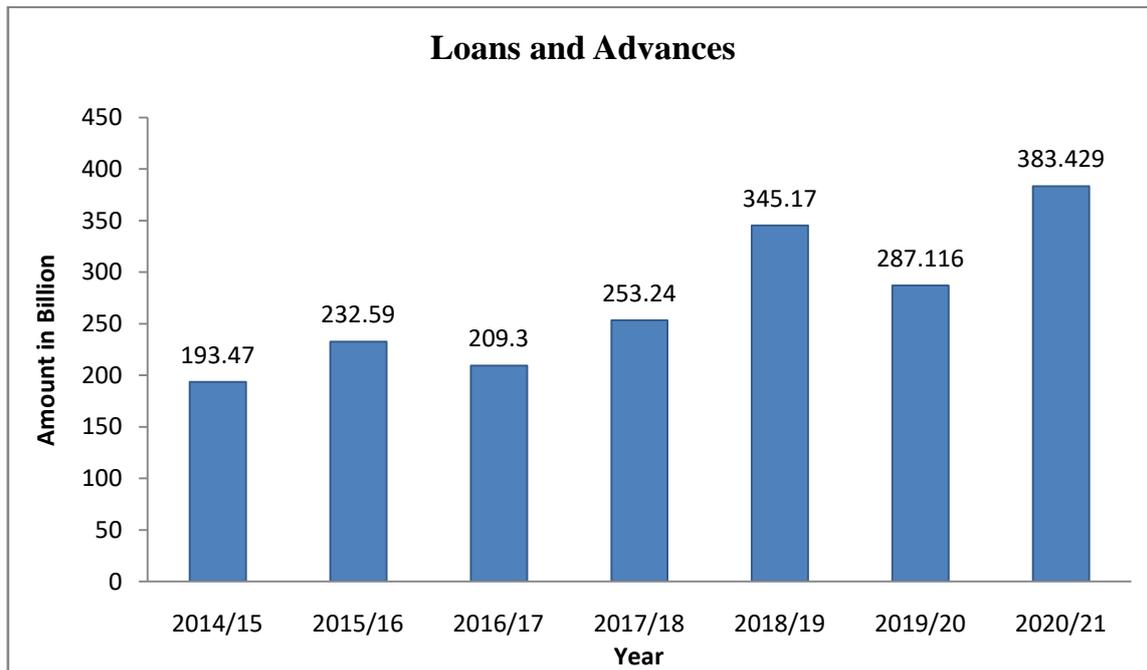
Figure 3. 6: Deposit Mix of Development Banks (Mid July 2021)



3.9 Loan and advances of the development banks have increased by 33.54 percent from Rs.287.12 billion in FY 2019/20 to Rs. 383.43 billion in FY 2020/21. Performing loan constitutes 98.70 percent of total loan which amounts to Rs. 378.43 billion and non-performing loan constitutes remaining 1.3 percent which amounts to Rs. 5.00 billion. Detailed figures are shown in Annex 12.1 and 12.4.

Figure 3. 7: Loan and Advances of the Development Banks
(Mid July 2021)

Rs.in billion



Sector-wise Loan and Advances

3.10 Sectoral distribution of loans and advances reflects different sectors where development banks have invested their loanable funds. Development banks are also exposed to sectoral credit concentration, which shows exposure of banks to specific sectors of the economy. In FY 2020/21, credit to wholesale and retail sector account for 16.07 percent, construction sector, 12.78 percent, finance, insurance and real estate sector, 10.23 percent, agriculture forest, 7.04 percent, consumable Loans, 6.07 percent and tourism (Hotel and Restaurant), 4.14 percent, of industry's loans and advances respectively. Table 3.1 shows sector-wise loan and advances of the development Banks.

Table 3.1: Sector-wise Loan and Advances of Development Banks (Mid July 2021)*(Figures in percentage of total loan)*

S.N	Sector /FY	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	Agriculture Forest	6.24	6.52	5.50	5.96	6.24	6.45	7.04
2	Fishery	0.21	0.18	0.13	0.13	0.21	0.24	0.26
3	Mining	0.20	0.17	0.21	0.23	0.10	0.06	0.09
4	Agriculture, Forestry & Beverage Production Related		3.09	2.71	2.63	2.78	3.04	2.34
5	* Non-food Production Related	6.33	3.23	2.83	3.19	3.96	4.04	3.32
6	Construction	13.49	14.01	13.18	12.86	14.09	14.79	12.78
7	Electricity, Gas and Water	2.56	1.72	1.91	1.76	1.91	1.70	1.33
8	Metal Products, Machineries, Electronics and Installation	1.54	1.03	0.74	0.89	1.05	0.75	0.56
9	Transport, Warehousing and Communicati on	7.84	7.66	9.02	8.27	7.21	6.10	3.93
10	Wholesalers and Retailers	16.91	15.40	15.63	16.05	16.05	16.31	16.07
11	Finance, Insurance and Real Estate	6.95	6.98	6.76	7.32	7.57	7.59	10.23
12	Tourism (Hotel and Restaurant)	3.76	3.99	4.00	3.93	3.92	4.09	4.14
13	Other Services	4.50	4.03	3.99	3.55	3.32	3.91	3.02
14	Consumable Loans	8.09	7.31	9.24	8.17	6.25	5.46	6.07
15	Local Government	0.02	0.02	0.02	0.01	0.01	0.00	0.00
16	Others	21.37	24.67	24.13	25.05	25.35	25.47	28.81
	Total Loan	100.00	100.00	100.00	100.00	100.00	100.00	100

Security-wise Loan and Advance

3.11 Majority of loans and advances of development banks are secured by real estate properties. In the review year, proportion of collateral based loan and advances is 83.27 percent of the total loan disbursed. Proportion of loans against guarantee has been gradually increasing since 2014/15 and covers around 11.39 percent of total loan in the review year. All other forms of collateral occupies less than 4 percent share in total loan. Table 3.2 shows security wise loans and advances position of development banks.

Table 3.2: Securities against Loans and Advances (Mid July 2021)

S.N	Security/FY	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	Gold and Silver	2.13	1.80	2.06	1.92	1.57	1.13	0.97
2	Government Bonds	0.01	0.00	0.00	0.01	0.01	0.00	0.00
3	Non Government Securities	1.72	1.99	1.81	2.22	2.16	2.21	3.12
4	Fixed Deposit	1.04	0.93	2.51	1.58	1.18	0.83	0.96
5	Property as Collateral	91.93	91.50	89.01	89.28	89.79	89.61	83.27
6	Security of Bills	0.01	0.00	0.00	0.00	0.00	0.00	0.00
7	Guarantee	2.78	3.39	4.39	4.72	4.79	6.07	11.39
8	Credit/Debit Card	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	Others	0.39	0.39	0.21	0.27	0.47	0.15	0.28
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Figures in percentage of total loan

Product-wise Loan and Advance

3.12 Development banks have classified their loan products as per NRB directives. The highest portion (30.14 percent) of the loans and advances is covered by term loan facilities. Similarly, overdraft facilities comprise 20.54 percent, Deprived Sector Loan 12.29 percent, Personal Residential Home Loan comprises around 10.75 percent, and Other Product, 8.10 percent of total loan respectively. There is a gradual rise of deprived sector loans through previous years owing to regulatory requirements. There has been a steady rise in case of term loans since F/Y2014/15. Similarly, the portion of demand and other working capital loans has been in increasing trend in recent years. Share of real estate loan has declined to 4.55 percent of total loan in review period from 5.09 percent in last year. Table 3.3 shows product wise composition of loan and advances of development banks.

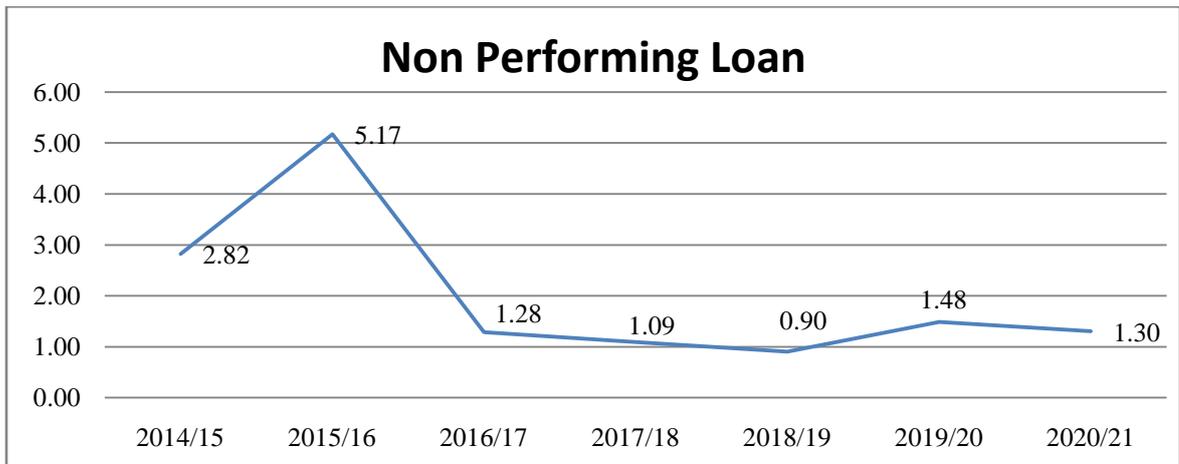
Table 3.3: Product-wise Loan and Advances (Mid July 2021)*Figures in percentage of total loan*

S.N.	Loan Products/FY	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	Term Loan	14.47	16.01	15.79	17.97	20.96	28.13	30.14
2	Overdraft	23.72	23.32	24.56	24.39	22.07	21.06	20.54
3	Trust Receipt Loan/Import Loan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	Demand and Other Working Capital Loan	10.60	8.66	5.05	3.83	3.39	4.18	4.68
5	Personal Residential Home Loan	11.62	11.50	10.50	10.43	12.30	12.22	10.75
6	Real Estate Loan	6.78	7.42	8.02	7.74	6.08	5.09	4.55
7	Margin Loan	1.98	2.23	1.83	2.25	2.20	2.24	3.27
8	Hire Purchase Loan	9.81	10.17	11.71	10.87	9.56	8.09	5.69
9	Deprived Sector Loan	5.27	5.56	7.83	8.18	8.85	9.35	12.29
10	Bills Purchased	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11	Other Product	15.76	15.14	14.69	14.34	14.59	9.64	8.10
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Non- Performing Loans

3.13 The ratio of NPLs to gross loans and advances has decreased by 0.18 percentage point and stood at 1.30 percent in mid July 2021 compared to 1.48 percent in mid July 2020.

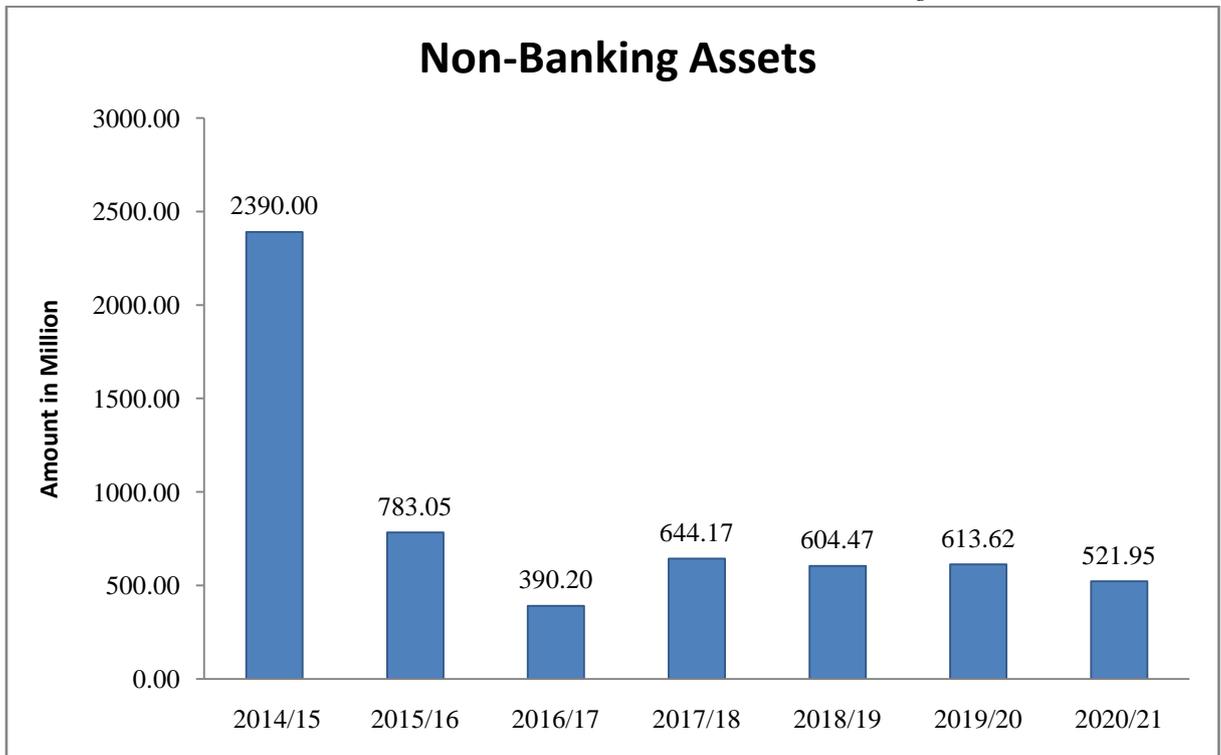
Figure 3. 8: Non-performing loans of the Development Banks(Mid July 2021)
Figures in percentage of total loan



Non-Banking Assets

3.14 The total amount of non-banking assets of development banks as on mid-July 2021, stood at Rs. 521.95 million. The total amount of non-banking assets (NBA) of development banks for previous year stood at Rs. 613.62 million. The level and structure of NBA is presented in the figure 3.9. Details on NBA for various years are shown in Annex 12.5

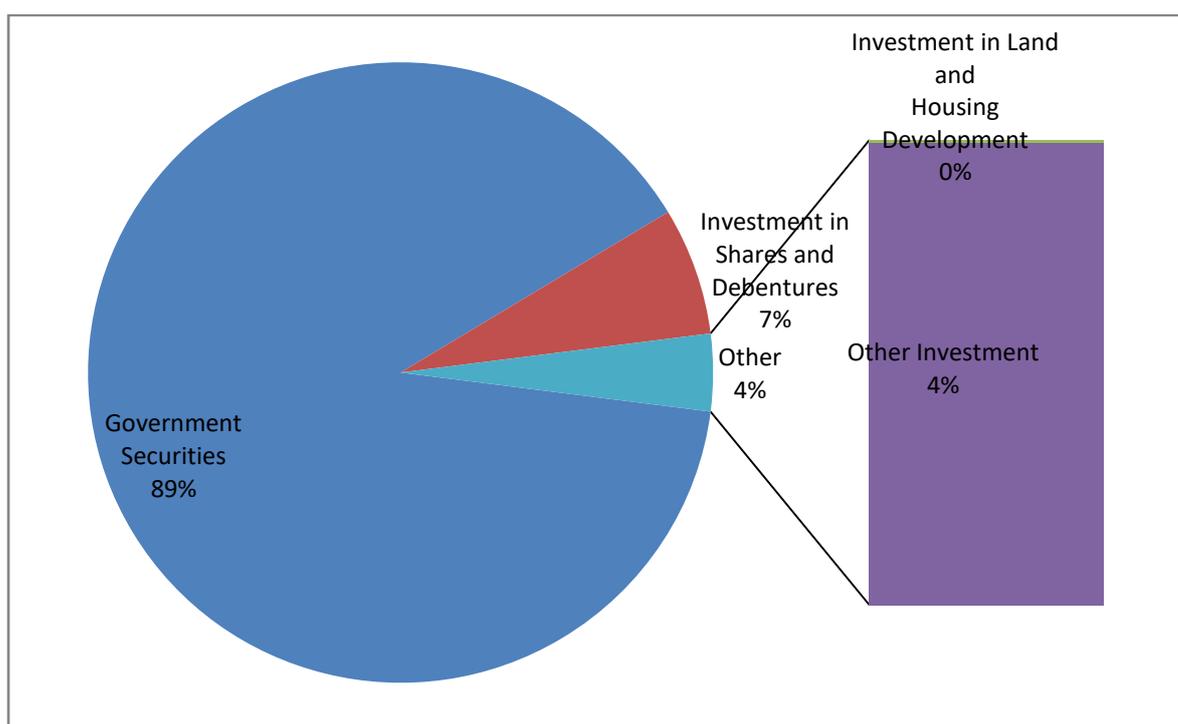
Figure 3. 9: Non-banking Assets of the Development Banks (Mid-July 2021)
Figures in million



Investment

3.15 The largest portion of investment made by development banks was in government securities. This category accounted 89 percent of total investment of development banks in the review year. Investment in shares and debentures and other investment amounted to 7 percent and 4 percent of total investment respectively. The total investment of development banks has increased by 96.51 percent and has reached Rs. 63.59 billion as at mid-July 2021 from Rs. 32.36 billion as at mid-July 2020. Details of investment of development banks are shown in Annex 12.6.

Figure 3. 10: Investment Portfolio of the Development Banks (Mid July 2021)



Profitability

3.16 Consolidated profitability of overall development banks during FY 2020/21 amounted to Rs. 5.66 billion. It amounted to Rs. 3.96 billion during FY 2019/20. The aggregate net profit of development banks increased by 42.93 percent during the review period on account of massive increase in other operating income and increase in fee and commission.

