Financial Institutions Supervision Report

2021/22

Nepal Rastra Bank

Financial Institutions Supervision Department

Kathmandu, Nepal

March-2023

The annual report of the Financial Institutions Supervision Department of the Nepal Rastra Bank is titled Financial Institutions Supervision Report, 2021/2022. It examines operational and policy issues that have an impact on the banking industry and the regulators/supervisors that oversee it. It also attempts to disseminate information on other financial sector-related concerns, such as the supervision of development banks and finance companies. The changes in 2021/22 AD are primarily the subject of the Financial Institutions Supervision Department's Annual Report. However, some recent developments that occurred up until the time the report was finalized are also included.

Contact the Policy and Planning Unit and the Executive Director of the Financial Institutions Supervision Department with any questions you may have regarding this publication.

Nepal Rastra Bank,
Financial Institutions Supervision Department
Central Office,
P.O. Box No.73
Kathmandu, Nepal
Telephone: 977-01-4419804/4414805
E-mail: nrbfisd@nrb.org.np

Forewords

A nation’s financial sector plays a critical role in allocating resources between the supply and demand sides of the economy. One of the main pillars of a stable financial system is a healthy and efficient banking system. The NRB is dedicated to achieving its goal of ensuring financial stability through efficient bank and financial institutions supervision.

The goal of NRB as a regulator and supervisor has always been to ensure that BFIs are safe, sound, and self-regulated, banking transactions are transparent and consumer-friendly, best supervisory practices are adopted internationally, systemic risks are mitigated through advanced approaches to supervision and financial stability is ultimately achieved.

‘B’ and ‘C’ class licensed institutions must be inspected and under the supervision of the NRB’s Financial Institutions Supervision Department, which has made it a priority to implement best practice in Supervision, a few of the actions made to create stronger and more robust financial institutions include risk-based supervision, stress testing mechanisms, mergers and acquisitions, etc.

The loosening of policy following COVID-19 had resulted in previously unheard-of difficulties with loan repayment. The NRB’s preventive strategy has had a favorable impact on this situation. The difficulties still exist in maintaining asset quality, allocating financial resources to industries that create jobs, controlling liquidity and maintaining interest rates. The department is crucial in addressing these challenges through its ongoing monitoring. Additionally, the department has operational freedom in carrying out its responsibilities.

Adequate transparency and disclosures are crucial for establishing confidence with its stakeholders; hence this report disseminates information in this regard.

I want to sincerely thank my co-workers in the Policy and Planning Unit for their work in putting this report together in its current format. I also want to express my gratitude to the Department’s whole staff for their ongoing efforts to carry out their duties.

Thank you,

Vishrut Thapa

Executive Director

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Acronyms Used

AGM	:	Annual General Meeting
AML/CFT	:	Anti Money Laundering/Combating the Financing of Terrorism
BAFIA	:	Bank and Financial Institutions Act
BFI	:	Bank and Financial Institutions
CAR	:	Capital Adequacy Ratio
CRR	:	Cash Reserve Ratio
DBs	:	Development Banks
FCs	:	Finance Companies
FISD	:	Financial Institutions Supervision Department
KYC	:	Know Your Customer
ML	::	Money Laundering
NBA	:	Non-Banking Asset
NFRS	:	Nepal Financial Reporting Standard
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
SLF	:	Statutory Liquidity Facility
SLR	:	Statutory Liquidity Ratio
SIS	:	Supervisory Information System
BCBS	:	Basel Committee on Banking Supervision
RBS	:	Risk Based Supervision
PFIR	:	Problematic Financial Institutions Resolution

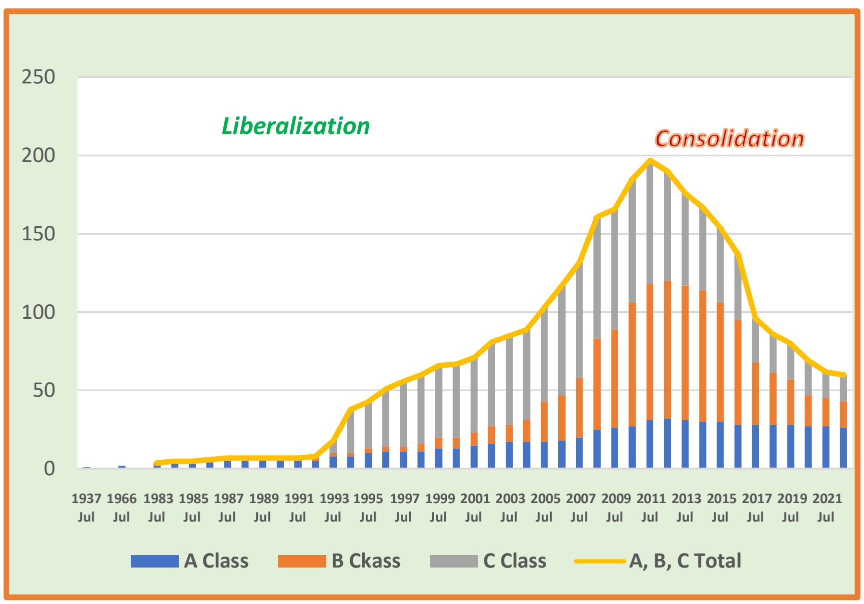
1 AN OVERVIEW OF FINANCIAL INSTITUTIONS IN NEPAL

Banking System

1.1 Nepal Rastra Bank (NRB) was established in 1956 as the Central Bank of Nepal. The Bank was established under the Nepal Rastra Bank Act 1955, and is the regulatory and supervisory authority of the banking sector in the country. The primary objective of the NRB is to ensure price stability, external sector stability and financial sector stability along with promotion of financial inclusion in the country. NRB also functions as a banker and advisor to the government. Moreover, under the objective of financial sector stability NRB provides license to bank and financial institutions (BFIs) of Nepal and regulates and supervise their activities.

1.2 Prior to NRB, Nepal's banking history dates back to 1937 when the first commercial bank in the country was established. This was followed by the establishment of Rastriya Banijya Bank in 1966. In the early 1990s, a number of private and joint venture banks were established in Nepal. Since then, banking sector in Nepal has grown significantly, with the inclusive banking services of various functions and size of BFIs. There are currently 24 commercial banks, 17 development banks, 17 finance companies, 1 infrastructure development bank and 64 microfinance institutions licensed by NRB are operating in Nepal as of mid July 2022. A detail of BFIs' over the years is given in Annex 1.

Figure 1: BFIs in Nepal



1.3 The policies shaped various quantities and sizes of the financial sector in Nepal as part of the financial reforms at various eras. In the beginning, Nepal only had government banks; however, following 1983, Nepal implemented a financial liberalization policy to promote the growth and development of the nation's economy. The financial sector attracted foreign investments, which encouraged the development of multiple joint venture banks in the nation. Similar to how it improved expertise, foreign investment in the banking industry stimulated private sector domestic investment. With various advantages and disadvantages in the industry, the number of financial institutions steadily rose until 2011, when NRB implemented a policy of financial sector consolidation. Over the past few years, Nepal's banking and financial sector has seen substantial changes.

1.4 In FY 2021/22, the number of BFIs decreased from 133 to 126 (including IDB), and the total number of branches increased from 10,683 to 12,788.[1] The merger and acquisition policy has played a significant role in this consolidation, with 329 BFIs involved in the process as of mid-Feb 2023. Out of which, the licenses of 184 BFIs were revoked, forming 119 BFIs. [2]

1.5 Banks play a dominant role in Nepal's financial system, with their support for large projects, import and export of goods and services and the adoption of electronic payment methods indicating the country's move towards a less cash economy. The number of BFIs and branches may continue to evolve as the industry adapts to changing economic conditions and technological advancements.

1.6 The banking sector holds a prominent position in Nepal's financial system, playing a vital role in various aspects of the economy. Large projects in the country are often financed through bank loans, showcasing the significant role of banks in supporting economic growth and development.

1.7 Furthermore, banks are crucial for facilitating the import and export of goods and services, enabling smooth international trade transactions. Their involvement in international trade underscores their importance in Nepal's economy and their contribution to the country's economic development.

1.8 Moreover, with the advancement of technology, there is a growing trend of adopting electronic payment methods such as cards, digital wallets, internet banking, QR codes, and mobile banking services among the population. This shift towards digital financial transactions indicates Nepal's progress towards becoming a less cash-dependent economy, as people increasingly embrace convenient and efficient electronic payment options.