3.17 The interest spread of overall development banks has been declined to 4.52 percent as at mid-July 2021 from 4.86 percent as of mid-July 2020.

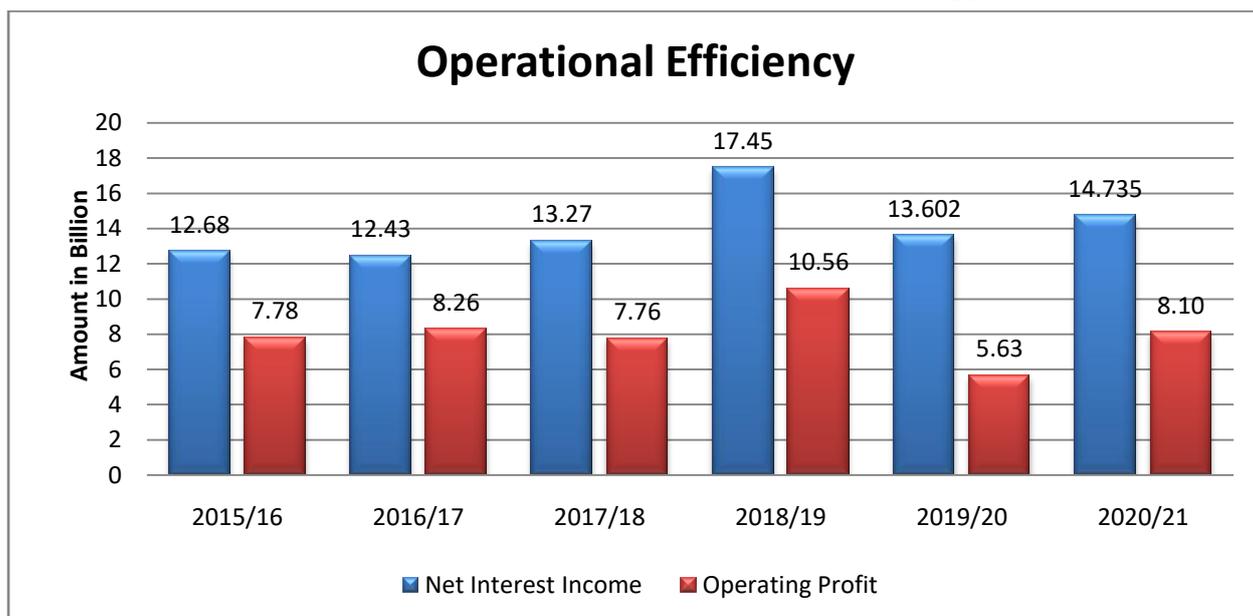
3.18 Interest income of all development banks accounted to Rs. 38.77 billion in the review period which has been decreased by 0.36 percent compared to previous year. Similarly, interest expenses accounted to Rs. 24.04 billion in the review period which has been decreased by 5.28 percent compared to previous year. Net interest income

has also been increased by 8.38 percent to Rs. 14.74 billion in the review period from Rs. 13.60 billion as compared to previous year.

- 3.19 In the review period operating profit of development banks has been increased by 43.88 percent from Rs. 5.63 billion to Rs. 8.10 billion compared to previous year. Net interest income and operating profit of development banks are shown in the Annex 12.8.

Figure 3. 11: Operating Efficiency of the Development Banks (Mid July-2021)

Rs in billion.

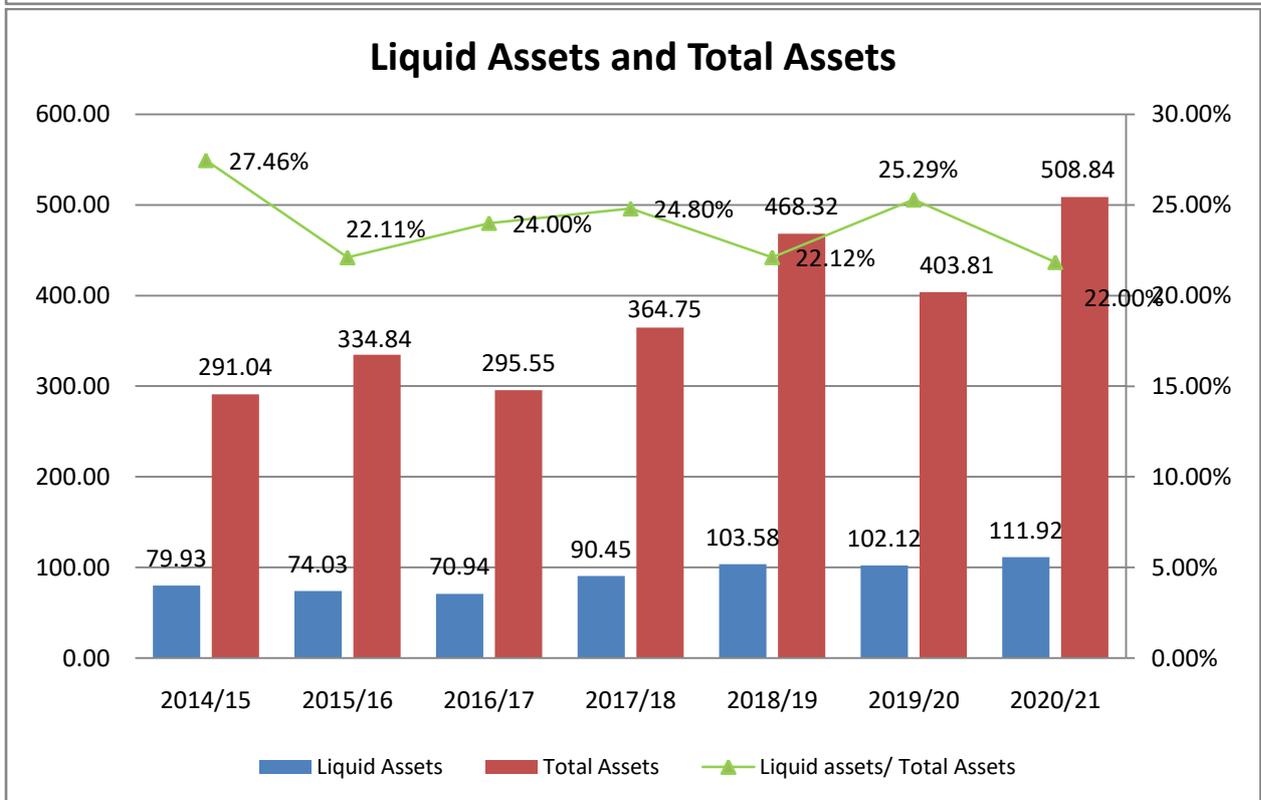
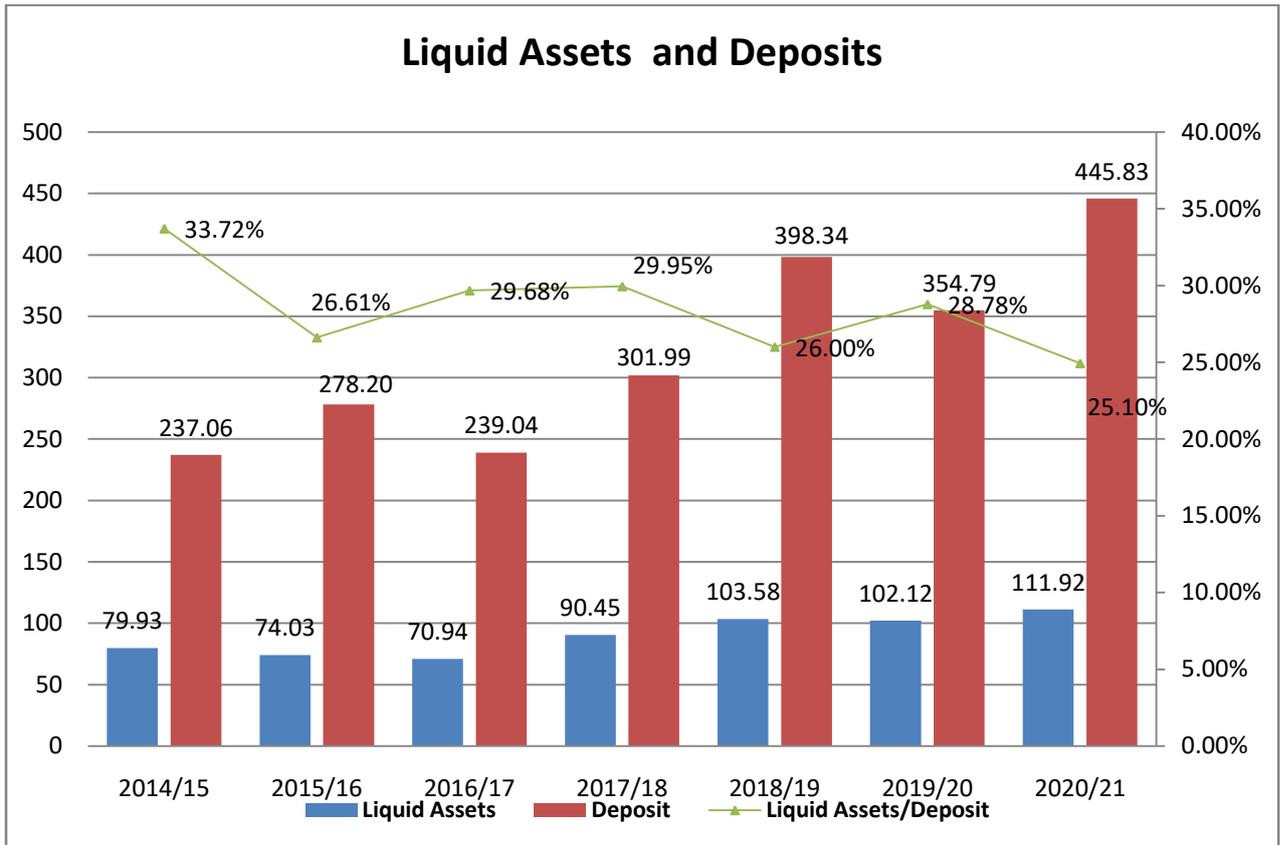


Liquidity

- 3.20 Total liquidity comprises of cash balance, bank balances with NRB and other BFIs, money at call and investment in treasury bills. Total Liquid assets of development banks have been increased by 9.60 percent from Rs. 102.12 billion as on mid-July 2020 to Rs. 111.92 billion as on mid-July 2021. The share of these liquid assets to total deposits decreased by 3.68 percentage point from 28.78 percent at mid-July 2020 to 25.10 percent at mid-July 2021. Similarly, the share of these liquid assets to total assets decreased by 3.29 percentage point from 25.29 percent in mid-July 2020 to 22 percent in mid-July 2021. Detailed figures is indicated in figure 3.12 are shown in Annex 12.7.

Figure 3. 12: Liquidity Position of the Development Banks (Mid July – 2021)

Figures in billion



Deprived Sector Lending

3.21 The overall position of deprived sector lending of development banks in FY 2020/21 was 14.61 percent as compared to 9.95 percent in FY 2019/20.

Base Rates and Spread Rates

3.22 Base rate of all development banks was 8.09 percent as on mid-July 2021 whereas it was 9.91 percent in mid-July 2020. The overall base rate of national level development banks stood at 8.03 percent in mid-July 2021, whereas it was 9.89 percent in mid-July 2020.

3.23 Interest spread of overall development banks stood at 4.52 percent as at mid July 2021 whereas it was at 4.86 percent as at mid July 2020. Interest spread of national and regional level development banks were 4.47 percent and 5.20 percent respectively in the review year.

Electronic Banking

3.24 With the advancement of technology, different forms of electronic banking have been used in the banking sector. Mostly, the transaction of electronic banking is limited to mobile banking, internet banking, debit card and ATM services. The table below depicts the data regarding use of electronic banking in the class 'B' financial institutions. The number of customers using mobile banking services and debit card users are in increasing trend. In the FY 2020/21, number of internet banking customers and ATM has increased from such numbers in previous year due to change in consumer behavior after COVID pandemic.

Table 3. 4: Use of Electronic Banking (Mid July 2021)

S. N.	Particulars	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1	No. of Branchless Banking Centers	-	-	1	1	-	-
2	No. of Customers (Branchless Banking)	-	-	107	143	-	-
3	No. of Customers (Mobile Banking)	133561	217432	351796	909512	1100743	1500050
4	No. of Internet Banking Customers	23036	14634	14634	24124	23332	37063
5	No. of ATMs	230	177	209	318	296	301
6	No. of Debit Cards	479318	260225	206589	216991	231287	348411

(Source: Bank and Financial Institutions Regulation Department, NRB)

Stress Testing of Development Banks

3.25 Stress test results indicate that development banks remain reasonably resilient to various kinds of shocks although greater resilience seems necessary for credit and liquidity shocks. Stress test results bases on data of mid July 2021 indicate that

development banks have adequate regulatory capital and also needs buffer capital to absorb various shocks as detailed below:

- 3.26 Standard credit shock test results indicate that all except development banks (out of total 18) would be able to withstand standard credit shocks to which they were subjected in stress testing scenario. Five development banks would not comply with the minimum capital adequacy ratio requirement if 15 percent of performing loans deteriorated to substandard. Nine development banks would not comply with the minimum capital adequacy ratio requirement if 5 percent of performing loans deteriorated to loss loans. One development bank would not comply with the minimum capital adequacy ratio requirements if 25 percent of performing loan of Real Estate & Housing sector loan directly downgraded to Loss category of NPLs.

Liquidity Shock

- 3.27 Standard liquidity shock test results suggest that some development banks would fall below mandatory liquidity ratio in stress scenarios. Eleven development banks would become illiquid if there were following withdrawal of deposits for 5 consecutive days: 2 percent, 5 percent, 10 percent, 10 percent and 10 percent respectively. Similarly, four development banks would have its net liquid assets to deposit ratio fall below the minimum requirement of 20 percent if there were a withdrawal of deposits by 5 percent. Two development banks would have their net liquid assets to deposit ratio fall below this regulatory minimum if there were a withdrawal of deposits by top 1 institutional depositors. None of the development banks were found to have their liquid assets to deposit ratio fall below the regulatory minimum if top five individual depositors withdrew their deposits.

Other Shocks

- 3.28 All development banks were found to be resilient to standard interest rate, exchange rate and equity price shocks such that none of the development banks would have their capital adequacy ratio fall below the regulatory minimum of 10 percent following these shocks.

Table 3.5: Summary Result on Stress Testing of Development Banks As on Mid July 2021

Summary Results of Stress Testing of Development Banks				
<i>As of Asar end, 2078</i>				
		Number of Banks with CAR		
Events		< 0%	0% - <10%	>=10%
Pre Shock		0	0	18
		Post Shocks		
A. After Credit Shock		< 0%	0% - <10%	>=10%
C1	15 Percent of Performing loans deteriorated to substandard	0	5	13
	15 Percent of Substandard loans deteriorated to doubtful loans	0	0	18
	25 Percent of Doubtful loans deteriorated to loss loans	0	0	18
	5 Percent of Performing loans deteriorated to loss loans	0	9	9
C2	All NPLs under substandard category downgraded to doubtful.	0	0	18
	All NPLs under doubtful category downgraded to loss.	0	0	18
C3	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to substandard category of NPLs.	0	0	18
C4	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to Loss category of NPLs.	0	1	17
C5	Top 2 Large exposures down graded: Performing to Substandard	0	0	18
B. After Market Shocks		-	-	-
(a) Interest Rate Shocks		< 0%	0% - <10%	>=10%
IR-1a	Deposits interest rate changed by 1.0 percent point on an average.	0	0	18
IR-1b	Deposits interest rate changed by 1.5 percent point on an average.	0	0	18
IR-1c	Deposits interest rate changed by 2.0 percent point on an average.	0	0	18
IR-2a	Loan interest rate changed by -1.0 percent point on an average.	0	0	18
IR-2b	Loan interest rate changed by -1.5 percent point on an average.	0	0	18
IR-2c	Loan interest rate changed by -2.0 percent point on an average.	0	0	18
IR-3	Combine Shocks (IR-1a & IR-2a)	0	0	18
(b) Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by 20%	0	0	18
ER-1b	Appreciation of currency exchange rate by 25%	0	0	18
(c) Equity Price Shocks				
EQ-1	Fall in the equity prices by 50%	0	0	18
C. After Liquidity Shocks		-	-	-
Events				
L-1a	Number of BFIs illiquid after on 1st day while withdrawal of deposits by 2%		0	
	Number of BFIs illiquid after on 2nd day while withdrawal of deposits by 5%		0	
	Number of BFIs illiquid after on 3rd day while withdrawal of deposits by 10%		0	
	Number of BFIs illiquid after on 4th day while withdrawal of deposits by 10%		0	

	Number of BFIs illiquid after on 5th day while withdrawal of deposits by 10%	11		
Number of Banks with Liquid Assets to Deposit Ratio		< 0%	0% - <20%	>=20%
Pre-shocks		0	0	18
		After Shocks		
L-2a	Withdrawal of deposits by 5%	0	4	14
L-2b	Withdrawal of deposits by 10%	0	11	7
L-2c	Withdrawal of deposits by 15%	0	12	6
L-2d	Withdrawal of deposits by 20%	0	13	5
L-3a	Withdrawal of deposits by top 1 institutional depositors.	0	2	16
L-3b	Withdrawal of deposits by top 2 institutional depositors.	0	3	15
L-3c	Withdrawal of deposits by top 3 institutional depositors.	0	4	14
L-3d	Withdrawal of deposits by top 4 institutional depositors.	0	5	13
L-3e	Withdrawal of deposits by top 5 institutional depositors.	0	5	13
L-4a	Withdrawal of deposits by top 1 individual depositors.	0	0	18
L-4b	Withdrawal of deposits by top 2 individual depositors.	0	0	18
L-4c	Withdrawal of deposits by top 3 individual depositors.	0	0	18
L-4d	Withdrawal of deposits by top 4 individual depositors.	0	0	18
L-4e	Withdrawal of deposits by top 5 individual depositors.	0	0	18

Actions and Penalties

- 3.29 Following actions were taken against development banks according to existing legal and regulatory provision in the review year.
- One development bank was penalized twice during the period due to non compliance of compulsory reserve requirement as per Nepal Rastra Bank Act, 2002 Section 47 and provision of Unified Directive no. 13/078.
 - One development bank was penalized for non compliance of provision of deprived sector lending as required by NRB Unified Directives no. 17/076.

4 OPERATIONAL PERFORMANCE OF FINANCE COMPANIES

Performance of Finance Companies

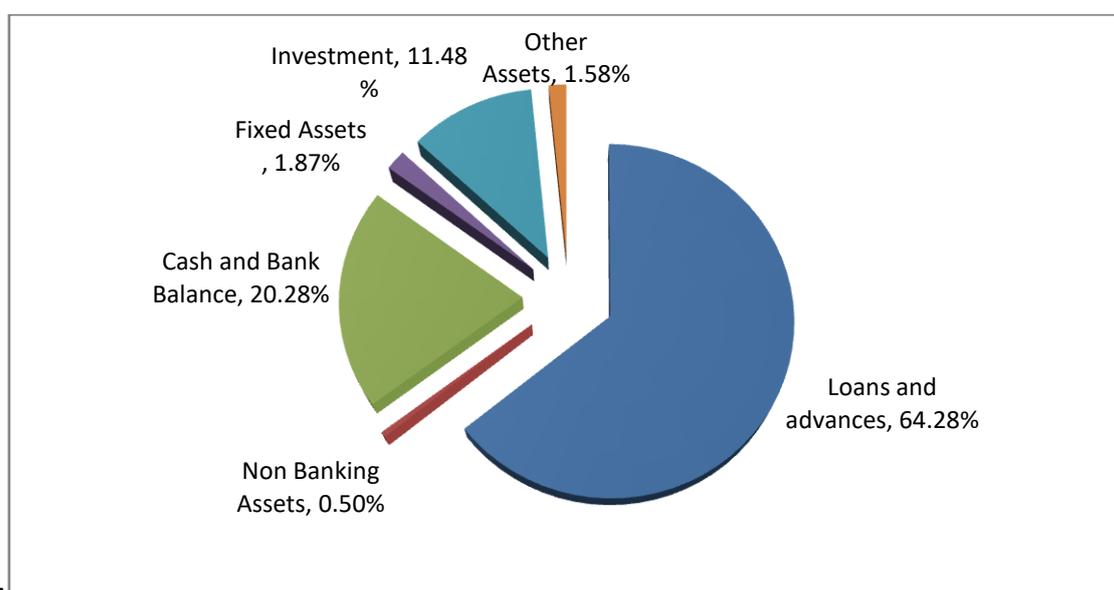
4.1 In the review period, the size of finance companies in terms of total assets and liabilities expanded and capital base further strengthened. Finance companies are in cushion with reference to liquidity. Total business of the overall sector slightly shrank in comparison to that in previous fiscal year as an effect of acquisition of three finance companies this fiscal year by commercial banks. However, profitability improved even amidst Covid-19 pandemic. Nonperforming loan to total loan increased by a nominal percentage point whereas non banking assets decreased.

Base rate and interest spread rate of financial institutions decreased nominally owing to market situation and regulatory requirements. The overall resilience of the finance companies to different shocks remained satisfactory during the review period.

Assets of Finance Companies

4.2 Finance Company's total assets increased by 24.94 percent from Rs. 89.47 billion in mid July 2020 to Rs.111.79 billion in mid July 2021. Assets of finance companies comprise of loan and advances, cash balance, balance maintained with NRB and other BFIs, money at call, investment, property and equipment, non banking assets and other assets. Loans and advances of finance companies have increased by 16.76 percent in the review period compared to increment of 14.56 percent in the previous year. Aggregate figures are shown in Annex 16.1.

Fig: 4.1 : Composition of Assets of finance companies (Mid July 2021)



Composition of Liabilities

4.3 As on mid July 2021, the total equities and liabilities of the finance companies sector amounted to Rs. 111.79 billion, an increment of 24.94 percent compared to the Rs. 89.47 billion in mid July 2020. Major sources of funding for finance companies' liabilities continue to be customer deposits. Other sources of funds comprised reserve and surplus, and other liabilities. Detail composition of liabilities is shown below.

Figure 4. 2: Composition of Equities and Liabilities of Finance Companies (Mid July 2021)

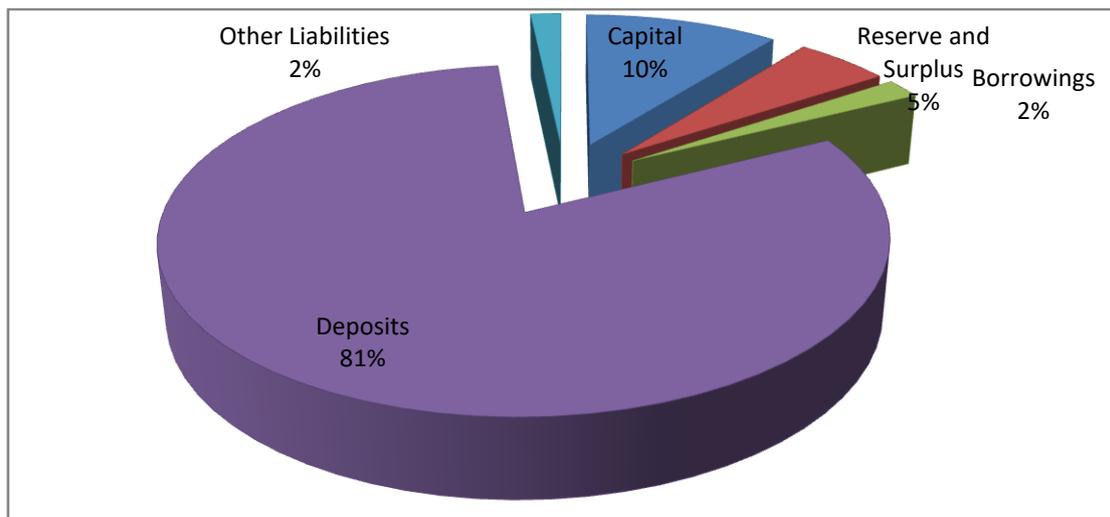
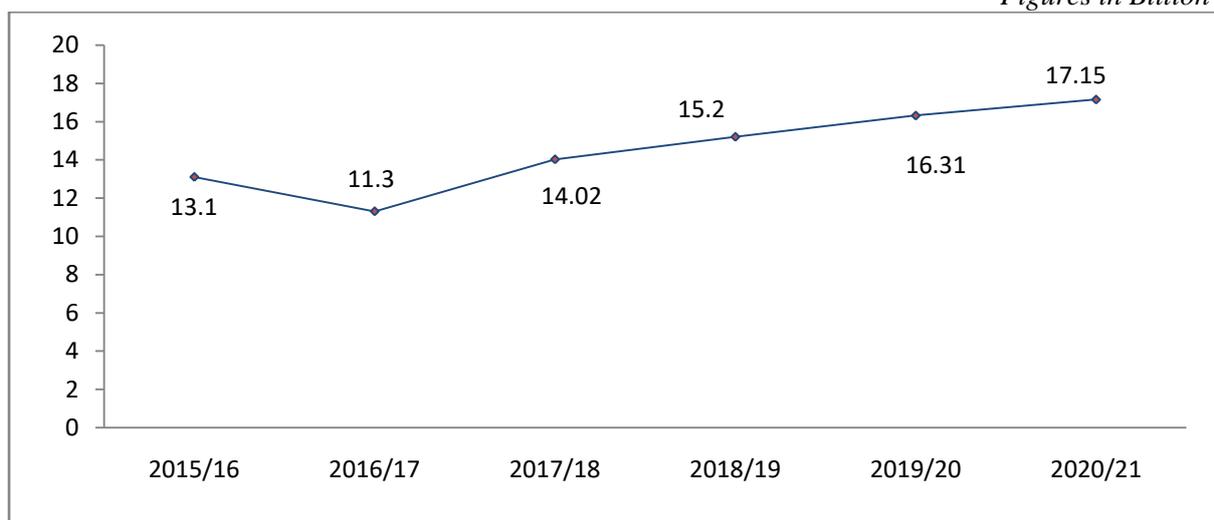


Figure 4. 3: Capital Fund of the Finance Companies (Mid July 2021)

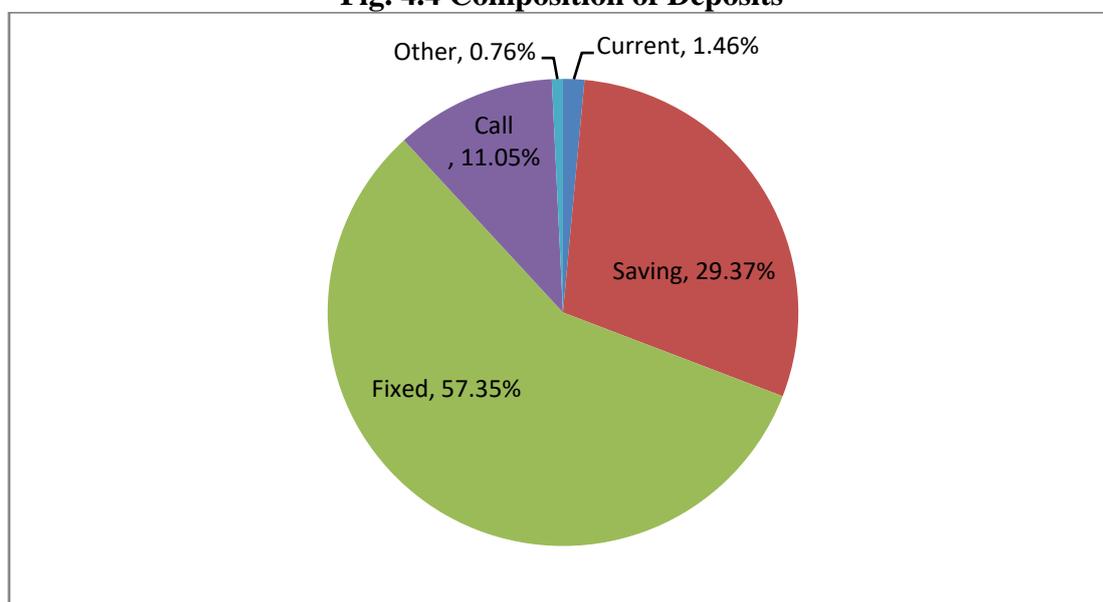
Figures in Billion



Deposit

- 4.4 Total deposits have decreased by 0.86 percent to Rs. 88.10 billion from Rs. 88.86 billion during FY 2020/21 due to acquisition of 3 finance companies by 'A' class commercial banks. Out of total deposits, fixed deposit comprises the highest portion of Rs.50.53 billion, followed by saving deposits of Rs. 25.88 billion as at mid July 2021.
- 4.5 While looking into the deposit composition of the finance companies, fixed, saving, call and current deposit comprises 57.35 percent, 29.37 percent, 11.05 percent and 1.46 percent of total deposits respectively. Other deposits comprises nominal share of total deposits. Detailed figures are shown in Annex 16.3.

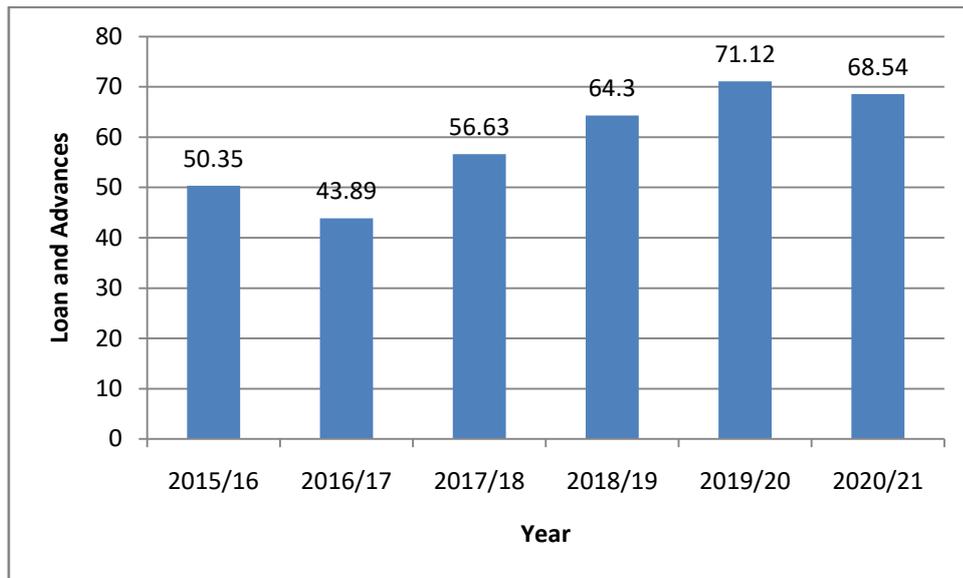
Fig. 4.4 Composition of Deposits



Loans and advances

- 4.6 Loan and advances of the finance companies have decreased by 3.63 percent from Rs.71.12 billion in FY 2019/20 to Rs. 68.54 billion in FY 2020/21. Performing loan constitutes 96.84 percent of total loan which amounts to Rs. 66.38 billion and non-performing loan constitutes remaining 3.16 percent which amounts to Rs. 2.16 billion. Figures are shown in detail in Annexes 16.1 and 16.4.

Fig: 4.5 : Loan and Advances (fig. in billion)



Sector-wise Loan and Advances

4.7 Sectoral distribution of loans and advances reflects different sectors where finance companies have invested their loanable funds. Finance companies are also exposed to sectoral credit concentration, which shows exposure of banks to specific sectors of the economy. In FY 2020/21, wholesale and retail sector account for 17.78 percent, finance, insurance and real estate sector, 15 percent, construction sector, 13.99 percent, consumable loans, 7.26 percent, agriculture and forest sector, 6.41 percent and tourism (hotel and restaurant), 4.38 percent of industry's loans and advances respectively.

Table 4.1: Sector-wise loan and advances of Finance Companies (Mid July 2021)*Figures in percentage of total loan*

S.N.	Sectors	Percent
1	Agriculture Forest	6.41
2	Fishery	0.19
3	Mining	0.09
4	Agriculture, Forestry & Beverage Production Related	1.19
5	* Non-food Production Related	2.80
6	Construction	13.99
7	Electricity, Gas and Water	0.29
8	Metal Products, Machineries, Electronics and Installation	0.87
9	Transport, Warehousing and Communication	5.28
10	Wholesalers and Retailers	17.78
11	Finance, Insurance and Real Estate	15.00
12	Tourism (Hotel and Restaurant)	4.38
13	Other Services	2.58
14	Consumable Loans	7.26
15	Local Government	0.00
16	Others	21.88
	Total Loan	100.00

Security-wise Loan and Advance

4.8 Majority of loans and advances of finance companies are secured by land and house. In the review year, proportion of loan and advances backed-up by property is 82.44 percent of the total loan disbursed. Proportion of loans against guarantee constitutes 10.62 percent in the review year. Total composition of all other forms of collateral is below 3 percent. Table 4.6 shows security wise loan and advance position of finance companies.

Table 4.2: Security wise loan and advance position of finance companies

S.N	Security	2020/21
1	Gold and Silver	1.31
2	Government Bonds	0.01
3	Non Government Securities	2.37
4	Fixed Deposit	1.24
5	Property as Collateral	82.44
6	Security of Bills	-
7	Guarantee	10.62
8	Credit/Debit Card	-
9	Others	2.02
	Total	100.00

Product-wise Loan and Advance

4.9 The highest portion (21.83 percent) of the loans and advances of finance companies is covered by term loan. Similarly, personal residential home loan comprises 11.72 percent, overdraft loan, 10.07 percent, deprived sector loan, around 9.54 percent, and other product, 21.94 percent of total loan and advances respectively. Table 4.3 shows the composition of product wise loan and advances of finance companies.