1.9 Overall, the dominance of the banking sector in Nepal's financial system, their role in financing large projects and facilitating international trade, along with the increasing adoption of digital payment methods, signifies the evolving landscape of Nepal's financial sector in line with technological advancements and changing consumer preferences.

Table 1: Number of BFIs in last five years in Nepal (As of Mid-July, 2022)

BFIs	**2018**	**2019**	**2020**	**2021**	**2022**
Commercial Banks	28	28	27	27	24
Development Banks	33	29	20	18	17
Finance Companies	25	23	22	17	17
Microfinance Financial Institutions	65	90	85	70	64
Infrastructure Development Bank	0	1	1	1	1

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

[1] Source Monthly Banking and Financial Statistics (Mid July 2022)
[2] Source Bank and Financial Institutions Regulation Department, NRB

Regulatory and Supervisory Functions

1.10 Nepal Rastra Bank (NRB) is responsible for regulating and supervising the banking industry in Nepal, as mandated by the Nepal Rastra Bank Act, 2002, and the Bank and Financial Institutions Act, 2017. NRB issues directives, guidelines, and policies to licensed institutions through its Banks and Financial Institutions Regulation Department, based on domestic banking conditions and international best practices. The capacity of supervision is important to Nepal Rastra Bank as financial and economic stress is observed in Nepal.

1.11 Thus, to enhance effectiveness of supervision NRB has set up three departments for supervision including Bank Supervision Department, Financial Institutions Supervision Department, and Micro Finance Supervision Department. NRB aims to be more proactive by adopting forward-looking and analytical supervisory methods, such as the risk-based supervision (RBS) approach, which assesses major risk areas, risk profiles and significant issues which requires corrective action.

1.12 RBS has been applied fully on commercial banks since 2014, and NRB gradually adopted the methodology in National level B class financial institutions. RBS of NRB has divided six categories of risks: including Credit risk, Liquidity risk, Market risk, Operational risk, Interest rate risk and foreign exchange risk. The on-site examiners assess the quantity and quality of these risks and suggest appropriate supervisory instructions for individual institutions to mitigate risks.

1.13 NRB's supervisory strategy relies on the assessments made during on-site inspections conducted through the RBS approach and the implementation of the Supervisory Information System (SIS) for on-site inspections, off-site supervision, and regulatory returns. The SIS system is being applied to the entities licensed by NRB in due course. NRB supervises the activities of banks and financial institutions based on the existing legal framework, directives issued through the Banks and Financial Institutions Regulation Department, internal manuals and major international guiding policies issued by the Basel Committee on Banking Supervision (BCBS). NRB aims at becoming more proactive by applying supervisory methods that are forward-looking and analytical. Banks are supervised through onsite inspection and offsite surveillance.

1.14 There are 17 development and 17 finance companies in the mid-July 2022. As of mid-July 2022, development banks and finance companies comprise the 8.39 percent and 2.08 percent share of assets in the banking industry of Nepal. The share of B and C class institutions has been gradually decreasing; there is a rapid merger and acquisition of B and C class institutions by commercial banks or between peer classes of institutions. Detail list of Development Banks and Finance Companies are given in Annex 2 and Annex 18.1 respectively.

Scope of "B" Class Institutions:

1.15 Development Banks are broadly classified into two categories based on their paid-up capital and geography for operation. These categories were established by the BAFIA to regulate, supervise and confine the development banks to particular region of the country.

1.16 The categorization is based on the number of districts in which the banks operate, with banks in national level have the widest reach and those in province level have limited geography for operation. There are 8 national level development banks with a paid-up capital of Rs. 2500 million and above. Similarly, there are 8 province level development banks with a paid-up capital of NPR 1200 million and above, but less than Rs. 2500 million.

Table

Development Banks Category

Geography for Operation	Required Paid up Capital (in Rs. Millions)	Number
National Level	***2500***	***8***
Province Level*	***1200#***	***9***

**** Limited to the districts within the province outside Kathmandu valley***

Note#: According to Unified Directive, 2079 No.21 Point 4(5)(e), any development bank with paid-up capital of 500 million can conduct business in five adjacent districts within the same province after receiving NRB approval.

Scope of "C" Class Institutions:

1.17 The BAFIA has classified Finance Companies in two broad categories based on their paid-up capital and geography for operation. There are 15 national level finance companies with a paid-up capital of Rs. 800 million and above. Similarly, there are 2 province level finance companies with a paid-up capital of Rs. 500 million and above, but less than Rs. 800 million.

Table

Finance Companies' Category

Geography for Operation	Required Paid up Capital (in Rs. Millions)	Number
National Level	***800***	***15***
Province Level*	***500#***	***2***

**** Limited to the districts within the province outside Kathmandu valley***

Note#: According to Unified Directive, 2079 No.21 Point 4(5)(e), Any finance company with paid-up capital of 400 million can conduct business in five adjacent districts within the same province after receiving NRB approval.

Branch Network

1.18 Development banks now have 1,128 branches nationwide; up from 1,023 at the middle of July 2021, 1118 at the middle of July 2022 and 1023 at the middle of January 2023. The overall number of financial company branches also increased, going from 222 in mid-July 2021 to 267 in mid-July2022 and then to 280 in mid-January 2023. Each province has development banks and financial institutions. Through rules that encourage BFIs' to operate more branches in rural regions, NRB has been increasing financial access. The population per branch, comprising A, B, and C class institutions, as of Mid-July 2022 was 4,565. However, as of mid-January 2023, there were 4,530 people per branch; comprising A, B, and C class institutions. When all BFI categories are taken into account, the population per branch drops to 2,532 as of mid-January 2023 using the final population from Census Nepal 2021.[3]

1.19 The table below demonstrates the province-wise presence of BFIs.

Table 2:Province wise branch network (As of Mid-July 2022)

Province	A	B	C	D	Total (A+B+C)	Total (A+B+C+D)
Koshi	763	194	32	868	989	1,857
Madhesh	572	84	38	1,051	694	1,745
Bagmati	1,807	321	106	769	2,234	3,003
Gandaki	599	190	36	591	825	1,416
Lumbini	740	256	46	1,170	1,042	2,212
Karnali	199	21	3	232	223	455
Sudur Paschim	329	52	6	453	387	840
Total	**5,009**	**1,118**	**267**	**5,134**	**6,394**	**11,528**

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

Asset Share of Banks and Financial Institutions

1.20 The respective shares of banks and financial institutions in the total assets of the banking industry as of mid-July for nine consecutive years are depicted in the Table 3.

Table 3:Asset share of banks and financial institutions (As of Mid-July2022)

Bank and Financial Institutions	**% Share as on mid-July**								
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Commercial	78.00	78.73	79.74	83.41	82.76	80.88	83.61	83.21	82.42
Development	13.60	13.34	12.81	9.71	9.99	10.67	7.83	8.01	8.39
Finance	5.80	4.79	3.78	2.63	2.56	2.47	2.40	1.94	2.08
Micro	2.60	3.14	3.68	4.26	4.69	5.99	6.16	6.84	7.11
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

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

1.21 Table 3 shows the dominance of Commercial banks, with the share of 82.42 percent of total assets of the Nepalese banking industry at the mid-July of 2022, such share was 83.21

[3] Population 29,192,480 based on Final population report 2078 (Census Nepal 2021) Source: https://censusnepal.cbs.gov.np/

percent in the previous year. Share of development banks has increased from 8.01 percent in FY 2020/2021 to 8.39 percent in FY 2021/2022. Likewise, the share of finance companies has also increased to 2.08 percent from 1.94 percent during the review period. The share of microfinance financial institutions increased from 6.84 percent to 7.11 percent in mid-July 2022.

Employment in the Banking Industry

1.22 There are 8,549 and 2,133 employees working in development banks and finance companies respectively till mid July 2022.[4]The banking industry offers a wide range of job opportunities, with positions available for individuals with a variety of educational backgrounds and skill sets. There are many other job opportunities available in the banking industry, including marketing, human resources, IT, credit and operations. It is important to have a strong understanding of financial concepts, excellent communication skills, and a strong work ethic. Hence, many graduates aspire to enter this sector. However, there is still a lack of skilled manpower in the industry. The major challenge for B and C class financial institutions is staff turnover. Then turnover in the banking industry seems to be high nowadays. The human resource in the industry is expected to improve once the industry gets fully matured.