Table 4.3: Product-wise Loan and Advances (Mid July 2021)

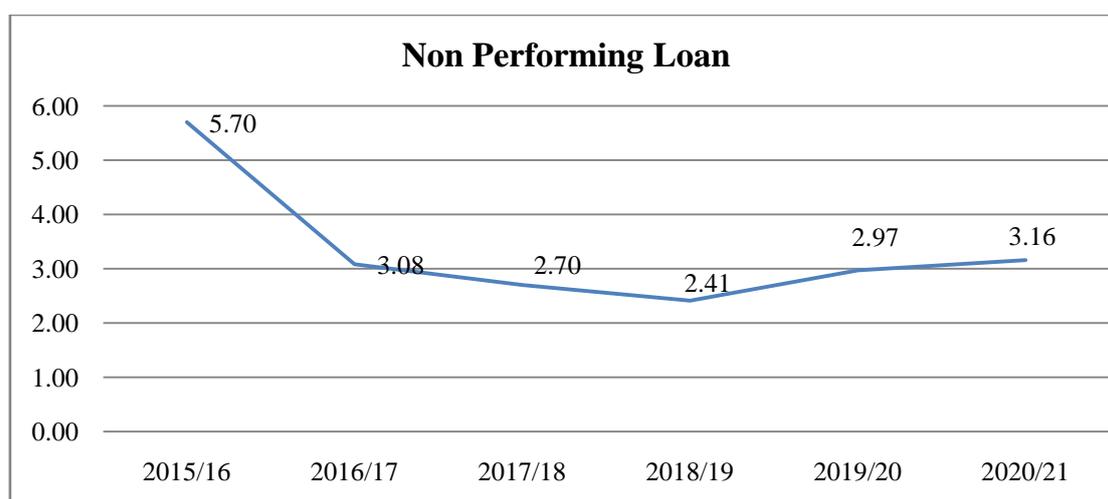
Figures in percentage of total loan

S.N.	Loan Product	2020/21
1	Term Loan	21.83
2	Overdraft	10.07
3	Trust Receipt Loan/Import Loan	-
4	Demand and Other Working Capital Loan	8.26
5	Personal Residential Home Loan	11.72
6	Real Estate Loan	6.96
7	Margin Loan	4.09
8	Hire Purchase Loan	5.60
9	Deprived Sector Loan	9.54
10	Bills Purchased	-
11	Other Product	21.94
	Total	100.00

Non- Performing Loans

4.10 The ratio of NPLs to gross loans and advances has been increased by 0.19 percentage point and stood at 3.16 percent of total loan in mid July 2021 compared to 2.97 percent in mid July 2020.

Figure 4.6: Non-performing loans of the Finance Companies (Mid July 2021)
Figures in percentage of total loan

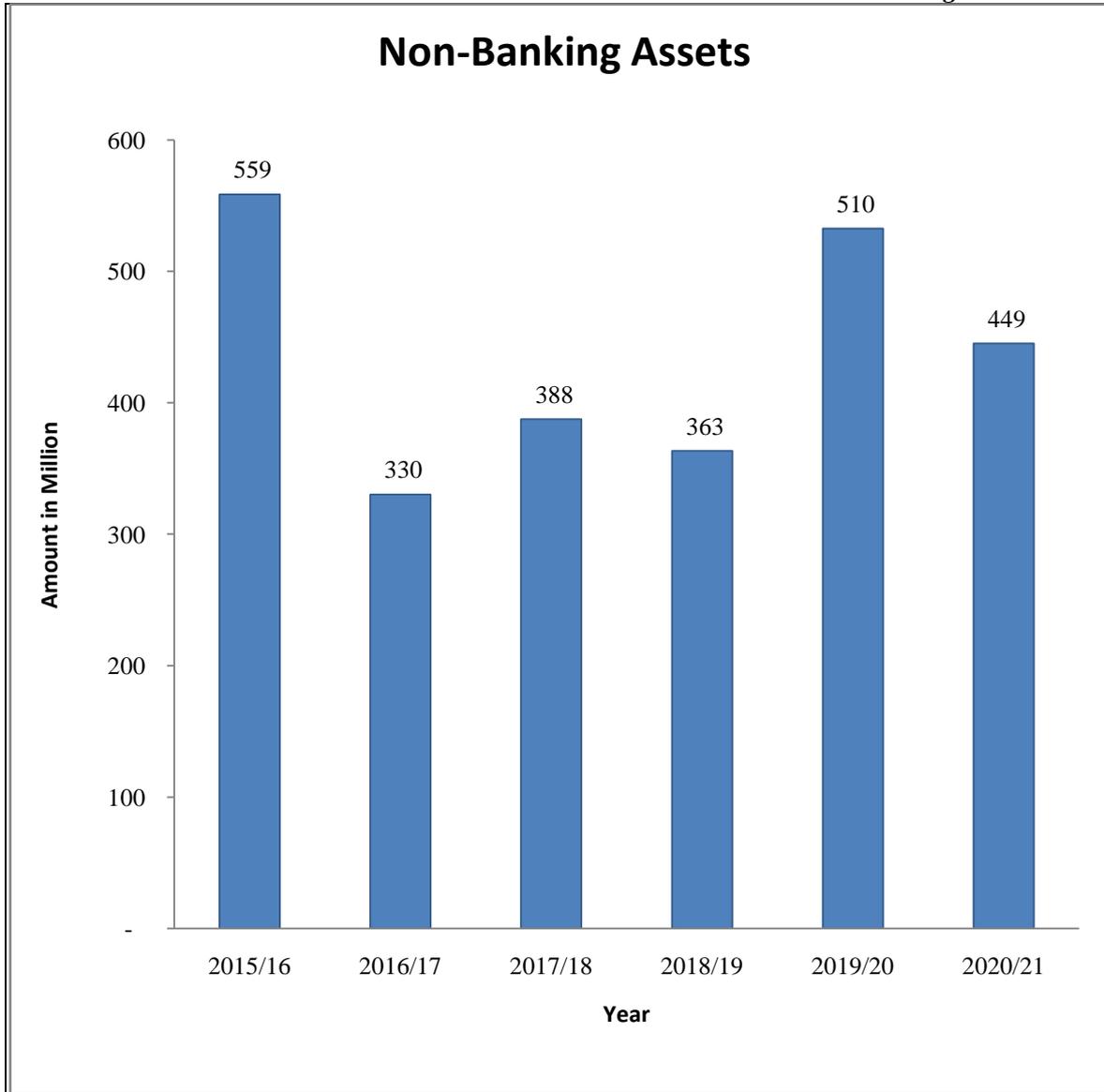


Non-Banking Assets

4.11 The total amount of non-banking assets of finance companies as on mid-July 2021, stood at Rs. 448.49 million. The total amount of non-banking assets (NBA) of finance companies for previous year stood at Rs. 510 million. Details of NBA are shown in Annex 16.5.

Figure 4. 7: Non-banking Assets of the Finance Companies (Mid-July 2021)

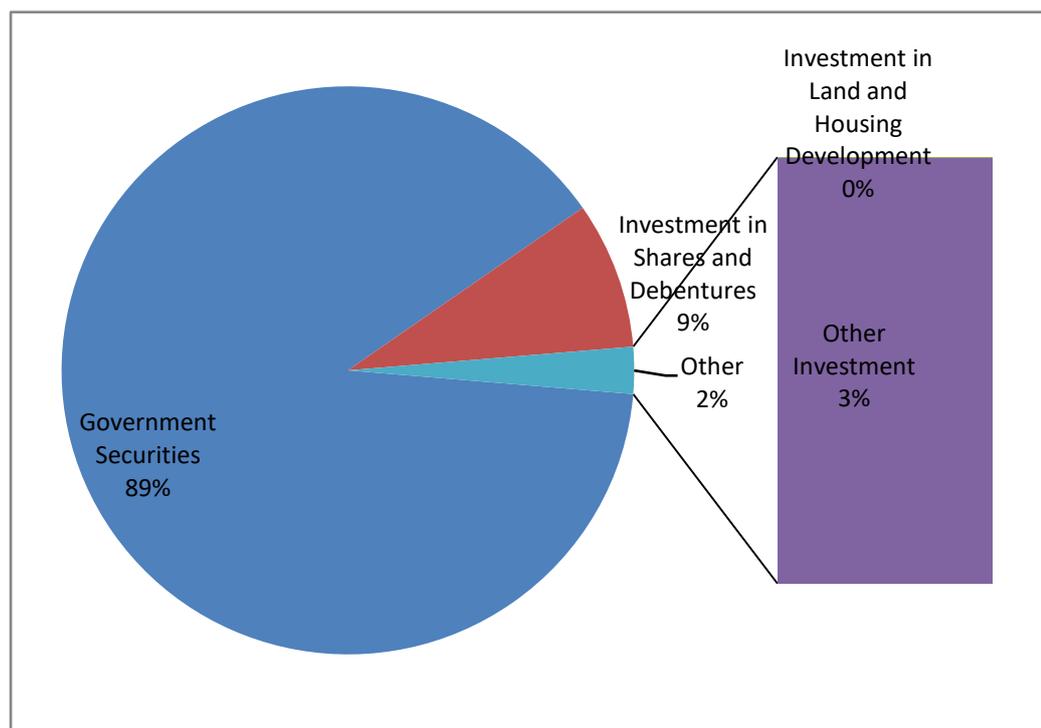
Figures in million



Investment

4.12 The largest portion of investment made by finance companies was in government securities. This category accounted 89 percent of total investment of finance companies in the review year. Investment in shares and debentures and other investment amounted to 8.60 percent and 2.40 percent respectively. Details of investment of finance companies are shown in Annex 16.6.

Figure 4.8: Investment Portfolio of the Finance Companies (Mid July 2021)



Profitability

4.13 Consolidated profitability of overall finance companies during FY 2020/21 amounted to Rs. 2 billion. It amounted to Rs. 0.69 billion during FY 2019/20. The aggregate net profit of finance companies has increased by 189.86 percent during the review period due to massive increase in other operating income and increase in fee and commission.

4.14 Interest income of all finance companies accounted to Rs. 8.5 billion in the review period which has decreased by 16.00 percent compared to that of previous year. Similarly, interest expenses accounted to Rs. 5.6 billion in the review period which has decreased by 23.84 percent compared to that in previous year. Net interest income has also decreased by 6.47 percent to NRs. 2.60 billion in the review period from Rs. 2.78 billion compared to previous year.

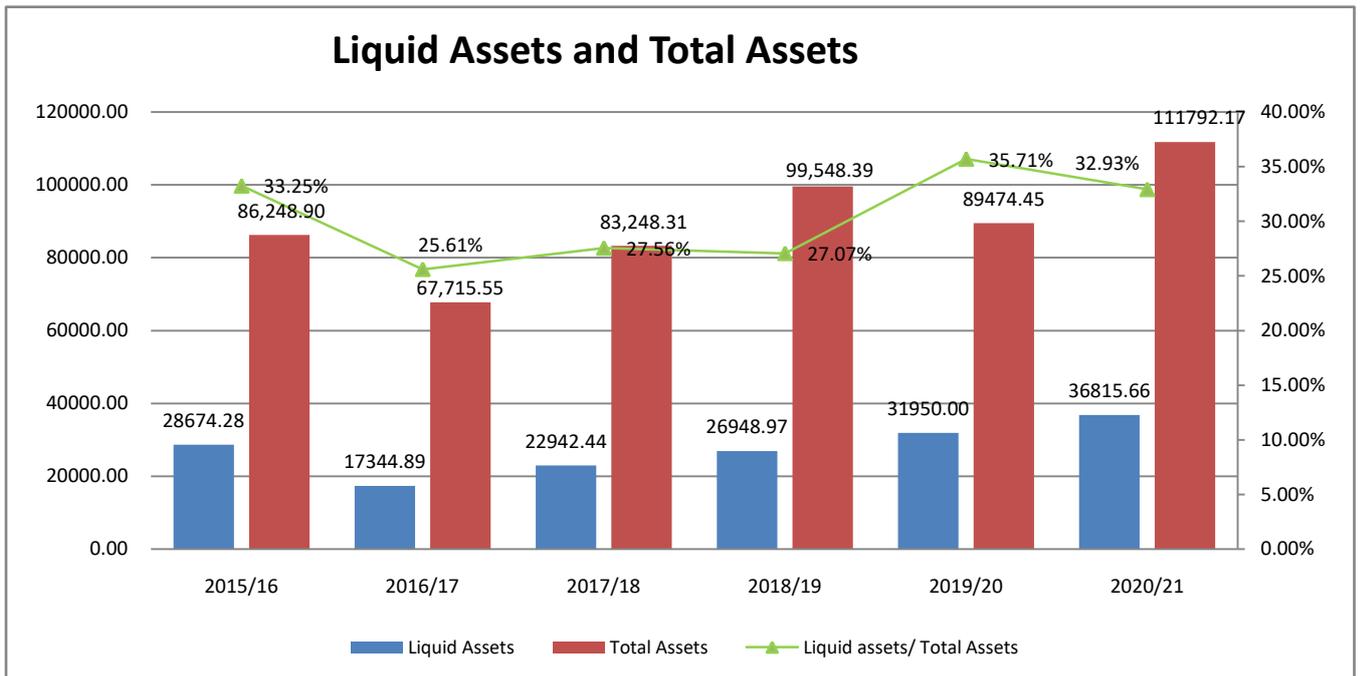
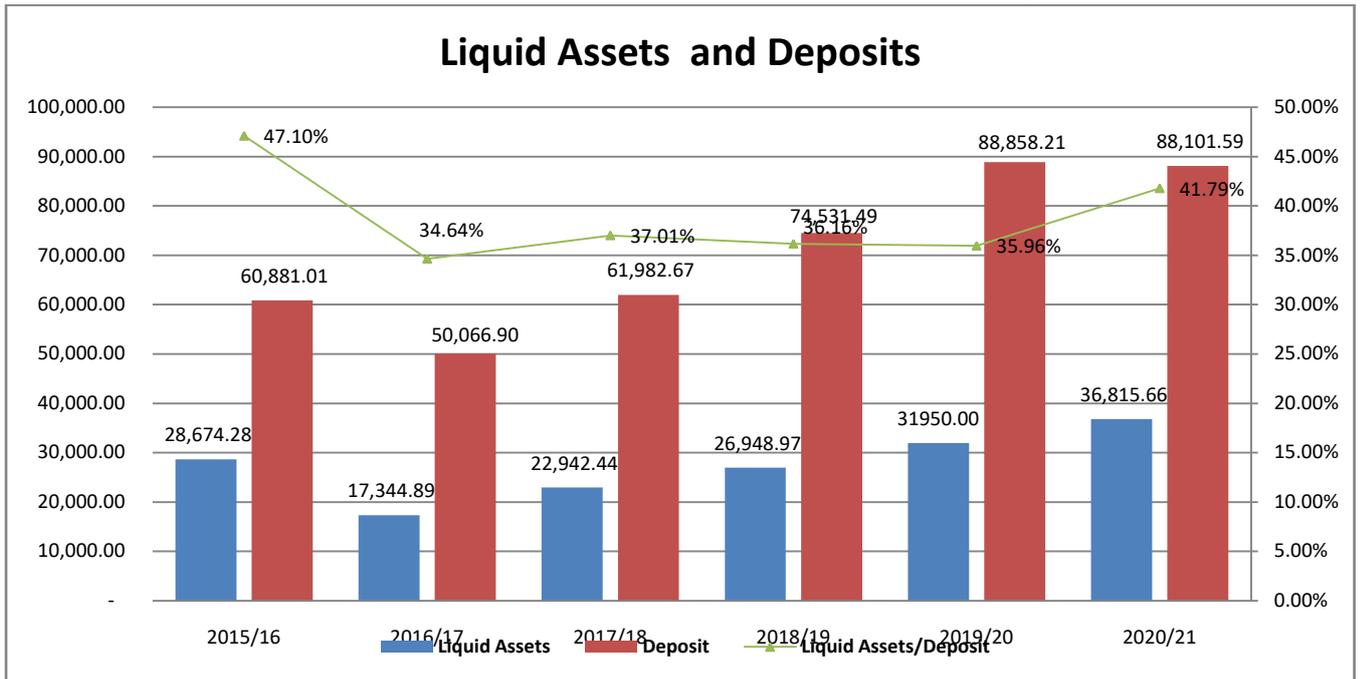
4.15 In the review period operating profit of finance companies has increased by 91.64 percent to Rs. 2.8 billion from Rs. 1.5 billion in the previous year.

Liquidity

4.16 Total liquidity comprises of cash and bank balances with NRB and other BFIs, money at call and investment in treasury bills. Liquid assets of finance companies increased by 15.21 percent from Rs. 31.96 billion as of mid-July 2020 to Rs. 36.82 billion as of mid-July 2021. The share of these liquid assets to total deposits increased by 5.83 percentage point from 35.96 percent at mid-July 2020 to 41.79 percent at mid-July 2021. Similarly, the share of these liquid assets to total assets decreased by 2.77 percentage point from 35.71 percent at mid-July 2020 to 32.94 percent at mid-July 2021. Detailed figures as indicated in figure 4.12 are shown in Annex 16.7.

Figure 4. 9: Liquidity Position of the Finance Companies (Mid July – 2021)

Figures in million



Deprived Sector Lending

4.17 The overall position of deprived sector lending of finance companies in FY 2020/21 was 10.49percent.

Base Rates and spread rates

4.18 Base rate of all finance companies was 9.19 percent as on mid-July 2021 whereas it was 10.92 percent in mid-July 2020.

4.19 Interest spread of overall finance companies stood at 4.44 percent as at mid July 2021 whereas it was at 4.77 percent as at mid July 2020. Base rate and interest spread is being regularly monitored and necessary instructions are given to the concerned institutions.

Stress Testing of Finance companies

4.20 Stress test results indicate that finance companies remain reasonably resilient to various kinds of shocks although greater resilience seems necessary for credit and liquidity shocks. Stress test results based on data of mid July 2021 indicate that finance companies have adequate regulatory capital and also needs buffer capital to absorb various shocks as detailed below:

Credit Shock

4.21 Standard credit shock test results indicate that all except one finance company (out of total 15) would be able to withstand standard credit shocks to which they were subjected in stress testing scenario. One finance company would not comply with the minimum capital adequacy ratio requirement if 15 percent of performing loans deteriorated to substandard. Similarly, one finance company would not comply with the minimum capital adequacy ratio requirements if 5 percent of performing loans deteriorated to loss loans.