Review of the Guiding Documents

1.23 As the central bank of Nepal, NRB has been given a clear mandate to regulate and supervise banks and financial institutions in Nepal. To discharge its regulatory responsibilities, NRB issues directives and guidelines to the licensed BFIs. Likewise, NRB continuously conducts onsite inspections and offsite supervision both on regular and need-based ways to assess their risk profiles and their compliance with the existing laws, regulations, and prudential norms.

1.24 The following are the key documents which guide the NRB's regulatory and supervisory function:

- Nepal Rastra Bank Act, 2002,
- Bank and Financial Institutions Act, 2017
- Company Act, 2006
- Nepal Rastra Bank, Inspection and Supervision Bylaws, 2017
- Unified Directives published annually, and Circulars issued from time to time
- Capital Adequacy Frameworks
- Nepal Rastra Bank, Prompt Corrective Actions Bylaws, 2017
- Monetary Policy Announcements

[4] Source, Bank and Financial Institutions Regulation Department, NRB

- Assets (Money) Laundering Prevention Act, 2008
- Several Guidelines issued by Nepal Rastra Bank
- Risk-Based Supervision Manual, Volume I & II
- Off-site Supervision Manual, 2022

List of the key documents which guide NRB's regulatory and supervisory function is given in Annex 20.

Access to Banking Services and Financial Inclusion

1.25 NRB is the main agency that is involved in promoting financial access in the country. Through its policies, NRB has been working for expanding banking services and increasing financial inclusion of the general public. As of mid-July 2022, development banks are present in 68 districts and finance companies have their presence on 41 districts only. A provision has been made to allow BFIs to open a branch in Kathmandu valley only after opening three branches outside the valley. Two out of these three branches must be opened in municipality or rural municipality. Further, BFIs do not need to take permission from NRB to open a new branch in places other than metropolitan and sub-metropolitan cities.

1.26 Besides, NRB is working to promote branchless banking and mobile banking to increase access to the banking service/system by the rural and unbanked people. As of mid-July 2022, there were 22 branchless banking centres of 'B' class financial institutions are in operation. But no branchless banking centres are in operation for 'C' class institutions. Likewise, the number of mobile-banking customers of 'B' and 'C' class financial institutions reached to 22, 15,791as of mid-July 2022.

2 FINANCIAL INSTITUTIONS SUPERVISION

Supervision Function

2.1 Supervision simply means enforcement of rules and regulations formulated by regulatory authority with the common objective of protecting the interest of depositors and maintaining financial stability by promoting resilient banking system. NRB is entrusted with responsibility of supervising and regulating the Nepalese Banking System under the provisions of Nepal Rastra Bank Act, 2058 and Bank and Financial Institutions Act, 2073. Effective supervision is mandatory for ensuring Banks and Financial Institutions adherence to the rules and regulations and does not pose threat to its own solvency and overall banking system of the country.

2.2 From the first of Falgun in 2078, the Development Bank Supervision Department and the Finance Company Supervision Department amalgamated to establish the Financial Institutions Supervision Department (FISD). These comprised on-site and offsite monitoring of finance companies and development banks using compliance and risk-based supervisory strategies. Compliance with governing laws, rules, and policies is ensured by compliance-based supervision, which concentrates on both the qualitative and quantitative components of financial institutions. Using a quantitative and qualitative analysis of an institution's risk profile, risk-based supervision identifies key risk factors, evaluates the effectiveness of risk management practices and policies, and allocates supervisory resources (such as examination time) in accordance with the risk characteristics of the institutions.

2.3 FISD creates an annual strategy for on-site supervision and oversees finance companies and development banks. The supervisory process primarily entails a comprehensive on-site inspection, as well as special inspections, targeted inspections, and follow-up inspections as needed. An offsite supervisory function that creates the indicators relating to financial soundness and stability supports an on-site inspection by continuously monitoring the financial statements of development banks and finance companies. Offsite oversight keeps a constant eye for early warning signs and makes sure the institutions follow all legal requirements while also controlling the overall inherent risks. Additionally, the enforcement system permits rectification when necessary and regularly assesses the development of the remedial action in response to the comments and observations made during the onsite inspection.

Supervision Methodology

2.4 Onsite Inspection is risk based for National Level Development Banks and compliance based for regional level development banks and finance companies

2.5 In absence of single optimal process for supervising the banks, NRB has adopted the Core Principles for Effective Banking Supervision issued by Basel Committee on Banking Supervision. Supervision of financial institutions is made through off site surveillance and onsite examination for ensuring that the financial institutions adhere to the provisions of Applicable Acts and Unified Directives and circulars issued to them. Risk Based

Supervision has been initiated for supervising National Level Development Banks with objective of gradually covering all the Financial Institutions.

2.6 Offsite supervision is continuous and ongoing. BFIs are required to submit various financial and compliance reports as directed by the Unified Directives. Liquidity, solvency, capital adequacy are regularly monitored based on those submitted reports and non-compliance result to penalties as prescribed. Onsite Inspection is conducted as per the Onsite Inspection Manual and some insight on major risk factors that need to be seriously evaluated is provided by offsite desk. Reports are prepared and issued to the respective BFIs. Further, regular follow up on implementation of the directions issued with the onsite inspection report is made by Enforcement section.

Financial Institutions Supervision Department (FISD)

2.7 FISD is responsible for supervising all the 'B' and 'C' class institutions of the Country. The Department functions as per the Annual Plan prepared by the department itself and approved by NRB Board. Currently, it has been targeted to conduct onsite inspection of all development banks and finance companies under its umbrella backed up by regular offsite monitoring of the financial indicators and enforcement status of the BFIs including special or targeted inspection as required.

Organization Structure of FISD

2.8 The On-Site Inspection and Enforcement Unit and the Off-Site Supervision Unit make up the FISD at the moment. Each Director is in charge of these Units. To help with the efficient execution of the Department's duties, these Units are further organized into a number of sections. Deputy Directors oversee the operations of these divisions. Organization structure of FISD is given in Annex 21.

Onsite Inspection and Enforcement

2.10 On-site inspections of Financial Institutions are conducted as per the approved Annual Plan of the Department. For F/Y 2078/79, the activities were conducted as per the Annual Plan made separately for Development Bank and Finance Company Supervision Departments.

2.11 Currently, the Unit has been divided into five sections: Four Onsite Inspection and Enforcement Units and one Problematic Institution Resolution and Special Inspection Unit each overseen by Deputy Directors. Four Onsite Inspection and Enforcement Units headed by Deputy Directors oversee works related to thirty two Financial Institutions (17 Development Banks and 15 Financial Institutions) each.

2.12 For FY 2078/79, the Department conducted onsite inspection of 7 National and 9 Regional Level Development Banks and 12 Finance Companies. After merger, it strives to conduct onsite inspection of 12 Development Banks and 12 Finance Companies out of 17 each.

2.13 FISD now conducts Risk Based Supervision of National Level Development Banks as per the Risk Based Supervision (RBS) approach as guided by the prevailing RBS manual and inspection report of the Financial Institutions. An inspection team includes one Team

Leader (Deputy Director) and Two to Three other members. One IT Officer from IT Department is deployed to examine IT-related areas of the concerned financial institution. However, due to limited number of dedicated staff, officers from other units are also mobilized from time to time to form an inspection team and conduct onsite examination. Detail regarding onsite inspections carried out during FY 2078/79 is given in Annex 3.

2.14 The Onsite Inspection function is specially focused on conducting onsite examinations which include:

- Routine full-scope inspection: It is the regular examination, generally carried out once a year or as per plan.
- Targeted inspection addresses specific areas of risks/operation of a Financial Institutions that have been identified as major risk areas in the previous full scope onsite inspection and is conducted as per the approved plan of the department.

Enforcement

2.15 This division is in charge of making sure that all supervisory directives given to specific financial institutions through onsite reports, directives given to them when approving proposed dividends and receiving NRB's consent on their financial statement to present it in the Annual General Meeting (AGM) for approval, and any other directives, if any, given to financial institutions from time to time are followed. To inform the public of each financial institution's level of compliance, the Enforcement Unit creates semi-annual enforcement reports.

Off-site Supervision Unit

2.16 Four divisions make up the off-site supervision unit: two units for analysis and compliance, one for policy planning, and one for internal administration. The Off-site Unit, in particular the Analysis and Compliance department, monitors Financial Institutions remotely. Using prudential reports, statutory returns, and other pertinent information, the Financial Analysis Section examines and analyzes the financial performance of FIs. It produces quarterly industry reports and tracks the trend and growth of financial indicators for the banking industry as a whole. This section aids in determining the state of each FI individually and collectively. In order to identify new issues and early warning indicators/signals, this section studies, analyzes, and prepares reports on return of FIs. The returns are used to assess risk exposure and the potential impact on profitability. For the purpose of analyzing capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risk (CAELS), basic ratios are computed using the statutory returns. Additionally, the unit gathers and analyzes financial data, produces monthly reports, and works on individual case studies. Additionally, this section must approve any proposed dividends and secure NRB's approval before the FI may deliver its annual financial report at the annual general meeting.

Compliance Section

2.17 Based on information and reports provided by financial institutions, the Compliance Section is in charge of monitoring their operations. The provisions of the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Credit to Deposit Ratio (CD), Capital Adequacy Ratio (CAR), Interest Rate Spread (IRS), Priority/Target Sector Lending (Agriculture, Energy, Small and Medium Enterprises Sector Lending), and Deprived Sector Lending (DSL) are ensured by this section, and regulatory action is also taken for non-compliance. Additionally, it gives the onsite inspection teams feedback and identifies problem areas on which onsite inspections should concentrate.

Capital Adequacy Ratio (CAR)

2.18 The FIs are required to maintain minimum capital requirements based on total risk weighted assets (RWA) under the terms of the Capital Adequacy Framework, 2007 (Updated July 2008). According to the framework, FIs must keep their Tier 1 (core) capital at a minimum of 6% of their total risk-weighted exposure and their total capital fund at a minimum of 10% of that same exposure. Every month, FIs' capital adequacy ratios are examined. In the final month of the review year, the Development Bank and Finance Company's respective average capital adequacy ratios were 13.10 percent and 18.32 percent respectively.

A detail regarding CAR is depicted under Annex 4.

Cash Reserve Ratio (CRR)

2.19 The NRB employs the CRR as an indirect monetary device to regulate the economy's money supply, which was fixed at a minimum of 3% of all local currency deposit liabilities during the review period. While the minimum must be maintained every two weeks, each bank must maintain 70% of the minimum need every day (or 3%). In the final quarter of the review year, Development Banks and Finance Companies maintained average CRRs of 3.22 percent and 3.62 percent, respectively. Financial institutions that do not keep these reserves are subject to fines calculated using the bank rate. Three Development Banks and one Finance Company were fined for failing to maintain the required CRR during the review period.

Statutory Liquidity Ratio (SLR)

2.20 The SLR requirements for development banks and financial institutions are 8 and 7 percentage points of total domestic deposit liabilities, respectively. If this obligation is not met, financial penalties are assessed based on the bank rate. All FIs complied with the Statutory Liquidity Ratio requirement during the review year. In the final month of the reviewed year, the average SLR for development banks was 17.49 percent, whereas it remained at 23.47 percent for finance companies (apart from problematic institutions).

Credit Deposit (CD) Ratio

2.21 Currently, Development Banks and Finance Companies must maintain a CD ratio of less than or equal to 90% as required by Unified Directives, meaning they can disburse loans up to 90% of their total deposits. Development Banks kept their CD ratio at 87.18% in the final month of the review year i.e. Mid-July 2022, while Finance Companies kept theirs at 87.13%.

Deprived Sector Lending (DSL)

2.22 FIs must distribute 5% of their entire loan portfolio to the underserved sector. In the final quarter of the review year, the average loan to the underserved sector by Development Banks was 11.44 percent, while that by Finance Companies was 8.28 percent. Financial institutions are penalized financially based on their highest lending rate during the quarter in which the deficiency was noticed if they fail to maintain the minimum standard in lending to underserved sectors as defined by the NRB.

2.23 The following table 4 shows important directives for compliance during the review year:

Table 4: Important Directives regarding Capital, Credit and Liquidity (Effective for the FY 2021-22)

<table>
<tr><th>SN</th><th>Particulars</th><th>Current Rate or Percentage</th><th>Days/ Month</th><th>Remarks I</th><th>Remarks II</th></tr>
<tr><td rowspan="2">1.</td><td>Minimum Capital fund
"IDB" and "A" class</td><td>• Core Capital = 6%
• Capital Fund including capital conservation buffer= 11% of Total Risk Weighted Exposure</td><td rowspan="2"></td><td rowspan="2">Minimum capital fund to be maintained based on the risk-weight assets (percent)</td><td rowspan="2">There are different Capital Adequacy Frameworks for A class banks, IDB, B, and C class institutions as follows:
• For IDB, Capital Adequacy Framework, 2018
• for A class banks, Capital Adequacy Framework 2015
• for B and C class institutions, Capital Adequacy Framework, 2007 (Updated July 2008)</td></tr>
<tr><td>"B" class &
"C" class</td><td>• Core Capital = 6%
• Capital Fund = 10% of Total Risk Weighted Exposure</td></tr>
<tr><td>2.</td><td>Refinance Facility
(i) Micro, Cottage &Small Enterprises Refinance (limit up to 1.5million)</td><td>2%</td><td>Max. 1 year</td><td>Cannot charge more than 5%</td><td>i) Max. Limit per client is 50 million for wholesale refinance facilities provided via BFIs.
ii) Max. Limit</td></tr>
</table>

	(ii) Special Refinance Export, Small business run by women, deprived community, differently able person and sectors affected by the natural calamities.	1%	For Covid-19 affected sector: Min. 6 months to max. 1 year.	Cannot charge more than 3%	per client is 200 million for client specific refinance facilities provided via BFIs. iii) Max. 10 % of total refinance facilities are provided to MFIs.
	(iii) General Refinance Refinances not included in (i) and (ii) and all other refinances which this bank asks to categorize into.	3%		Cannot charge more than 5%	
3.	Bank Rate	5%			
4.	SLF Rate (For A, B & C)	Bank rate (5%)	Max. 5 days	For Merger, 30 days	Up to 90% Against Govt. T-Bills and Govt. Bonds
5.	Lender of Last Resort	Bank rate (5%)	Max. 6 months		Against deposit at NRB for CRR Purpose / Govt. Securities and Pass Loan
6	Net Liquid asset to Total Deposit Ratio	20%			
7.	Repo & Reverse Repos	As determined by Open Market Operation Committee.			
8.	CRR "IDB" Class "A" class "B" class "C" class	 1% 3% 3% 3%			
9.	SLR "IDB" Class "A" class "B" class (taking call and current deposit) "C" class (taking call and current deposit)	 12% 10% 8% 7%			
10.	Deprived Sector "A" class, "B" class "C" class	 5%			
11.	Priority Sector lending "A" class in: Agriculture, MSME, Energy & Tourism. "B" class in priority	40% (Deadline BS 2080 Asar for Agriculture, 2081 Asar for others.) in Productive sector: min. 11% in Agriculture, 11%			

	"C" class in priority	in MSME, 6% in Energy.			

Further List of circulars issued to 'B' and 'C' Class institutions during FY 2078/79 are listed under Annex 19.

Policy and Planning Unit

2.25 The Basel Committee on Banking Supervision's rules, as well as any new concerns regarding banking regulation and supervision, are all continuously monitored by the Policy and Planning Unit. It provides commentary on the NRB's directives. The conclusions are taken into account when proposing necessary modifications to the current policies and when creating the Department's yearly plan. Additionally, the unit coordinates with international regulators and supervisory agencies to share expertise and introduce best practices in the nation's banking supervision. It also conducts studies to improve supervisory tools and methodologies. In topics pertaining to banking supervision, the unit shares information with international regulators and supervisors.

2.26 Additionally, the unit examines and develops the department's annual plans in accordance with NRB's strategic plan, as well as organizes and conducts interaction programs, seminars, and workshops on supervision-related topics. However, some of the planned programs were not carried out in the years 2021/22 because to the Covid-19 pandemic. Additionally, it creates the department's yearly report in accordance with the Inspection and Supervision Bylaw.

Internal Administration Unit

2.27 Within the department, the Internal Administration Unit handles tasks linked to internal administration and the management of human resources. Its duties also include acting as the department's back office and handling logistics such as issuing travel orders and keeping track of leave requests. Its purpose is to review, report, and recommend a budget for the annual plans. Additionally, it maintains a record of the staff members' attendance at conferences and seminars held abroad. In collaboration with the Asset and Service Management Department of NRB, this unit is in charge of managing procurement for the FISD, including the provision of office supplies and stationery. Additionally, this unit is in charge of keeping records. Additionally, this unit aids in coordinating efforts with other units to enhance performance smoothly and properly.