Liquidity Shock

4.22 Standard liquidity shock test results suggested that some finance company would fall below mandatory liquidity ratio in stress scenarios. Similarly, two finance companies would have its net liquid assets to deposit ratio fall below the minimum requirement of 20 percent if there would be withdrawal of 15 percent of total deposits and three finance companies would have their net liquid assets to deposit ratio fall below this regulatory minimum if there would be a withdrawal of 15 percent of total deposits. One finance company was found to have their liquid assets to deposit ratio to fall

below the regulatory minimum if top three institutional depositors withdrew their deposits.

Other Shocks

- 4.23 All finance companies were found to be resilient to standard interest rate, exchange rate and equity price shocks such that none of the finance companies would have their capital adequacy ratio fall below the regulatory minimum of 10 percent following these shocks.

Table 4. 4: Summary Result on Stress Testing of Finance Companies As on Mid July 2021
Summary Results of Stress Testing of Finance Companies
As of Asar end, 2078

Events		Number of Banks with CAR		
		< 0percent	0percent - <10percent	>=10percent
Pre Shock		0	0	15
A. After Credit Shock		Post Shocks		
		< 0percent	0percent - <10percent	>=10percent
C1	15 Percent of Performing loans deteriorated to substandard	0	1	14
	15 Percent of Substandard loans deteriorated to doubtful loans	0	0	15
	25 Percent of Doubtful loans deteriorated to loss loans	0	0	15
	5 Percent of Performing loans deteriorated to loss loans	0	1	14
C2	All NPLs under substandard category downgraded to doubtful.	0	0	15
	All NPLs under doubtful category downgraded to loss.	0	0	15
C3	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to substandard category of NPLs.	0	0	15
C4	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to Loss category of NPLs.	0	0	15
C5	Top 5 Large exposures down graded: Performing to Substandard	0	0	15
B. After Market Shocks				
(a) Interest Rate Shocks		< 0percent	0percent - <10percent	>=10percent
IR-1a	Deposits interest rate changed by 1.0 percent point on an average.	0	0	15
IR-1b	Deposits interest rate changed by 1.5 percent point on an average.	0	0	15

IR-1c	Deposits interest rate changed by 2.0 percent point on an average.	0	0	15
IR-2a	Loan interest rate changed by -1.0 percent point on an average.	0	0	15
IR-2b	Loan interest rate changed by -1.5 percent point on an average.	0	0	15
IR-2c	Loan interest rate changed by -2.0 percent point on an average.	0	0	15
IR-3	Combine Shocks (IR-1a & IR-2a)	0	0	15
(b) Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by 20percent	0	0	15
ER-1b	Appreciation of currency exchange rate by 25percent	0	0	15
(c) Equity Price Shocks				
EQ-1	Fall in the equity prices by 50percent	0	0	15

C. After Liquidity Shocks

Events

L-1a	Number of BFIs illiquid after on 1st day while withdrawal of deposits by 2percent	0		
	Number of BFIs illiquid after on 2nd day while withdrawal of deposits by 5percent	0		
	Number of BFIs illiquid after on 3rd day while withdrawal of deposits by 10percent	0		
	Number of BFIs illiquid after on 4th day while withdrawal of deposits by 10percent	0		
	Number of BFIs illiquid after on 5th day while withdrawal of deposits by 10percent	0		
Number of Banks with Liquid Assets to Deposit Ratio		< 0percent	0percent - <20percent	>=20percent
Pre-shocks		0	0	15
After Shocks				
L-2a	Withdrawal of deposits by 5percent	0	0	15
L-2b	Withdrawal of deposits by 10percent	0	0	15
L-2c	Withdrawal of deposits by 15percent	0	2	13
L-2d	Withdrawal of deposits by 20percent	0	3	12
L-3a	Withdrawal of deposits by top 1 institutional depositors.	0	0	15
L-3b	Withdrawal of deposits by top 2 institutional depositors.	0	0	15
L-3c	Withdrawal of deposits by top 3 institutional depositors.	0	1	14

L-3d	Withdrawal of deposits by top 4 institutional depositors.	0	1	14
L-3e	Withdrawal of deposits by top 5 institutional depositors.	0	1	14
L-4a	Withdrawal of deposits by top 1 individual depositors.	0	0	15
L-4b	Withdrawal of deposits by top 2 individual depositors.	0	0	15
L-4c	Withdrawal of deposits by top 3 individual depositors.	0	0	15
L-4d	Withdrawal of deposits by top 4 individual depositors.	0	0	15
L-4e	Withdrawal of deposits by top 5 individual depositors.	0	0	15

5. KEY ONSITE OBSERVATIONS, ISSUES AND CHALLENGES

Key Onsite Observations

5.1 The major remarks and non-compliance observed during on-site examinations in FY 2020/21 are summarized below:

5.1.1 Capital Adequacy:

- ICAAP formulation, implementation and reporting process is not satisfactory.
- Risk Weighted Asset (RWA) has not been properly computed.
- Inadequate compliance to directions given by NRB and weak implementation of disclosure policy has required financial institutions to recalculate the capital adequacy by increasing the risk weight under Supervisory Review Process of capital adequacy provisioned in Capital Adequacy Framework (2007)
- Insufficient loan loss provision amount
- Regulatory minimum paid up capital is not met. Paid up capital calculation is erroneous.
- Institution specific strategic plans are not prepared.
- Besides regulatory capital requirement, the bank does not have a comprehensive capital plan for determining prudent capital of the bank commensurate with the long-term strategy, risks undertaken and businesses of the bank, as well as withstanding unforeseen stresses in the future.

5.1.2 Asset Quality:

- Credit risk rating system is not adequately implemented while appraising credit proposals.
- Documentation is not proper and credit files have many important documents missing such as loan application form, tax clearance certificate, audited financial statements, credit information report, NTA report, insurance of collaterals, business site visit report, collateral site visit report etc.
- Interest rates on loan are not tied up with base rate such that interest rates on credit would change with base rate. Similarly, risk based pricing has not been implemented practically.
- Loan availed is not utilized on proposed sectors.
- Sector wise and product wise categorization of credit is not accurate.
- Credit Risk Management Policy is not formulated.

- Loan has been forwarded without considering desirable limit of debt to equity ratio and debt to income ratio and on the mortgage of third party collateral which is prohibited by NRB Directives.
- Post disbursement monitoring mechanism especially for working capital loans is weak.
- Margin lending credits are forwarded on the basis of average stock price of 180 days instead of that of 120 days.
- Credit Policy Guidelines (CPG) deviate from the NRB directives.
- Credit information of the borrowers of the financial institutions is not updated timely in records of Credit Information Centre Ltd.
- There has been delay in sale of collaterals written off.
- Loans and advances are provided to the borrowers on the ground of collateral coverage rather than the purpose and utilization of such loans. Credit files are forwarded without sufficient analysis of underlying risks.
- Short term loans were provided for capital nature requirement such as land and building or development of real estate and long term loan disbursed for short term requirements. Personal loans are disbursed without proper assessment of the purpose. Disbursements of term loan have been done without identifying needs of borrower.
- Tagging the group exposure of related parties in core banking system and credit files has been lacking.
- Financial institutions' compliance with the NRB Directives regarding credit information and multiple banking is inadequate. Credit information was not analyzed properly for renewal or extension of facilities.
- Many financial statements of the borrowers are unrealistic and there is mismatch between the items in the financial statements of borrowers.
- Monitoring mechanism and reporting of deprived sector loan is not timely.
- Irregularities in Credit Management Practice, lack of proper mechanism to identify, measure, monitor and control or mitigate the risks have been found.
- Same credit files have been temporarily extended for multiple times.

5.1.3 Management:

- Board oversight upon the risk management process is weak. Policies and framework for identification, measurement, monitoring and control of inherent risks across the institution is inadequate.
- Board is involved in regular activities of the financial institutions such as recruitments which is barred by BAFIA, 2073.
- Promoters of financial institutions are continuing for more than one tenure in the same committee which is violence of Unified Directives no. 6/2077.
- Management has not shown ample concern in formulating and implementing effective policies such as Credit Risk Management Policy , Contingency Funding Plan, Customer Acceptance Policy and Succession Plan, Investment policy, Liquidity and Market Risk Management Policy etc. .

- Risk Appetite and Risk Tolerance have not been defined.
- Succession gap and vacant position at top level management is prevalent.
- Human resources management practices are weak. Best practices in terms of staff recruitment and selection have not been followed.
- Suspicious activity reporting framework has not been developed and/or brought into practice.
- Financial institutions lack succession planning and human resource planning especially in key performance areas.
- Internal audit is not adequately risk based as required by Unified Directive no. 15/077
- Individuals with mutual relation have been appointed in BOD. Similarly, there lacks representation of public group in BOD.
- Most of the times, discussion in BOD is concentrated in credit files rather than in policy related matters.
- Key aspects that may trigger operational risks such as physical securities for e.g. vault security and vault key management and electronic security for e.g., CCTV coverage are not adequately monitored.
- The functioning of institutions are, for many times, not governed by bylaws such as Employee bylaws and Financial Administrative bylaws.
- Payments to top level management have not been properly tied up with their performance appraisal.
- There have always remained issues on qualification and experiences of board members. BOD is functioning without sufficient quorum.
- Important plans and policies such as strategic plans, risk management policies and procedures, succession planning and other policies are not formulated. Those that have been formulated are also not timely reviewed.
- Internal control mechanism contains loopholes; internal audit is less effective and compliance department is not adequately strong. Issues rose in internal audit reports, NRB reports and directives are not seriously complied with.

5.1.4 Earning:

- Loan clients were charged penal interest and interest on interest during the period of Covid-19 relaxation against the NRB Directives.
- Interest premium is determined not on the basis of inherent risk but on the basis of prevailing market rate.
- Interest spread rate is higher than permitted.
- Compliance to service fees related guidelines is missing.

5.1.5 Liquidity:

- Most of the financial institutions lack liquidity contingency plan.
- Institution specific liquidity position monitoring framework is missing.

- Asset liability gap analysis and stress testing result analysis are not effective.
- Liquid assets' concentration is high in deposits that are highly volatile in nature such as institutional and call deposits and fixed deposits with short maturity periods.
- The gaps between short term asset and liabilities are wide.

5.1.6 Sensitivity To Market:

- Market risk management policy has not been timely amended on the basis of changes in market risks.
- Investment policy has not been formulated in many institutions and those who have formulated the policy have not amended it regularly. These policies do not cover issues such as sectoral ceilings for equity investments, intervention points to book profits/limit losses, etc.
- Macroeconomic and global environment is dynamic and financial institutions don't have competency of analyzing external market conditions and challenges in the way ahead.

5.1.7 Compliance to AML/CFT:

- AML/CFT oriented tasks such as updating Politically Exposed Person (PEP), updating KYC, filling customer due diligence of high profile customers etc are not duly performed.
- Front officers are not actively involved in identification of suspicious transactions and risk grading of customers.

5.1.8 Others

- Disaster Recovery & Business Continuity Plan is not effective.
- Operation risk exists due to high staff turnover.
- Rescheduling of loans of borrowers who have been affected by COVID has not followed rules and regulations as directed by NRB.
- Multiple saving accounts for the same natural customer is prevalent in many institutions which is non-compliance of NRB unified directives 21/78 (point no. 45).
- Bank does not have effective IT related Policies, Plan and Work Procedure such as: IT Strategy Plan, Updated IT Policy, Business Continuity & Disaster Recovery Plan, Information Security Policy, Service Outsourcing Policies, and CBS Operation Procedure.
- Year end/quarter end window dressing of loan, unauthorized movement in client's account by staff prevails.
- Threats from operational risks are ignored.

Issues and Challenges

- 5.2 The global pandemic COVID 19 has continued to affect business operation, leverage and net worth and collateral/asset price of stakeholders of the banking sector in review period as well. This has also affected the financial sector through macro financial linkages. All licensed institutions including development banks and finance companies are still suffering from increased interest suspense and non performing loans which adversely impacts sectoral profitability and capital of the development banks. Furthermore, COVID 19 has exposed the financial sector to risk of defaults by borrowers, fall in earnings, decline in public confidence and adverse movement in exchange rates. This has created challenges for the regulator and supervisors to maintain stability in financial sector. However, the pandemic also has positive impact on financial institutions such as encouragement to development of policies and practices of digital banking.
- 5.3 Asset quality has further deteriorated owing to significant volume of credits forwarded for unspecific purposes and without following minimum standards set by institutions' own product papers and central bank's directives. Even for the credits with specific purposes, monitoring post disbursement is weak. Collateral coverage still serves as the basis for forwarding loan in many financial institutions.
- 5.4 Currently, financial sector is struggling with the situation of liquidity shortfall. Lower deposit growth rate but higher demand for credit has exerted pressure on CD ratio. Constraint in credit creation capacity has limited growth in profitability of the financial institutions. Increment in price of financial resources both for financial institutions and borrowers has also added to possibility of default risks in banking sector.
- 5.5 Digitalization of financial services helped to expand the consumer base for financial services. However, increasing digital financial services may also pose challenges to their users, especially to those clients with low level of financial literacy. Hence, the need to further enhance the level of financial literacy especially in digital financial services has emerged as an important issue. NRB has adopted the policy of balancing the risk management without stifling innovation and growth in this area. It is important to maintain trust in the financial system while allowing Fintech services to play a positive role in financial access and efficiency.
- 5.6 Onsite inspection reports reveal that banks often fall short of adopting recommendations outlined in the Risk Management Guidelines issued by the NRB. While most banks have now formulated risk-related policies, the implementation is still weak because of poor risk management culture. Moreover, board and senior management's oversight over risk management has often been weak and initiatives to develop and promote risk management culture in banks are still inadequate. The risk management policy and practices are poorer and less effective in case of regional level development bank and finance companies.

- 5.7 The Nepalese banking industry has become more complex with the adoption of advanced Information and Communication Technology (ICT). Moreover, requirements to adopt national and international prudential norms, regulatory standards and risk management practices call for proactive efforts from bank management. This has also resulted in the need for a competent skill set in the industry. Therefore, it is imperative to train and develop the employees.
- 5.8 NRB has developed a Supervisory Information System (SIS) to enhance the effectiveness of supervisory process through prompt data management. Its pilot testing for certain input forms has already gone live for development banks. NRB has also acquired goAML software for AML/CFT related reporting by BFIs. FISD had fully implemented both of these systems by the FY 2020/21. However, effective implementation remains a challenge due to presence of heterogeneous institutions within the industry in terms of size of business and technological investment capabilities.
- 5.9 Good governance and effective compliance of regulatory standard are keys to the success for any organization. In order to address the issue of governance and risk management, efforts have been made to improve legislation and regulations related to corporate governance in BFIs. Although issues such as composition and qualification of board members as well as term of the chief executive have been addressed through amendments in BAFIA, key issues such as independence of audit, separation of bank management from business-people and board oversight on senior management are yet to be effectively implemented.
- 5.10 Nepalese banks have been extensively utilizing IT in the areas of core banking system, payment system and data management. As such, banks need to ensure that these IT systems are adequately secure and robust because IT related losses can turn out to be huge and may even endanger stability of the whole financial system. Moreover, increased use of IT in banking industry has posed a challenge for NRB's supervision of Fintech.
- 5.11 Right now, there are two problematic institutions being oversight by the FISD, Nepal Share Market and Finance Ltd. and Capital Merchant Banking and Finance Ltd. The resolution of these financial institutions is anticipated to end by next fiscal year.
- 5.12 With the growing complexity in the financial system, systemic risks are also building up due to which the need for greater coordination among regulators and policymakers has become a must.

Financial Institution Supervision Report

(FY- 2020/21)

Annexure

Annex 1: Number of Banks and Financial Institutions

Types of Financial Institutions	Mid July												
	1990	1995	2000	2005	2010	2015	2016	2017	2018	2019	2020	2021	2022
Commercial Banks	5	10	13	17	27	30	28	28	28	28	27	27	27
Development Banks	2	3	7	26	79	76	67	40	33	29	20	18	18
Finance Companies		21	45	60	79	48	42	28	25	23	22	17	17
Micro finance Financial Institutions		4	7	11	18	38	42	53	65	90	85	62	70
Infrastructure Development Bank										1	1	1	1
Total	7	38	72	114	203	192	179	149	151	171	155	125	133

(Source: Bank and Financial Institutions Regulation Department, NRB)

Annex 2: Asset Size of Banks and Financial Institutions

(Mid July 2021)

Banks and Financial Institutions	Share in Percentage						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Commercial Banks	78.73	79.74	83.41	82.76	80.87	83.61	83.20
Development Banks	13.34	12.81	9.71	9.99	10.67	7.83	8.01
Finance Companies	4.79	3.77	2.63	2.56	2.47	2.40	1.95
Micro Finance Financial	3.14	3.68	4.25	4.69	5.99	6.16	6.84
Total	100	100	100	100	100	100	100

(Source: Bank and Financial Institutions Regulation Department, NRB)

Annex 3: List of Development Banks

(as of Mid July, 2021)

S.N.	NATIONAL LEVEL	S.N.	REGIONAL LEVEL
1	Muktinath Bikas Bank Ltd.	9	Narayani Development Bank Ltd.
2	Sangrila Development Bank Ltd.	10	Karnali Bikas Bank Ltd.
3	Jyoti Bikas Bank Ltd.	11	Excel Development Bank Ltd.
4	Garima Bikas Bank Ltd.	12	Miteri Development Bank Ltd.
5	Mahalaxmi Bikas Bank Ltd.	13	Corporate Development Bank Ltd.
6	Lumbini Bikas Bank Ltd.	14	Sindhu Bikas Bank Ltd.
7	Kamana Sewa Bikas Bank Ltd	15	Green Development Bank Ltd.
8	Shine Resunga Development Bank Ltd.	16	Sahara Bikas Bank Ltd.
		17	Salapa Bikas Bank Ltd.
		18	Saptakoshi Development Bank Ltd.