Problematic Financial Institutions Resolution (PFIR) and Special Inspection Unit

2.28 Off-site monitoring of the problematic FIs and final approval of all material effect events that occurred in problematic finance institutions are both parts of the PFIR and Special Inspection Unit function. The primary goal of this job is to make daily operational work easier. In order to spot possible issues and find solutions, periodic financial evaluations are also carried out. On the basis of off-site reports, media reports, instructions or requests from governmental or other agencies, information collected from external sources, including complaints against the company, special inspections are conducted.

2.29 The two-person committee (one coordinator and one member), both of whom were appointed externally as of 25th Poush 2079, has been in charge of overseeing the management of the Nepal Share Market and Finance Co. Ltd.

AML/CFT

2.30 Inspection related to the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) of 'B' and 'C' class institution was conducted by Financial Institutions Supervision Department until end of Poush 2079. Furthermore, now it is under the responsibility of Money Laundering Prevention Supervision Division established within NRB to conduct the inspection.

3 PERFORMANCE OF DEVELOPMENT BANKS

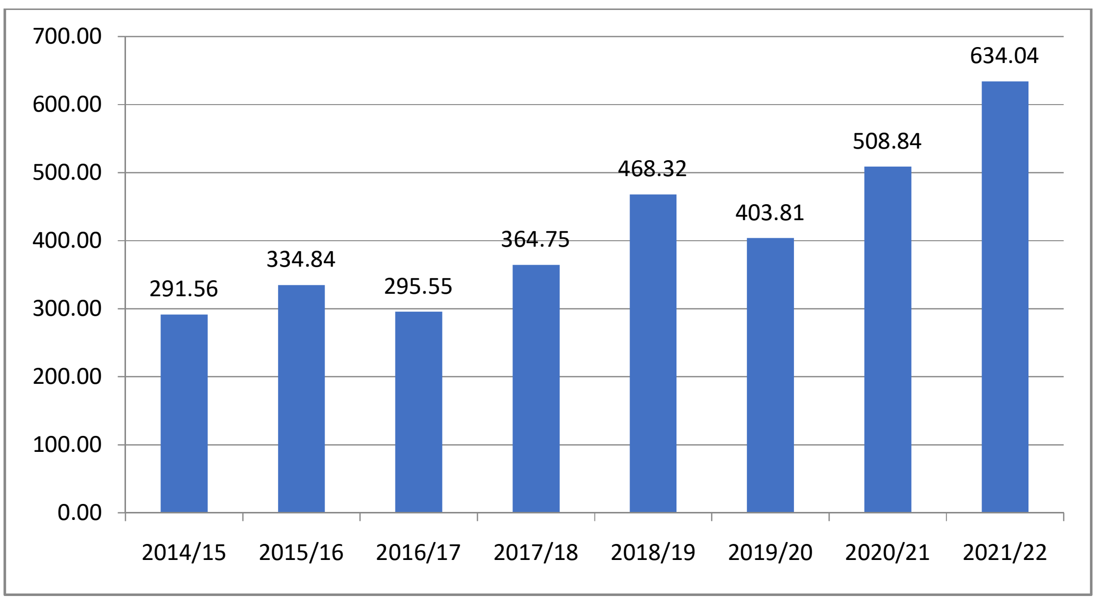
3.1 Financial Reporting is related to accounting and recording of financial data which denotes its overall performance. Financial Institutions are required to prepare Nepal Financial Reporting Standard (NFRS) compliant Financial Statement by following the format prescribed by NRB.

3.2 B and C Class Financial Institutions have started publishing NFRS compliant Financial Statements from Fiscal Year 2075/76 while A Class Commercial Banks started the same from FY 2074/75. The consolidated statement of financial position and profit and loss account of development banks are shown in Annex 5 and 6 respectively.

Assets of Development Banks

3.3 The development bank sector's total assets increased by 17.88 percent from Rs.508.84 billion in mid July 2021 to Rs. 599.80 billion in mid July 2022.

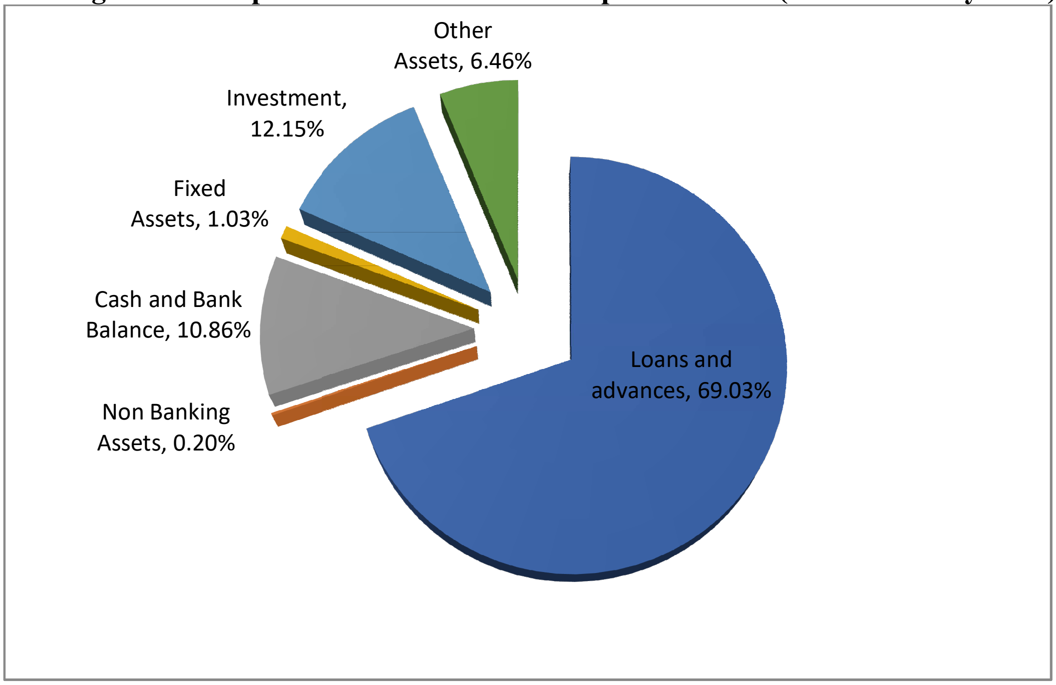
Figure 2: Total Assets of the Development Banks (As of Mid July 2022)
Figures in Billion



Composition of Assets

3.4 The major chunk of the assets of the development banks as on Mid July 2022 is loans & advances to customers which amounts total to Rs. 414.04 billion which is 69.03 % of total assets. The second and third largest components are investments 12.15% and cash & cash equivalent 10.86% respectively. Detailed figures are shown in Annex 17.9.

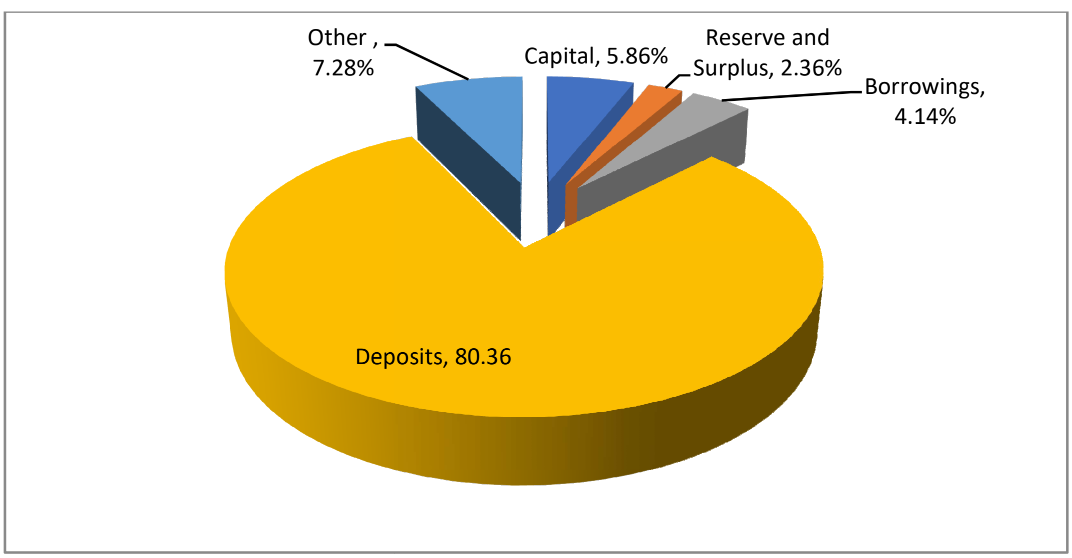
Figure 3: Composition of Assets of Development Banks (As of Mid-July 2022)



Liabilities of Development Banks

3.5 The total Equities and Liabilities of development bank sector amounted to Rs.599.79 billion in mid July 2022 which is increase of 17.87 percent from that in mid July 2021. The major source of funding of development banks' liabilities continues to be customer deposits. Other sources of funds comprised reserve and surplus, and other liabilities. Detail composition of liabilities is shown below.