Annex 4: Full-Scope Onsite Inspection of Development Banks

(FY 2020/21)

FY 2020/21				
SN	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1	Saptakoshi Development Bank Ltd.	Green Development Bank Ltd.	Mahalaxmi Dev. Bank Ltd.	
2	Corporate Development Bank Ltd.	Salapa Bikash Bank Ltd.	I.C.F.C. Finance Ltd.	
3	Kamana Sewa Bikash Bank Ltd	Excel Development Bank Ltd.	Pokhara Finance Ltd.	
4	Lumbini Bikash Bank Ltd.	Miteri Development Bank Ltd.	Karnali Development Bank Ltd.	
5		Muktinath Bikash Bank Ltd.		
6		Garima Bikash Bank Ltd.		

Annex 5: Special Inspection of Development Banks

(FY 2020/21)

S.No.	Name	No. of Inspection	Working Area
1	Central Finance Ltd.	1	3
2	Garima Bikash Bank Ltd	1	2
3	Green Development Bank Ltd	1	2
5	Jyoti Bikash Bank Ltd	1	2
6	Miteri Development Bank Ltd	1	2
7	Mahalaxmi Bikash Bank Ltd	1	3
8	Shine Resunga Development Bank Ltd	2	6
9	Muktinath Bikash Bank Ltd	1	4
10	Sangrila Development Bank Ltd	1	4
11	Kamana Sewa Bikash Bank Ltd	1	4
12	Saptakoshi Development Bank Ltd	1	7
13	Salapa Bikash Bank Ltd	1	2
14	Excel Development Bank Ltd	1	12

Annex 6: Consolidated Statement of Financial Position of DBs

(As of Mid July 2021)

Rs in '000

Development Banks	Corporate	Excel	Garima	Green	Jyoti	Kamana
Assets	Mid July 2021					
Cash and cash equivalent	478,817.24	2,486,162.21	5,647,587.39	330,155.09	4,143,330.00	4,401,235.42
Due from Nepal Rastra Bank	18,266.80	284,576.63	2,154,427.00	64,212.56	1,399,159.90	940,622.27
Placement with Bank and Financial Institutions		-	-	-	-	-
Derivative financial instruments		-	-	-	-	-
Other trading assets		540,000.00	-	-	-	-
Loan and advances to B/FIs		178,131.43	1,974,547.49	44,748.26	2,931,714.04	952,703.27
Loans and advances to customers	394,857.08	9,201,414.86	51,687,370.84	1,854,837.65	42,915,324.56	38,580,550.84
Investment securities		308,933.57	10,473,161.47	110,465.30	7,587,482.02	4,972,529.63
Current tax assets	13,255.44	21,698.50	71,180.48	2,042.69	39,942.91	46,952.49
Investment in subsidiaries		-	-	-	-	-
Investment in associates		-	4,549.05	-	-	-
Investment property	65,398.49	-	39,880.57	-	7,984.37	34,810.00
Property and equipment	40,616.21	251,194.73	415,037.92	27,274.22	405,290.64	613,077.82
Goodwill and Intangible assets	663.32	3,191.26	7,984.06	2,204.54	12,453.99	100,534.71
Deferred tax assets	20,081.96	-	-	-	13,328.18	28,379.33
Other assets	3,525.45	89,736.40	471,830.67	14,859.65	423,014.51	633,508.46
TOTAL ASSETS	1,035,481.99	13,365,039.59	72,947,556.94	2,450,799.97	59,879,025.11	51,304,904.23

Development Banks	Corporate	Excel	Garima	Green	Jyoti	Kamana
EQUITY AND LIABILITIES	Mid July 2021					
Liabilities	450,712.51	12,052,090.87	67,599,484.61	1,896,092.17	54,633,170.97	47,466,663.93
Due to Bank and Financial Institutions			2,309,707.20	3,415.25	3,681,297.53	1,106,024.82
Due to Nepal Rastra Bank		414,874.31	631,516.41	-	886,357.00	599,786.42
Derivative financial instruments		-	-	-	-	-
Deposits from customers	443,112.05	11,396,945.63	63,902,087.20	1,853,461.92	49,557,561.24	44,200,605.72
Borrowing		-	-	-	-	-
Current Tax Liabilities		-	-	-	-	-
Provisions		20,636.14	-	-	-	25,824.31
Deferred tax liabilities		8,923.09	65,522.96	3,039.02	-	-
Other liabilities	7,600.46	210,711.70	690,650.84	36,175.98	507,955.20	541,440.65
Debt securities issued			-	-	-	992,982.01
Subordinated Liabilities			-	-	-	-
Equity	584,769.48	1,312,948.72	5,348,072.33	554,707.80	5,245,854.14	3,838,240.30
Share capital	410,000.00	811,121.22	3,675,912.50	519,000.00	3,844,822.78	2,651,963.73
Share premium		4,890.59	97.07	1.81	-	-

Retained earnings	37,987.79	199,726.13	624,267.90	10,499.61	596,938.82	527,521.03
Reserves	136,781.68	297,210.77	1,047,794.86	25,206.38	804,092.54	658,755.53
TOTAL EQUITY AND LIABILITIES	1,035,481.99	13,365,039.59	72,947,556.94	2,450,799.97	59,879,025.11	51,304,904.23
Contingent Liabilities and Commitments		1,003,732.13	2,149,774.15	53,893.40	1,424,852.47	170,357.62

Development Banks	Karnali	LumbiniDB	MahalaxmiDB	Miteri	Muktinath	Narayani	Sahara
Assets	Mid July 2021						
Cash and cash equivalent	1,706,789.19	4,264,391.05	2,932,488.81	532,899.68	6,269,721.48	74,089.01	445,210.06
Due from Nepal Rastra Bank	165,510.86	1,318,007.21	1,098,204.34	134,468.14	2,564,748.59	19,036.85	54,432.58
Placement with Bank and Financial Institutions	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Other trading assets	-	-	-	-	-	-	-
Loan and advances to B/FIs	-	2,516,006.71	4,371,225.02	459,877.47	3,483,613.37	15,792.00	-
Loans and advances to customers	3,133,537.04	29,673,539.87	30,150,719.79	4,489,614.30	72,919,249.87	68,638.26	918,301.93
Investment securities	-	4,977,422.56	7,301,479.79	824,929.63	14,513,402.93	4,494.28	-
Current tax assets	23,118.72	257,032.30	58,008.17	4,110.63	44,298.47	9,790.73	-
Investment in subsidiaries	-	-	-	-	117,500.00	-	-
Development Banks	Karnali	LumbiniDB	MahalaxmiDB	Miteri	Muktinath	Narayani	Sahara
Investment in associates	-	583,734.75	2,500.00	-	104,906.56	-	-
Investment property	-	65,730.60	306,499.10	-	-	5,513.51	-
Property and equipment	127,791.92	305,936.98	328,924.09	36,915.06	813,780.41	14,425.70	14,914.47
Goodwill and Intangible assets	690.77	2,781.72	2,938.11	431.46	8,348.60	-	497.25
Deferred tax assets	9,649.17	-	-	6,897.88	55,018.00	165.73	8,994.49
Other assets	95,307.72	160,589.43	908,599.54	214,975.46	237,135.08	4,765.65	5,347.43
TOTAL ASSETS	5,262,395.38	44,125,173.17	47,461,586.75	6,705,119.71	101,131,723.36	216,711.72	1,447,698.23

Development Banks	Karnali	LumbiniDB	MahalaxmiDB	Miteri	Muktinath	Narayani	Sahara
EQUITY AND LIABILITIES	Mid July 2021						
Liabilities	4,704,009.76	38,830,601.38	41,882,257.69	5,543,884.66	94,300,159.66	134,466.45	1,131,190.43
Due to Bank and Financial Institutions		408,344.28	1,195,071.92	45,188.63	5,419,586.92	-	-
Due to Nepal Rastra Bank		1,426,927.50	1,230,698.41	-	832,446.42	-	-
Derivative financial instruments		-	-	-	-	-	-
Deposits from customers	4,644,161.42	36,371,466.80	38,686,162.12	5,446,860.49	86,902,914.37	98,469.83	1,100,942.85
Borrowing	-	-	-	-	-	-	-
Current Tax Liabilities	-	-	-	-	-	-	6,580.50
Provisions	-	-	66,761.63	-	3,732.07	-	2,152.62
Deferred tax liabilities	-	194,461.12	32,700.90	-	-	-	-
Other liabilities	59,848.34	429,401.67	670,862.71	51,835.54	1,141,479.88	35,996.62	21,514.46
Debt securities issued	-		-	-	-	-	-
Subordinated Liabilities	-		-	-	-	-	-
Equity	558,385.63	5,294,571.79	5,579,329.06	1,161,235.05	6,831,563.70	82,245.27	316,507.80
Share capital	502,830.00	2,906,453.55	3,342,402.72	797,376.94	4,811,550.80	131,233.80	272,270.60
Share premium	1,514.07	-	-	-	-	2,956.69	6,668.25
Retained earnings	30,552.37	435,012.25	706,869.13	148,108.24	896,315.65	(217,155.88)	4,874.75
Reserves	23,489.18	1,953,105.99	1,530,057.21	215,749.88	1,123,697.24	165,210.67	32,694.19
TOTAL EQUITY AND LIABILITIES	5,262,395.38	44,125,173.17	47,461,586.75	6,705,119.71	101,131,723.36	216,711.72	1,447,698.23
Contingent Liabilities and Commitments		2,790,566.71	1,934,192.95	91,886.61	459,618.84	-	64,548.01

Development Banks	Salpa	Saptakoshi	Shangrila	Shine	Sindhu	Tinau	Grand Total
Assets	Mid July 2021						
Cash and cash equivalent	97,602.85	1,203,946.13	5,091,909.61	4,071,412.11	805,427.27		44983174.61
Due from Nepal Rastra Bank	20,500.00	177,524.52	1,489,812.25	1,427,712.39	139,354.99		13470577.88
Placement with Bank and Financial Institutions	-		5,547.19	-	-		5547.19
Derivative financial instruments	-		-	-	-		
Other trading assets	-			-	-		540000.00
Loan and advances to B/FIs	-		3,143,294.72	2,665,754.65	624,138.97		23361547.38
Loans and advances to customers	565,208.44	3,993,385.28	33,044,748.46	29,169,705.87	2,989,375.36		355750380.31
Investment securities	-	196,945.05	4,491,150.79	4,060,182.36	82,450.25		59905029.61
Current tax assets	6,971.19	15,274.22	9,723.15	64,012.23	20,053.74		707466.06
Investment in subsidiaries	-		-	-	-		117500.00
Investment in associates	-		-	-	-		695690.35
Investment property	-	2,487.16	-	-	25,756.78		554060.56
Property and equipment	18,408.15	81,800.82	386,266.95	541,407.86	197,052.92		4620116.86
Goodwill and Intangible assets	1,315.50	2,579.53	3,923.28	128,572.39	2,941.29		282051.77
Deferred tax assets	497.34	5,332.71	33,340.54	-	6,414.13		188099.45
Other assets	10,415.96	73,668.01	137,159.67	101,275.42	76,233.66		3661948.18
TOTAL ASSETS	720,919.42	5,752,943.42	47,836,876.60	42,230,035.27	4,969,199.35		508843190.21

Development Banks	Salpa	Saptakoshi	Shangrila	Shine	Sindhu	Tinau	Grand Total
EQUITY AND LIABILITIES	Mid July 2021						
Liabilities	609,621.78	4,746,110.50	44,124,405.23	37,376,697.11	4,341,074.03		461,822,693.72
Due to Bank and Financial Institutions	-	125,482.33	1,052,292.71	350,818.88	-		15,697,230.47
Due to Nepal Rastra Bank	-	23,100.00	750,463.77	1,179,160.27	-		7,975,330.51
Derivative financial instruments	-		-	-	-		-
Deposits from customers	594,020.51	4,511,738.03	41,797,350.04	35,415,474.79	4,257,853.06		431,181,188.07
Borrowing	-		-	-	-		-
Current Tax Liabilities	5,392.50		-	-	17,619.93		29,592.93
Provisions	-		-	-	-		119,106.76
Deferred tax liabilities	-		-	62,835.19	-		367,482.28
Other liabilities	10,208.78	85,790.14	524,298.71	368,407.99	65,601.04		5,459,780.70
Debt securities issued	-		-		-		992,982.01
Subordinated Liabilities	-		-		-		-
Equity	111,297.64	1,006,832.93	3,712,471.37	4,853,338.16	628,125.32		47,020,496.49
Share capital	28,000.00	834,338.43	2,736,972.42	3,408,463.91	557,456.07		32,242,169.49
Share premium	-		-	55,109.61	-		71,238.08
Retained earnings	2,136.33	74,494.10	315,918.74	394,026.92	13,108.33		4,801,202.24
Reserves	81,161.31	98,000.39	659,580.21	995,737.72	57,560.93		9,905,886.68
TOTAL EQUITY AND LIABILITIES	720,919.42	5,752,943.42	47,836,876.60	42,230,035.27	4,969,199.35		508,843,190.21
Contingent Liabilities and Commitments		146,105.71	20,299,501.05	2,244,887.38	58,148.74		32,892,065.77

Annex 7: Consolidated Statement of Profit & Loss A/C of DBs

(FY 2020/2021)

Rs. in '000

Development Banks	Corporate	Excel	Garima	Green	Jyoti	Kamana
Interest Income	51,816.34	953,619.56	5,471,105.72	181,370.82	4,370,740.98	4,090,314.63
Interest Expenses	25,534.97	492,439.11	3,488,230.17	100,114.49	2,788,065.44	2,554,044.45
Net Interest Income	26,281.37	461,180.45	1,982,875.55	81,256.33	1,582,675.54	1,536,270.18
Fee and commission income	145.56	77,919.23	408,298.20	10,412.67	271,351.21	338,368.75
Fee and commission expense		6,646.72	30,263.56	1,128.47	11,296.44	7,366.78
Net Fee and commission income	145.56	71,272.52	378,034.64	9,284.20	260,054.77	331,001.97
Net Interest, Fee and commission income	26,426.93	532,452.97	2,360,910.19	90,540.53	1,842,730.31	1,867,272.15
Net trading income			44.21	-	6,235.32	44.82
Other operating income	2,586.69	46,995.51	286,387.65	1,408.64	536,738.71	267,326.68
Total operating income	29,013.62	579,448.48	2,647,342.04	91,949.18	2,385,704.33	2,134,643.65
Impairment charge/(reversal) for loans and other losses	4,302.34	97,302.35	406,681.79	-284.12	424,006.22	272,112.61
Net operating income	24,711.28	482,146.13	2,240,660.26	92,233.30	1,961,698.11	1,862,531.05
Personnel expenses	13,901.18	188,472.99	614,269.53	40,253.82	619,897.66	623,457.60
Other operating expenses	11,419.75	74,776.19	350,253.81	24,414.20	312,303.64	262,564.92
Depreciation & Amortisation	1,437.68	23,105.33	88,902.71	7,500.14	79,731.32	116,124.38
Operating Profit	-2,047.33	195,791.62	1,187,234.20	20,065.14	949,765.50	860,384.14
Non operating income	9,442.11		10,779.25	-	-	-
Non operating expense			-	1,001.45	-	2,143.35
Profit before income tax	7,394.78	195,791.62	1,198,013.45	19,063.69	949,765.50	858,240.79
Income Tax Expense						
Current Tax	4,155.45	58,737.49	363,237.67	6,331.10	296,016.13	269,564.02
Deferred Tax	37,131.97	-	-1,542.12	-248.05	-10,120.17	-9,498.97
Profit/Loss for the period	-33,892.63	137,054.13	836,317.90	12,980.64	663,869.53	598,175.74