Figure 4: Composition of Equities and Liabilities of Development Banks (As of Mid-July 2022)

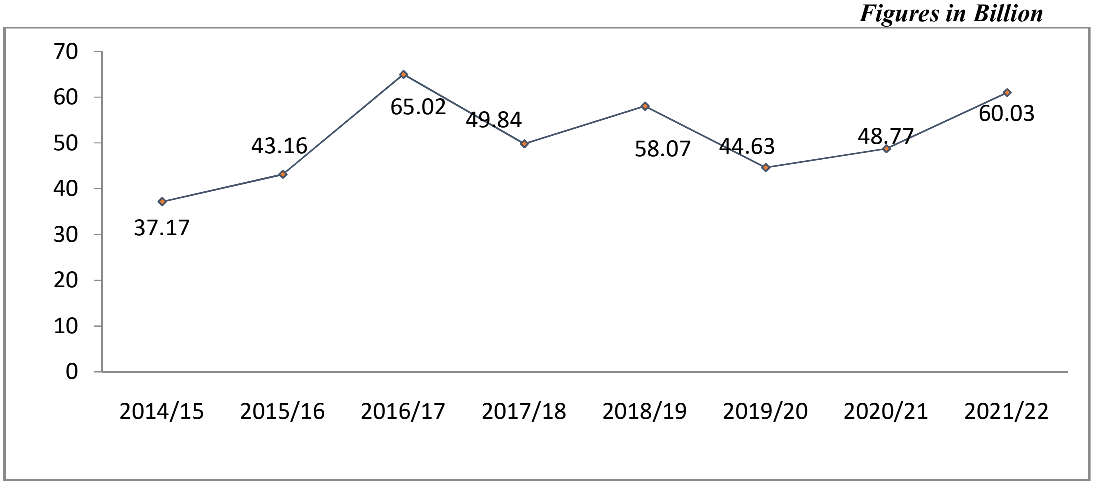


Capital

3.6 Total Capital Fund of the development banks has increased to Rs.60.03 billion on mid July 2022 from Rs. 48.77 billion as of mid July 2021. 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. Only Two Regional level development banks are left to increase their paid up capital requirement as per regulatory requirement. One is in process of issuing IPO and one is in process of issuing right share. Detailed figures are presented in Annex 17.2.

Figure 5: Capital Fund of the Development Banks (As of Mid-July 2022)

Figures in Billion

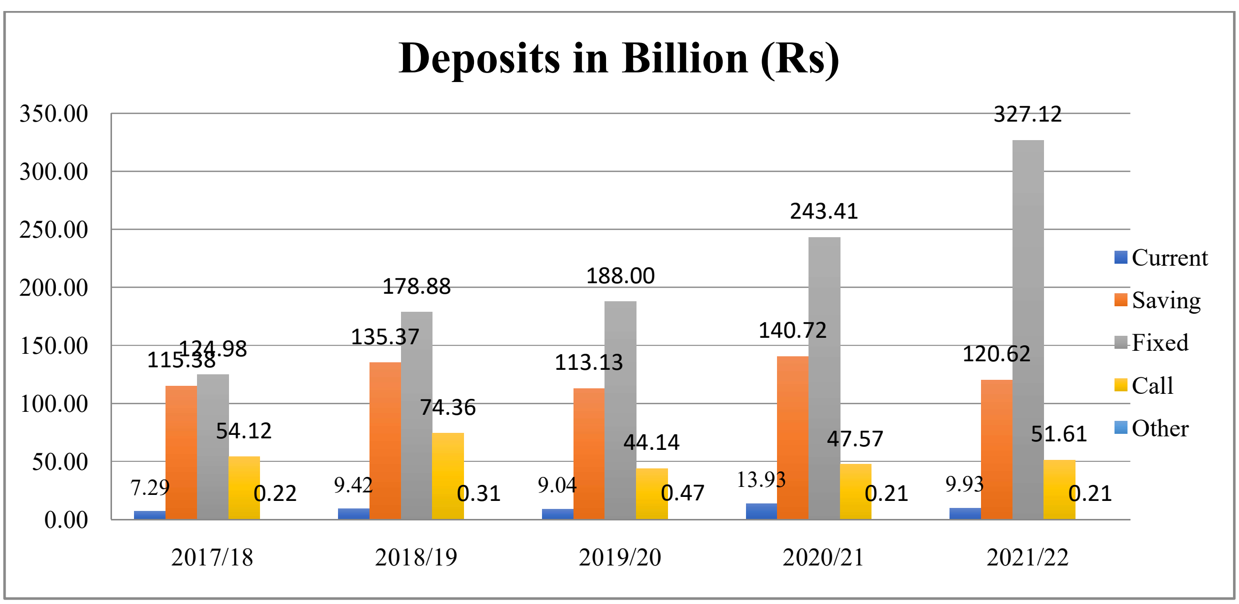


Deposit

3.7 Total deposits have increased by 14.28 percent to Rs.509.49 billion from Rs. 445.84 billion during FY 2021/22. Out of total deposits, fixed deposit comprises the highest portion of Rs.327.12 billion, followed by saving deposits of Rs. 120.60 billion as at mid July 2022. Deposit figures are shown in Annex 17.3.

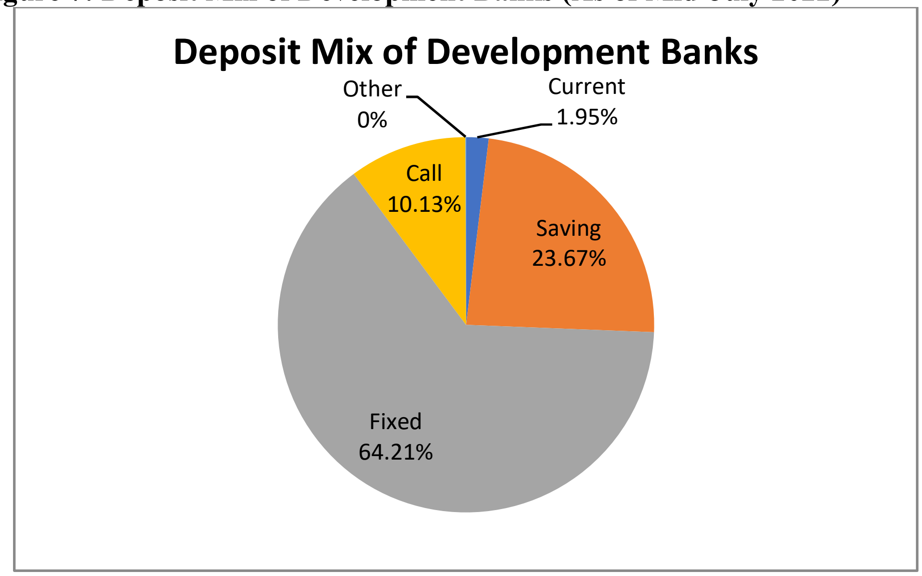
Figure 6: Deposit of the Development Banks (As of Mid-July 2022)

Figures in Billion



3.8 While looking into the deposit composition of the development banks, fixed, saving, call and current deposit comprises 64.21 percent, 23.67 percent, 10.13 percent and 1.95 percent of total deposits respectively. Other deposits consist of nominal share in total deposits. Detailed figures are shown in Annex 17.3.

Figure 7: Deposit Mix of Development Banks (As of Mid-July 2022)

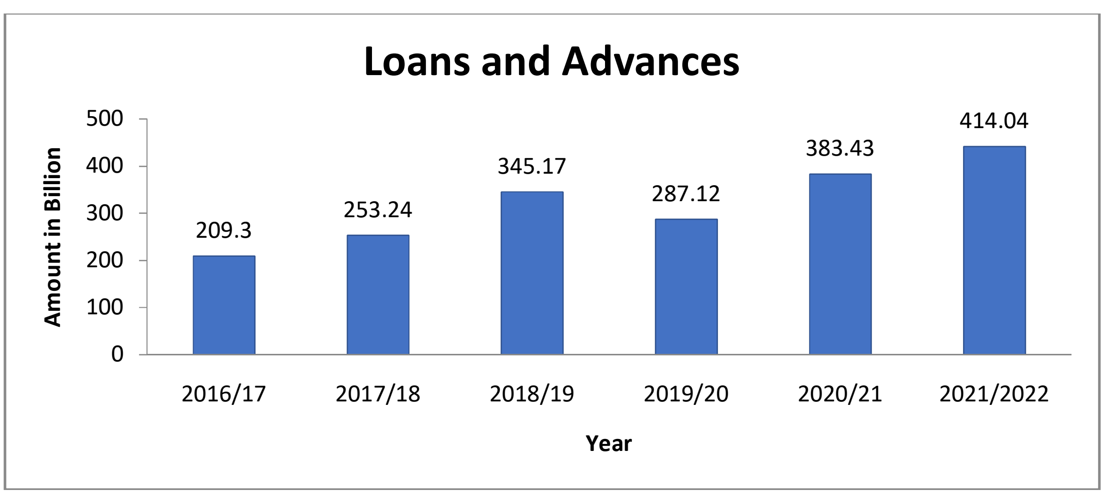


Loans and Advances

3.9 Loan and advances of the development banks have increased by 7.98 percent from Rs.383.43 billion in FY 2020/21 to Rs. 414.04 billion in FY 2021/22. Performing loan constitutes 98.64 percent of total loan which amounts to Rs. 408.01 billion and non-performing loan constitutes remaining 1.36 percent which amounts to Rs. 6.03 billion. Detailed figures regarding loans and advances of development banks are shown in Annex 7.

Figure 8: Loan and Advances of the Development Banks (As of Mid-July 2022)

Figures in Billion



Sector-wise Loan and Advances

3.10 Development Banks have disbursed Loans and Advances to different sectors of the economy. In FY 2021/22, major portion of credit has been occupied by Consumable Loans accounting for 18.49 percent with 22.37 percent disbursement in other sectors. Similarly, wholesale and Retail sector has lending of 15.50 percent with Finance, insurance and real estate sector accounting is 10.81 percent. Details regarding sector-wise loan and advances of development banks is given in Annex 8.

Table 5:Sector-wise Loan and Advances of Development Banks (As of Mid-July 2022)

(Figures in percentage of total loan)

S.N.	Sector /FY	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
1	Agriculture Forest	6.52	5.50	5.96	6.24	6.45	7.04	6.77
2	Fishery	0.18	0.13	0.13	0.21	0.24	0.26	0.30
3	Mining	0.17	0.21	0.23	0.10	0.06	0.09	0.07
4	Agriculture, Forestry & Beverage Production Related	3.09	2.71	2.63	2.78	3.04	2.34	2.19
5	* Non-food Production Related	3.23	2.83	3.19	3.96	4.04	3.32	3.75
6	Construction	14.01	13.18	12.86	14.09	14.79	12.78	7.16
7	Electricity, Gas and Water	1.72	1.91	1.76	1.91	1.70	1.33	1.47
8	Metal Products, Machineries, Electronics and Installation	1.03	0.74	0.89	1.05	0.75	0.56	0.40
9	Transport, Warehousing and Communication	7.66	9.02	8.27	7.21	6.10	3.93	3.15
10	Wholesalers and Retailers	15.40	15.63	16.05	16.05	16.31	16.07	15.50
11	Finance, Insurance and Real Estate	6.98	6.76	7.32	7.57	7.59	10.23	10.81
12	Tourism (Hotel and Restaurant)	3.99	4.00	3.93	3.92	4.09	4.14	4.63
13	Other Services	4.03	3.99	3.55	3.32	3.91	3.02	2.96
14	Consumable Loans	7.31	9.24	8.17	6.25	5.46	6.07	18.49
15	Local Government	0.02	0.02	0.01	0.01	0.00	0.00	0.00
16	Others	24.67	24.13	25.05	25.35	25.47	28.81	22.37
	Total Loan	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

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 83.19 percent of the total loan disbursed. Loans and Advances against Guarantee have decreased from 11.39 percent to 10.34 percent in review year. All other forms of collateral occupies less than 3 percent share in total loan.

Table 6: Securities against Loans and Advances (As of Mid-July 2022)

Figures in percentage of total loan

S.N	Security/FY	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
1	Gold and Silver	1.80	2.06	1.92	1.57	1.13	0.97	0.90
2	Government Bonds	0.00	0.00	0.01	0.01	0.00	0.00	0.00
3	Non Government Securities	1.99	1.81	2.22	2.16	2.21	3.12	2.43
4	Fixed Deposit	0.93	2.51	1.58	1.18	0.83	0.96	2.77
5	Property as Collateral	91.50	89.01	89.28	89.79	89.61	83.27	83.19
6	Security of Bills	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	Guarantee	3.39	4.39	4.72	4.79	6.07	11.39	10.34
8	Credit/Debit Card	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	Others	0.39	0.21	0.27	0.47	0.15	0.28	0.37
	Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Product-wise Loan and Advance

3.12 Major part of loans and advances is related to Term Loan as of Mid July 2022 i.e. 29.47 percent. Similarly, overdraft facilities comprise 19.75 percent, Deprived Sector Loan 11.13 percent, Personal Residential Home Loan 11.02 percent, and Other Product 12.75 percent of total loan. Loan disbursement to all other products has decreased except for Personal Residential Home Loan and Other Product. A detail regarding product-wise loan and advances of development banks' is given in Annex 9.

Table 7: Product-wise Loan and Advances (As of Mid-July 2022)

Figures in percentage of total loan

S.N	Loan Products/FY	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
1	Term Loan	16.01	15.79	17.97	20.96	28.13	30.14	29.47
2	Overdraft	23.32	24.56	24.39	22.07	21.06	20.54	19.75
3	Trust Receipt Loan/Import Loan	0.00	0.00	0.00	0.00	0.00	0.00	0.01
4	Demand and Other Working Capital Loan	8.66	5.05	3.83	3.39	4.18	4.68	4.03
5	Personal Residential Home	11.50	10.50	10.43	12.30	12.22	10.75	11.02

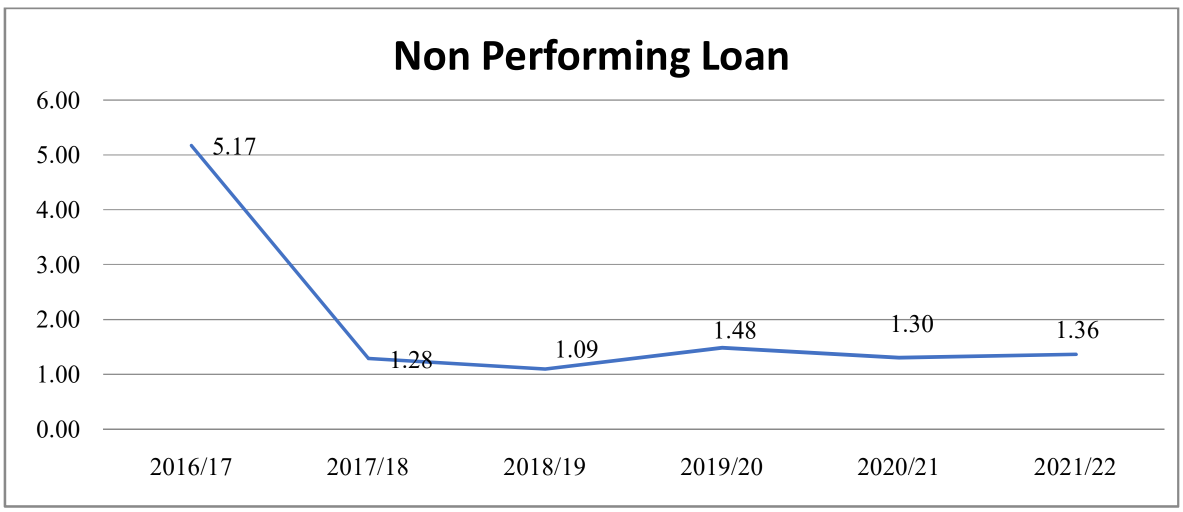
	Loan							
6	Real Estate Loan	7.42	8.02	7.74	6.08	5.09	4.55	4.24
7	Margin Loan	2.23	1.83	2.25	2.20	2.24	3.27	2.66
8	Hire Purchase Loan	10.17	11.71	10.87	9.56	8.09	5.69	4.94
9	Deprived Sector Loan	5.56	7.83	8.18	8.85	9.35	12.29	11.13
10	Bills Purchased	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11	Other Product	15.14	14.69	14.34	14.59	9.64	8.10	12.75
	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 increased by 4.62 percentage point and stood at 1.36 percent in mid July 2022 compared to 1.30 percent in mid July 2021.