Development Banks	Karnali	LumbiniDB	MahalaxmiDB	Miteri	Muktinath	Narayani	Sahara
Interest Income	458,270.51	3,453,903.45	3,813,468.47	612,636.87	7,583,652.47	2,267.66	126,138.66
Interest Expenses	294,875.62	2,242,898.81	2,211,061.07	343,586.31	4,795,011.33	3,207.62	51,864.54
Net Interest Income	163,394.89	1,211,004.65	1,602,407.41	269,050.56	2,788,641.14	(939.96)	74,274.12
Fee and commission income	28,672.07	177,202.01	215,130.90	35,690.49	605,019.02	-	8,848.23
Fee and commission expense		4,842.10	6,255.33	867.42	32,067.63	13.54	-
Net Fee and commission income	28,672.07	172,359.92	208,875.57	34,823.06	572,951.39	(13.54)	8,848.23
Net Interest, Fee and commission income	192,066.95	1,383,364.56	1,811,282.97	303,873.62	3,361,592.52	(953.50)	83,122.34
Net trading income	-	(17.86)	-		6,242.54	-	
Other operating income	-	139,573.32	190,793.10	65,788.08	422,196.63	2,144.72	
Total operating income	192,066.95	1,522,920.02	2,002,076.07	369,661.70	3,790,031.69	1,191.21	83,122.34
Impairment charge/(reversal) for loans and other losses	31,267.52	294,322.13	225,750.83	39,731.63	495,273.02	(9,194.35)	30,953.05
Net operating income	160,799.43	1,228,597.90	1,776,325.24	329,930.07	3,294,758.67	10,385.56	52,169.30
Personnel expenses	53,043.49	358,789.82	542,535.04	81,122.19	1,110,863.57	8,731.58	25,367.70
Other operating expenses	51,017.43	214,949.60	251,317.43	30,810.37	397,407.36	13,627.71	14,098.97
Depreciation & Amortisation	5,861.26	48,476.12	57,053.15	9,536.64	144,715.37	2,137.54	3,015.13
Operating Profit	50,877.25	606,382.36	925,419.62	208,460.87	1,641,772.37	(14,111.27)	9,687.50
Non operating income	-	22,985.08	35,802.23		14,180.00	-	
Non operating expense	-	4,055.22	9,831.15		-	-	2,330.02
Profit before income tax	50,877.25	625,312.22	951,390.70	208,460.87	1,655,952.37	(14,111.27)	7,357.48
Income Tax Expense							
Current Tax		189,028.45	277,599.01	63,799.33	526,721.28	-	8,582.26
Deferred Tax		2,316.59	13,692.00	(986.30)	(27,203.96)	(2,170.84)	(6,362.79)
Profit/Loss for the period	50,877.25	433,967.18	660,099.70	145,647.83	1,156,435.05	(11,940.43)	5,138.01

Development Banks	Salpa	Saptakoshi	Shangrila	Shine	Sindhu	Grand Total
Interest Income	81,731.92	449,045.93	3,515,206.32	3208850.00	348,380.22	38772520.53
Interest Expenses	37,412.55	231,775.92	2,308,685.87	1,870,424.75	197,335.30	24036568.31
Net Interest Income	44,319.37	217,270.01	1,206,520.46	1,338,425.26	151,044.92	14735952.21
Fee and commission income	1,610.92	34,685.24	230,376.88	185,039.72	24,865.30	2653636.40
Fee and commission expense			6,905.95	10,356.38	1,321.83	119332.15
Net Fee and commission income	1,610.92	34,685.24	223,470.93	174,683.35	23,543.47	2534304.25
Net Interest, Fee and commission income	45,930.29	251,955.25	1,429,991.38	1,513,108.60	174,588.39	17270256.47
Net trading income			-			12549.02
Other operating income	4,664.66	506.38	249,414.45	39,667.91	42,543.48	2298736.61
Total operating income	50,594.96	252,461.62	1,679,405.83	1,552,776.51	217,131.87	19581542.10
Impairment charge/(reversal) for loans and other losses	(1,070.24)	(11,694.24)	236,067.81	137,398.15	41,734.04	2714660.54
Net operating income	51,665.20	264,155.86	1,443,338.01	1,415,378.36	175,397.83	16866881.56
Personnel expenses	26,905.83	96,951.97	490,234.38	430,471.57	77,301.95	5402571.87
Other operating expenses	8,363.39	59,822.09	282,761.86	197,217.45	44,597.76	2601723.93
Depreciation & Amortisation	5,049.98	18,819.83	80,929.40	55,125.48	14,716.15	762237.60
Operating Profit	11,346.00	88,561.98	589,412.37	732,563.87	38,781.98	8100348.16
Non operating income		(78.44)	129.07	-	-	93239.30
Non operating expense			939.57	2,285.11	-	22585.87
Profit before income tax	11,346.00	88,483.54	588,601.87	730,278.77	38,781.98	8171001.59
Income Tax Expense						
Current Tax	3,403.80	26,545.06	185,403.69	237,126.37	17,619.93	2533871.04
Deferred Tax			(6,882.28)	(10,569.36)	(1,682.66)	-24126.95
Profit/Loss for the period	7,942.20	61,938.48	410,080.46	503,721.76	22,844.71	5661257.50

Annex 8: Loan & Advances of Development Banks

(As of Mid July 2021)

Development Banks	Good (1%)	Good (5%)	Watch List (5%)	Rescheduled / Restructured (12.5%)	Substandard (25%)	Doubtful (50%)	Bad (100%)	Additional Provision	Total Loan	Total Non - Performing Loan (NPL)
Corporate	367584.30	0.00	26200.18	0.00	1815.78	1268.81	16325.41	0.00	413194.48	19410.00
Excel	8571268.00	271525.20	399312.30	0.00	165417.30	26636.15	124181.50	0.00	9558340.45	316234.90
Garima	51149853.00	659812.60	2118367.00	0.00	277753.20	60862.62	52472.86	0.00	54319121.28	391088.70
Green	1839776.00	49344.71	0.00	0.00	2065.24	2796.87	10333.98	0.00	1904316.80	15196.08
Jyoti	44394743.00	640207.20	670921.80	0.00	38392.06	39444.54	307803.50	0.00	46091512.10	385640.10
Kamana	38009137.00	0.00	1414278.00	0.00	293365.00	119194.80	234324.50	0.00	40070299.30	646884.30
Karnali	3091447.00	0.00	2365.00	0.00	26226.39	18611.84	13812.54	0.00	3152462.77	58650.77
LumbiniDB	29524989.00	934912.50	1825651.00	3084.13	247698.50	72572.30	391533.90	0.00	33000441.33	714888.80
MahalaxmiDB	31270299.00	0.00	3240229.00	0.00	287471.50	146115.80	561657.20	0.00	35505772.50	995244.60
Miteri	4914482.00	0.00	45289.45	2066.29	2490.49	0.00	18694.80	0.00	4983023.03	23251.57
Muktinath	73102625.00	2024233.00	1374883.00	0.00	101151.80	30428.58	43716.01	0.00	76677037.39	175296.40
Narayani	79014.00	0.00	6226.00	0.00	705.00	0.00	8490.00	0.00	94435.00	9195.00
Sahara	732118.20	0.00	126379.10	0.00	40694.80	33007.17	21651.08	0.00	953850.35	95353.05
Salpa	507072.20	0.00	40978.59	0.00	17444.02	11662.54	10244.12	0.00	587401.47	39350.68
Saptakoshi	3578163.00	22760.52	364077.30	0.00	30027.16	11814.39	15945.28	0.00	4022787.65	57786.84
Shangrila	33536331.00	801602.40	1452384.00	0.00	217273.10	203386.70	82899.98	0.00	36293877.18	503559.70
Shine	30783759.00	132223.10	896215.80	0.00	180908.80	69426.39	67760.79	0.00	32130293.88	318095.90
Sindhu	3388156.00	0.00	202602.60	0.00	16288.97	15840.57	20003.51	0.00	3642891.65	52133.05
Grand Total	358840816.70	5536621.00	14206358.00	5150.42	1947189.00	863070.20	2001851.00	0.00	383401056.32	4817260.44

Annex 9: Sector-wise Statement of Loan of Development Banks

(As of Mid July 2021)

Development Banks	Agricultural and Forest Related	Fishery Related	Mining Related	Agriculture, Forestry & Beverage Production Related	Non-food Production Related	Construction	Power, Gas and Water	Metal Products, Machinery & Electronic Equipment & Assemblage	Transport, Communication and Public Utilities	Wholesaler & Retailer	Finance, Insurance and Real Estate	Hotel or Restaurant	Other Services	Consumption Loans	Local Government	Others	TOTAL
Mahalaxmi	1971998.44	72134.52	1540.77	394777.42	1136763.19	4119676.27	691563.39	177028.77	1431559.63	6806487.51	4689020.99	909480.62	781650.40	3082631.49	0.00	9237286.61	35503600.00
Narayani	21662.00	0.00	0.00	600.00	3100.00	7907.00	0.00	0.00	13553.00	6211.00	0.00	2399.00	0.00	0.00	2722.00	34576.00	92730.00
Karnali	504497.00	0.00	0.00	338806.00	0.00	100519.00	0.00	0.00	99401.00	988380.00	200000.00	0.00	871904.00	48956.00	0.00	0.00	3152463.00
Shangrila	1035410.21	22582.30	12180.44	798406.55	1140819.66	5856786.05	494055.01	132348.84	1609735.81	4771839.02	5136685.60	1386466.23	1405662.08	2381007.21	3337.51	10106554.35	36293876.87
Excel	402959.18	16457.83	1532.70	373254.71	398270.86	1291761.22	26109.70	177657.77	190495.50	2587261.30	1176685.82	225956.05	535364.44	354881.21	0.00	1799691.81	9558340.11
Miteri	362730.07	1868.36	0.00	186307.94	153969.15	1013844.51	0.00	22056.11	211478.18	630132.61	570401.89	64124.77	47148.19	94926.10	1500.00	1622535.56	4983023.42
Muktinath	7657814.65	106646.32	0.00	680628.66	2188131.82	12204543.85	244696.99	369988.72	3264991.50	13010971.82	8491344.73	2668063.89	1285929.99	4042950.69	0.00	20460333.42	76677037.04
Kamana	2899575.24	85378.75	4990.45	804828.54	1153349.00	2295236.25	0.00	301072.22	2092501.49	8915098.88	1805190.58	1289012.35	628064.11	2817670.62	0.00	14978330.06	40070298.53
Corporate	22141.47	39313.75	0.00	7838.27	52281.92	107315.11	0.00	8440.09	31497.33	48821.72	0.00	1156.53	2968.04	11552.28	0.00	79868.01	413194.52
Jyoti	2987563.20	97502.86	159382.38	1052295.41	2355135.18	4923357.80	769873.91	518597.44	590646.87	6195905.55	4003822.97	2292390.46	1009624.36	3836106.09	3366.27	15286093.94	46081664.70
Lumbini	1867244.59	71727.44	15520.30	686668.47	763305.27	4973640.19	2702131.18	100555.69	906160.22	3259998.16	5173564.05	959777.90	1991568.70	2041104.67	0.00	7487473.75	33000440.59
Sahara	349607.55	22299.80	0.00	31415.23	46015.64	12970.10	0.00	3390.17	1299.00	115206.28	37628.00	5609.40	31355.73	1961.87	0.00	313326.73	972085.49
Saptakoshi	970911.92	4878.44	0.00	45846.42	94850.65	329515.14	2791.49	0.00	81387.04	894262.56	334313.92	97744.78	214757.58	212016.27	0.00	739511.28	4022787.49
Green	366923.00	12192.00	7790.00	165300.00	72909.00	130189.00	9853.00	27454.00	128094.00	160856.00	49989.00	68829.00	62900.00	62172.00	0.00	603109.00	1928559.00
Garima	2874687.98	163901.00	59082.64	1033165.58	988494.56	8544669.77	174602.31	284569.50	3131594.98	5467007.19	2955575.41	2535725.59	937029.31	3058870.86	33.80	22110110.41	54319120.90
Shine	2375140.27	289812.01	101935.04	2196546.29	2159545.15	2670853.84	0.00	1452.48	1076189.97	7033213.82	3824533.48	3214219.97	1776607.14	971364.40	0.00	4438879.66	32130293.52
Sindhu	48893.10	0.00	0.00	114790.37	16205.46	425666.33	0.00	14826.15	191784.19	669229.79	773471.90	109698.20	961.37	247170.91	0.00	1030188.21	3642885.98
Salpa	267376.82	1533.92	0.00	53089.96	0.00	8302.25	0.00	2005.71	1640.43	66019.45	5194.67	32304.77	2131.07	19138.38	0.00	128664.02	587401.45
Grand Total	26987136.70	1008229.29	363954.72	8964565.82	12723146.51	49016753.67	5115676.98	2141443.66	15054010.12	61626902.64	39227422.99	15862959.53	11585626.53	23284481.04	10959.58	110456532.82	383429802.60

Annex 10: Product-wise Statement of Loan of Development Banks

(As of Mid July 2021)

Rs. In '000'

Development Banks	Term Loan	Overdraft	Trust Receipt Loan / Import Loan	Demand & Other Working Capital Loan	Residential Personal Home Loan (Up to Rs. 10 million)	Real Estate Loan	Margin Nature Loan	Hire Purchase Loan	Deprived Sector Loan	Bills Purchased	Other Product	Total
Mahalaxmi	9018996.80	8830400.58	0.00	0.00	3533053.71	1978591.51	2000231.07	1648100.62	5058637.09		3435588.64	35503600.00
Narayani	25.00	46886.00	0.00	0.00	7907.00	0.00	0.00	13553.00	21637.00		2722.00	92730.00
Karnali	427489.00	1384197.00	0.00	0.00	100519.00	200000.00	0.00	99401.00	159032.00		781825.00	3152463.00
Shangrila	11020417.81	7831499.60	0.00	1198529.49	5137472.41	1912131.70	1271323.22	2826760.55	4229444.52		866297.56	36293876.87
Excel	2297799.60	2037835.09	0.00	1452605.00	1310543.48	695448.45	244349.13	350990.53	625733.57	0.00	543035.26	9558340.11
Miteri	606993.24	542480.99	0.00	0.00	695882.12	91388.71	0.00	322591.88	773254.83		1950431.65	4983023.42
Muktinath	24049980.30	12599372.73	0.00	605806.28	11291197.30	5145909.34	2523516.83	4093750.05	13555892.19	0.00	2811612.03	76677037.04
Kamana	19374496.58	10183471.72	10449.96	891548.09	1809254.56	70941.75	1240515.48	2495661.71	2918165.93	0.00	1075792.74	40070298.53
Corporate	80439.37	145677.59	0.00	26327.20	98462.72	0.00	0.00	36855.99	20924.13		4507.52	413194.52
Jyoti	13664711.61	14230647.27	0.00	170769.47	4121475.19	1047446.38	1873696.53	1794246.83	5117025.25	0.00	4061646.17	46081664.70
Lumbini	5786017.19	5472049.95	0.00	2339616.56	3653455.51	2772251.72	1425452.59	1485601.75	2590251.53	0.00	7475743.79	33000440.59
Sahara	51110.33	255994.78	0.00	554240.56		0.00	0.00	0.00	53985.32		56754.50	972085.49
Saptakoshi	2083629.59	711689.29	0.00	81370.45	116662.47	303254.55	7141.99	49292.34	303094.55	0.00	366652.27	4022787.49
Green	651248.00	445181.00	0.00	0.00	162594.00	20222.00	3116.00	179319.00	418350.00		48529.00	1928559.00
Garima	17148346.53	12064741.31	0.00	203458.90	6784943.45	2072214.11	1323816.50	4502149.80	6274747.24		3944703.06	54319120.90
Shine	7834017.40	1280649.46	0.00	10156520.48	1982214.06	1082064.73	495834.32	1683141.13	4210618.05	0.00	3405233.89	32130293.52
Sindhu	1271166.10	549391.48	0.00	268032.11	415396.41	54310.37	118691.71	211983.55	646161.01		107753.23	3642885.98
Salpa	206400.10	133794.57	0.00	0.00		0.00	0.00	10846.64	134530.71		101829.43	587401.45
Grand Total	115573284.54	78745960.39	10449.96	17948824.58	41221033.39	17446175.32	12527685.37	21804246.36	47111484.93	0.00	31040657.75	383429802.60

Annex 11: Investment Details of Development Banks

(As of Mid July 2021)

Rs. in '000

Development Banks	Government Securities	NRB Bond	Deposit Auction	Shares and Debentures	Land and Housing	Other	Total Investment
Mahalaxmi	6107200.00	0.00		419576.03	0.00	734421.40	7261197.43
Narayani	4000.00	0.00		308.00	45.00	0.00	4353.00
Karnali	0.00	0.00		0.00	0.00	0.00	0.00
Shangrila	5129633.86	0.00		566840.91	0.00	5692.10	5702166.87
Excel	540000.00	0.00		263151.29	0.00	0.00	803151.29
Miteri	785774.60	0.00		29806.35	0.00	200000.00	1015580.95
Muktinath	15115342.11	0.00		332537.38	0.00	664588.56	16112468.05
Kamana	4670000.00	0.00		297854.22	0.00	0.00	4967854.22
Corporate	0.00	0.00		0.00	0.00	0.00	0.00
Jyoti	6363009.75	0.00		1120046.52	0.00	0.00	7483056.27
Lumbini	4350849.03	0.00		644088.46	14126.51	0.00	5009063.99
Sahara	0.00	0.00		0.00	0.00	0.00	0.00
Saptakoshi	189840.12	0.00		5005.00	0.00	0.00	194845.12
Green	80000.00	0.00		7500.00	0.00	10000.00	97500.00
Garima	9729307.05	0.00		292832.25	0.00	400000.00	10422139.30
Shine	3742050.00	0.00		147627.65	0.00	500000.00	4389677.65
Sindhu	0.00	0.00		93666.48	0.00	30000.00	123666.48
Salpa	0.00	0.00		0.00	0.00	0.00	0.00
Grand Total	56807006.52	0.00	0.00	4220840.53	14171.51	2544702.06	63586720.61

Annex 12: Industry Statistics

Note: This financial indicator is based on regulatory requirement format, and so, may differ from the figures based on NFRS based balance sheet.

Annex 12.1: DB's Operations

Rs.in Billion

Particulars	Rs. in Billion						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Total Assets	291.56	334.84	295.55	364.75	468.32	403.81	508.84
Percentage Change	20.35	14.84	(14.84)	23.41	28.39	(13.77)	26.01
Total Deposits*	237.06	278.20	239.04	301.99	398.34	354.78	445.84
Percentage Change	20.41	17.35	(14.09)	26.33	31.90	(10.94)	25.67
Total Loans and Advances*	193.47	232.59	209.30	253.24	345.17	287.12	383.43
Percentage Change	21.26	20.22	(10.01)	20.99	36.30	(16.81)	33.53

Note: * - Figures of total loan and advances and total deposits are based on regulatory requirement format

Annex 12.2: Capital Fund

Rs.in Billion

Particulars	Rs. in Billion						2020/21
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
Industry	37.17	43.16	46.42	49.84	58.07	44.63	48.77
Percentage Change	19.83	16.12	7.55	(23.35)	16.51	(23.14)	9.28

Annex 12.3: Deposit Mix

Rs.in Billion

Particulars	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current Deposit	5.12	6.65	4.73	7.29	9.42	9.04	14.12
Saving Deposit	121.31	137.11	96.15	115.38	135.37	113.13	140.72
Fixed Deposit	62.21	65.86	93.57	124.98	178.88	188.00	243.41
Call Deposit	47.00	67.56	44.09	54.12	74.36	44.14	47.57
Other Deposit	1.42	1.01	0.50	0.22	0.31	0.47	0.02
Total Deposit	237.06	278.19	239.04	301.99	398.34	354.79	445.84

Annex 12.4: Non Performing Loan

Particulars	Non Performing Loan to Total Loans and Advances in percentage							2020/21
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
Industry	3.37	2.82	5.17	1.28	1.09	0.90	1.48	1.3
Percentage Change		-18.80	83.33	-75.24	(14.84)	(17.43)	64.44	(0.18)

Annex 12.5: Non Banking Assets

Rs.in Billion

Particulars	Rs. in Million							2020/21
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
Industry	848.3	2390.0	783.1	390.2	644.2	604.5	613.6	521.95
Percentage Change		181.74	(67.23)	(50.17)	65.09	(6.19)	1.51	(14.94)

Annex 12.6: Investment

Rs.in Billion

Particulars	Rs. in Million							2020/21
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
Industry	4,846.82	5,420.26	7,456.39	6,629.72	11,258.03	20,050.86	32,356.94	63,586.72
Percentage Change		10.58	27.30	(12.46)	41.11	78.10	61.37	96.52

Annex 12.7: Liquid assets to Deposits & Liquid assets to Total assets

Rs. in billion

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Liquid Assets	68.25	79.93	74.03	70.94	90.45	103.58	102.12	111.92
Percentage Change		17.11	(7.38)	(4.17)	27.50	14.51	(1.21)	9.60
Deposit	200	237.06	278.20	239.04	301.99	398.34	354.78	445.84
Percentage Change		18.57	17.35	(14.08)	26.33	31.90	(10.79)	25.67
Liquid Assets/Deposit	34.14%	33.72%	26.61%	29.68%	29.95%	26 %	28.78%	25.10 %

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Liquid Assets	68.25	79.93	74.03	70.94	90.45	103.58	102.12	111.92
Percentage Change		17.11	(7.38)	(4.17)	27.50	14.51	(1.21)	9.60
Total Assets	242.26	291.04	334.84	295.55	364.75	468.32	403.81	508.84
Percentage Change		20.14	15.05	(11.73)	23.41	28.39	(13.77)	26.01
Liquid assets/Total Assets	28.17%	28.17%	22.11%	24.00%	24.80%	22.12 %	25.29%	22.00 %

Annex 12.8: Operation Efficiency of Development Banks

Rs. in billion

Particulars	Rs. in Billion						2020/21
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
Net Interest Income	10.53	12.68	12.43	13.27	17.45	13.60	14.74
Operating Profit	5.35	7.78	8.26	7.76	10.56	5.63	8.10

Annex 12.9: Consolidated Statement of Financial Position of Development Banks

(Mid July 2021)

Rs.in '000

ASSETS	Year			2020/21
	2017/18	2018/19	2019/20	
Cash and cash equivalent	73,354,748.89	80,073,536.02	61,067,977.15	44983174.61
Due from Nepal Rastra Bank	13,520,751.70	15,351,839.32	15,513,238.74	13470577.88
Placement with Bank and Financial Institutions	-	2,515.28	325,452.59	5547.19
Derivative financial instruments	-	1,711,668.29	-	-
Other trading assets	331,793.24	340,835.21	444,892.95	540000.00
Loan and advances to B/FIs	4,560,667.49	9,087,607.53	7,399,885.97	23361547.38
Loans and advances to customers	237,564,745.88	333,445,520.06	278,326,222.81	355750380.31
Investment securities	10,785,966.73	18,437,675.45	31,632,662.60	59905029.61
Current tax assets	232,548.30	380,679.88	606,174.10	707466.06
Investment in subsidiaries	40,000.00	117,500.00	117,500.00	117500.00
Investment in associates	324,179.13	647,089.15	546,283.30	695690.35
Investment in property	736,394.65	690,595.68	672,843.84	554060.56
Property and equipment	3,935,878.47	5,645,199.67	4,947,786.90	4620116.86
Goodwill and Intangible assets	90,040.88	126,186.81	213,257.62	282051.77
Deferred tax assets	185,706.33	410,478.09	307,338.38	188099.45
Other assets	1,783,719.06	1,848,778.20	1,690,746.21	3661948.18
TOTAL ASSETS	347,447,140.75	468,317,704.63	403,812,263.17	508843190.21
EQUITY AND LIABILITIES	-	-	-	-
Liabilities	298,560,519.62	411,945,549.02	360,444,114.02	461,822,693.72
Due to Bank and Financial Institutions	22,358,987.24	33,401,764.99	11,568,624.21	15,697,230.47
Due to Nepal Rastra Bank	221,000.00	1,406,378.15	605,830.77	7,975,330.51
Derivative financial instruments	-	1,783,300.00	-	-
Deposits from customers	270,555,237.34	368,366,498.70	343,218,899.61	-

				431,181,188.07
Borrowing	-	684,825.00	-	-
Current Tax Liabilities	56,255.99	133,910.20	5,338.75	29,592.93
Provisions	60,440.48	86,683.39	179,696.52	119,106.76
Deferred tax liabilities	149,435.71	56,691.12	74,330.85	367,482.28
Other liabilities	5,159,162.88	6,025,497.47	4,791,393.32	5,459,780.70
Debt securities issued	-	-	-	992,982.01
Subordinated Liabilities	-	-	-	-
Equity	48,886,621.13	56,372,155.61	43,368,149.15	47,020,496.49
Share capital	36,335,261.24	40,070,421.92	32,038,896.01	32,242,169.49
Share premium	261,738.95	107,649.74	87,581.92	71,238.08
Retained earnings	5,209,263.01	5,870,788.41	2,857,102.94	4,801,202.24
Reserves	7,080,357.93	10,323,295.54	8,384,568.28	9,905,886.68
TOTAL EQUITY AND LIABILITIES	347,447,140.75	468,317,704.63	403,812,263.17	508,843,190.21

**Audited figures except in case of Sahara Bikas Bank Ltd, Salapa Bikas Bank Lt, Karnali Bikas Bank Ltd, Excel Development Bank Ltd and Corporate Development Bank Ltd.*

Annex13: Number of Branches, Depositors and Borrowers

S.No.	Particulars	Total No. of Branches	Total No. of Depositors	Total No. of Borrowers
1	Corporate Development Bank Ltd.	4	13198	294
2	Excel Development Bank Ltd	42	149432	5052
3	Garima Bikas Bank Ltd.	107	471646	40001
4	Green Development Bank Ltd	14	17686	1635
5	Jyoti Bikas Bank Ltd.	105	343019	25756
6	Kamana Sewa Bikas Bank Ltd.	131	388457	29114
7	Karnali Bikas Bank Ltd.	18	92827	2035
8	Lumbini Bikas Bank Ltd.	73	268867	13835
9	Mahalaxmi Bikas Bank Ltd.	104	525475	18831
10	Miteri Bikas Bank Ltd.	18	60681	5733
11	Muktinath Bikas Bank Ltd.	158	948559	114372
12	Narayani Development Bank Ltd	3	11422	73
13	Sahara Bikas Bank Ltd.	5	25182	858
14	Salapa Bikas Bank Ltd.	5	24506	718
15	Saptakoshi Development Bank Ltd	33	90914	5746
16	Shangrila Development Bank Ltd	95	360846	19490
17	Shine Resunga Development Bank Ltd.	81	435765	14587
18	Sindhu Bikas Bank Ltd.	27	103892	2501
	Total	1,023	4,332,374	300,631

(Source: Bank and Financial Institutions Regulation Department, NRB)

included the extension counters

Annex 14: List of Finance companies

(as of Mid July, 2021)

S.N.	NATIONAL LEVEL	S.N.	Province No. 2
1	Nepal Finance Ltd.	16	Janaki Finance Co. Ltd.
2	Nepal Share Markets and Finance Ltd.		
3	Goodwill Finance Ltd.		
4	Progressive Finance Ltd.		
5	Pokhara Finance Ltd.		1-5 District Level(Saptari, Siraha, Dhanusha, Mahottari, Sarlahi)
6	Samriddhi Finance Company Limited	17	Multipurpose Finance Co. Ltd
7	Capital Merchant Banking & Finance Ltd.		
8	Guheshwori Merchant Banking & Finance Ltd.		
9	ICFC Finance Ltd.		
10	Manjushree Finance Ltd.		
11	Reliance Finance Ltd.		
12	Gorkhas Finance Ltd.		
13	Shree Investment & Finance Co. Ltd.		
14	Central Finance Ltd.		
15	Best Finance Ltd.		

Annex 15: Consolidated Statement of Financial Position of Finance Companies

ASSETS	Years	
	2019/20	2020/21
Cash and cash equivalent	15,111,951	12,881,338.81
Due from Nepal Rastra Bank	3,128,186	3,524,337.47
Placement with Bank and Financial Institutions	-	100,030.55
Derivative financial instruments	-	-
Other trading assets	-	-
Loan and advances to B/FIs	4,314,210	6,606,355.33
Loans and advances to customers	53,485,706	60,507,992.59
Investment securities	10,275,203	24,310,962.22
Current tax assets	162,651	231,905.54
Investment in subsidiaries	-	-
Investment in associates	51,414	101,785.41
Investment in property	451,503	450,941.46
Property and equipment	1,662,401	1,732,647.83
Goodwill and Intangible assets	20,931	36,173.25
Deferred tax assets	193,754	125,858.08
Other assets	616,545	1,181,840.03
TOTAL ASSETS	89,474,454.21	111,792,168.57
EQUITY AND LIABILITIES	-	
Liabilities		
Due to Bank and Financial Institutions	5,657,038.12	5,762,762.76
Due to Nepal Rastra Bank	200,683.28	1,186,811.17
Derivative financial instruments		-
Deposits from customers	67,749,944.08	84,559,215.88
Borrowing		-
Current Tax Liabilities	16,062.25	14,811.57
Provisions	253.96	653.96
Deferred tax liabilities	84,566.66	367,548.14
Other liabilities	1,232,360.33	1,467,255.86
Debt securities issued	446,581.1299	946,996.68
Subordinated Liabilities		-
Equity		
Share capital	10,386,001.63	11,790,135.47
Share premium	64,151.75	89,566.37
Retained earnings	-165,944.03	528,523.23
Reserves	3,802,755.05	5,077,887.48
TOTAL EQUITY AND LIABILITIES	89,474,454.21	111,792,168.57

Annex 16: Industry Statistics

Annex 16.1: FC's Operations

Particulars	Rs. in Billion	
	2019/20	2020/21
Total Assets	89.47	111.79
Percentage Change		24.94
Total Deposits	88.86	88.10
Percentage Change		(0.86)
Total Loans and Advances	71.12	68.54
Percentage Change		16.76

Note: * - Figures of total loan and advances and total deposits are based on regulatory requirement format

Annex 16.2: Capital Fund

Particulars	Rs. in Billion	
	2019/20	2020/21
Industry	16.31	17.15
Percentage Change		5.15

Annex 16.3: Deposit Mix

Particulars	Rs. in Billion	
	2019/20	2020/21
Current Deposit	2.17	1.3
Saving Deposit	23.86	25.88
Fixed Deposit	50.47	50.53
Call Deposit	10.69	9.74
Other Deposit	1.67	0.65
Total Deposit	88.86	88.10

Annex 16.4: Non Performing Loan

Particulars	Non Performing Loan to Total Loans and Advances in percentage	
	2019/20	2020/21
Industry	2.97	3.16
Percentage Point Change		0.19

Annex 16.5: Non Banking Assets

Particulars	Rs. in Million	
	2019/20	2020/21
Industry	510.00	448.49
Percentage Change		(12.06)

Annex 16.6: Investment

Particulars	Rs. in Million	
	2019/20	2020/21
Industry	10.67	23.09
Percentage Change		116.40

Annex 16.7: Liquid assets to Deposits & Liquid assets to Total assets

Rs. in billion

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Liquid Assets	28.67	17.34	22.94	26.95	31.95	36.82
Percentage Change		-39.51	32.27	17.46	18.59	15.21
Deposit	60.88	50.07	61.98	74.53	88.86	88.10
Percentage Change		(17.76)	23.80	20.25	19.22	(0.86)
Liquid Assets/Deposit	47.10	34.64	37.01	36.16	35.96	41.79
Total Assets	86.25	67.72	83.25	99.55	89.47	111.79
Percentage Change		(21.49)	22.94	19.58	-10.13	24.94
Liquid assets/ Total Assets	33.25	25.61	27.56	27.07	35.71	32.94

Annex 16.8: Operation Efficiency of Finance companies

Particulars		
	2019/20	2020/21
Net Interest Income	2.78	2.60
Percentage Change		(6.47)
Operating Profit	1.48	2.84
Percentage Change		91.89

Annex 17: Number of Branches, Depositors and Borrowers

S.No.	Particulars	Total No. of Branches	Total No. of Depositors	Total No. of Borrowers
1	Nepal Finance Ltd.	14	8641	202
2	Nepal Share Markets and Finance Ltd.	1	11067	470
3	Goodwill Finance Ltd.	16	40684	3936
4	Progressive Finance Ltd.	17	20460	1004
5	Pokhara Finance Ltd.	24	37586	3077
6	Samriddhi Finance Company Limited	5	10058	333
7	Capital Merchant Banking & Finance Ltd.	1	10542	56
8	Guheshwori Merchant Banking & Finance Ltd.	23	35231	2447
9	ICFC Finance Ltd.	20	83363	3409
10	Manjushree Finance Ltd.	11	30241	5257
11	Reliance Finance Ltd.	21	31336	1955
12	Gorkhas Finance Ltd.	23	87133	4778
13	Shree Investment & Finance Co. Ltd.	13	28261	1724
14	Central Finance Ltd.	15	20298	2455
15	Best Finance Ltd.	14	50098	1875
16	Janaki Finance Co. Ltd.	3	13975	1292
17	Multipurpose Finance Co. Ltd	1	2557	852
	Total	222	521531	35122

Annex 18: Circulars issued to Bank and Financial Institutions

(FY 2020/21)

S. No.	Name with Link of the Circulars issued to A, B and C Class Financial Institution
1	<u>Circular 01- Monetary Policy, 2077/78 Related and Others</u>
2	<u>Circular 02- Amendment in Unified Directive, 2076</u>
3	<u>Circular 03- Unified Directive, 2077</u>
4	<u>Circular 04- Subsidized Loan Related-new</u>
5	<u>Circular 05- Business Continuity Loan Related</u>
6	<u>Circular 06- Amendment in Unified Directive, 2077</u>
7	<u>Circular 07- Amendment in Unified Directive, 2077 Firm No. 2.1</u>
8	<u>Circular 08- Amendment in Unified Directive, 2077</u>
9	<u>Circular 09- Amendment in Unified Directive, 2077</u>

Annex 19: Existing Acts, Bylaws and Guidelines

Key policy documents that guide NRB's regulatory and supervision functions:

- Nepal Rastra Bank Act, 2002
- Bank and Financial Institutions Act, 2017
- Company Act, 2006
- Bank and Financial Institution Debt Recovery Act, 2000
- Banking Offense and Punishment Act, 2007 (Amended, 2016)
- Asset (Money) Laundering Prevention Act, 2008
- Act Relating to Institutions Acting as Financial Intermediary, 1999 (Amended, 2002)
- Foreign Exchange (Regulation) Act, 1962
- Insolvency Act, 2006
- Secured Transaction Act, 2006
- Payment and Settlement Act, 2019
- Payment and Settlement Bylaw, 2015
- Nepal Rastra Bank, Inspection and Supervision Bylaw, 2017
- Nepal Rastra Bank, Banks and Financial Institutions Prompt Corrective Action Bylaw, 2017
- Unified Directives to Licensed Bank and Financial Institutions
- Bank and Financial Institutions Resolution Bylaw, 2017
- New Capital Adequacy Framework, 2007 (Updated, 2008 for DBs) and 2015 for CBs
- Monetary Policy
- Banking Service Fee Guidelines
- Risk Management Guidelines, 2010
- Stress Testing Guidelines, 2012
- Internal Capital Adequacy Assessment Process - ICAAP Guidelines, 2012 (Updated 2013)
- Information Technology Guidelines, 2012
- Other circulars issued for the BFIs