Figure 9: Non–performing loans of the Development Banks (As of Mid-July 2022)

Figures in percentage of total loan

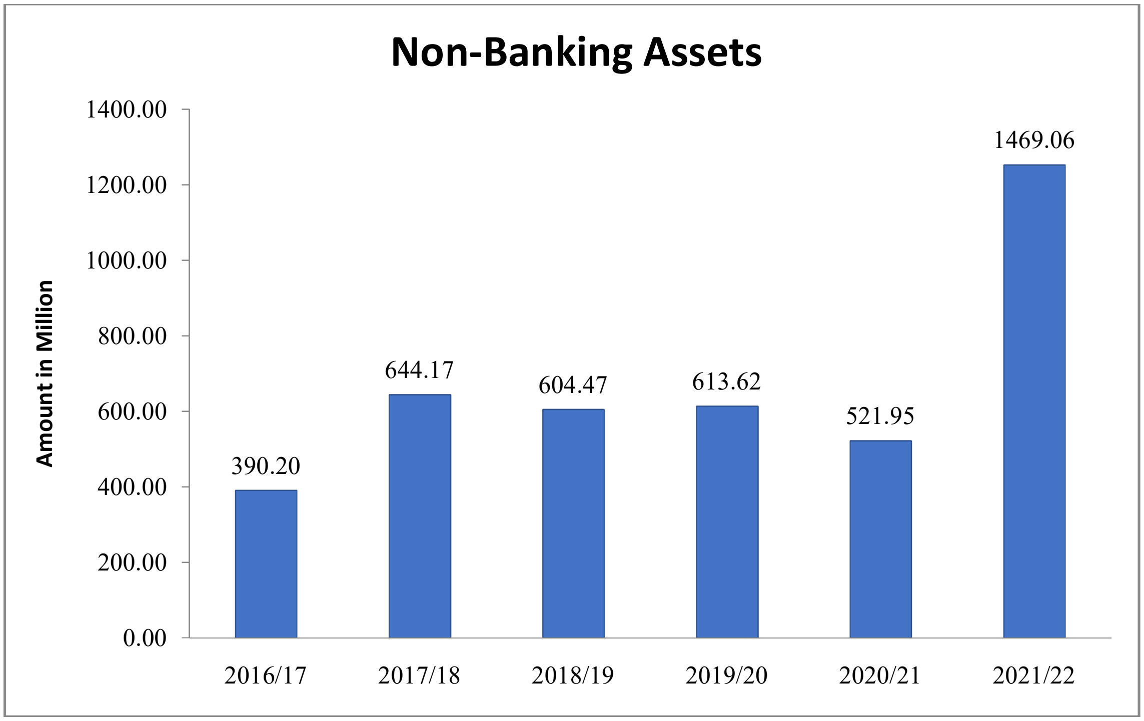


Non-Banking Assets

3.14 The total amount of non-banking assets of development banks as on mid-July 2022, stood at Rs.1469.06 million. NBA has increased in the review year as default loans increased substantiated by increase in NPL to 1.36 percent from 1.30 percent. The level and structure of NBA is presented in the figure 10. Details on NBA for various years are shown in Annex 17.5

Figure 10:Non-banking Assets of the Development Banks (As of Mid-July 2022)

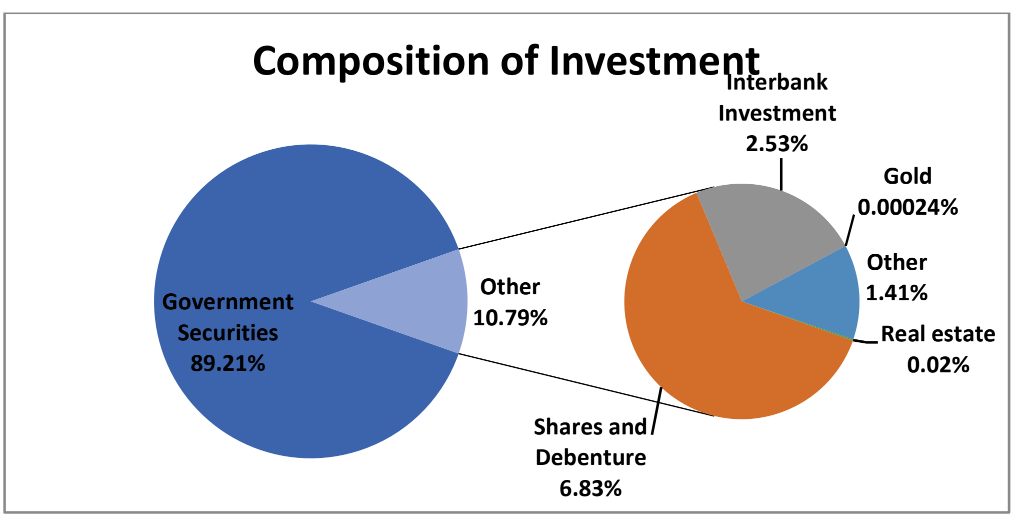
Figures in Million



Investment

3.15 Development banks have high concentration of investment in government securities which is 89.21 percent of total investment in the review year. Investment in shares and debentures amounted to 6.83 percent and interbank investment occupies 2.53 percent of total investment. The total investment of development banks has increased by 21.11 percent and has reached Rs.77.00 billion as at mid-July 2022. Details of investment of development banks are shown in Annex 10 and 17.6.

Figure 11: Investment Portfolio of the Development Banks (As of Mid-July 2022)



Profitability

3.16 Consolidated profitability of overall development banks during FY 2020/21 amounted to Rs. 5.66 billion. It amounted to Rs. 6.56 billion during FY 2021/22. The aggregate net profit of development banks' increased by 15.90 percent during the review period on account of massive increase in other operating income and increase in fee and commission.

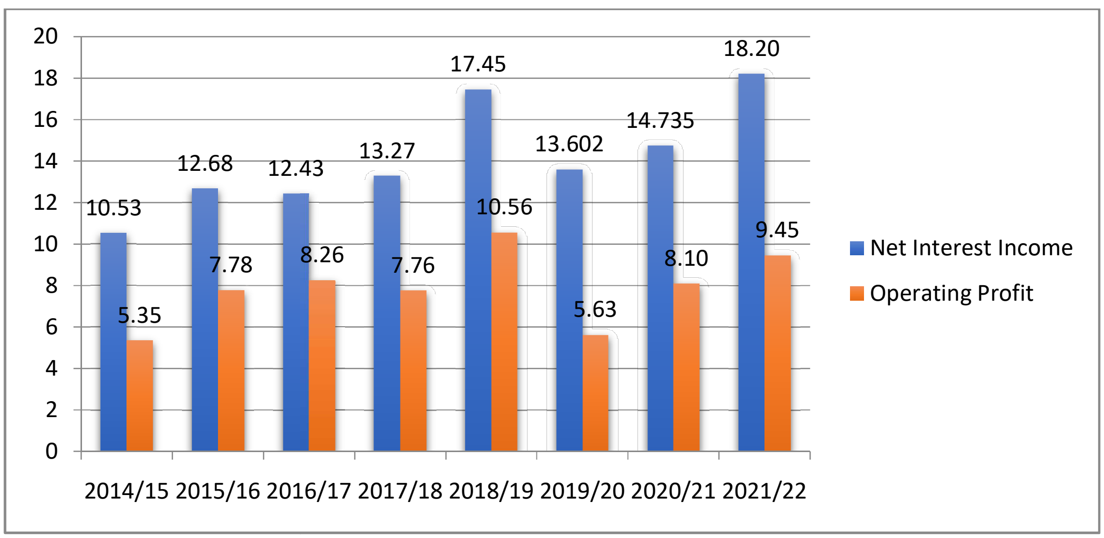
3.17 The interest spread of overall development banks has been increased to 4.56 percent as at mid-July 2022 from 4.52 percent as of mid-July 2021.

3.18 Interest income of all development banks accounted to Rs. 55.58 billion in the review period which has been increased by 43.36 percent compared to previous year. Similarly, interest expenses accounted to Rs. 37.37 billion in the review period which has been increased by 55.38 percent compared to previous year. Net interest income has also been increased by 23.47 percent to Rs.18.20 billion in the review period from Rs. 14.74 billion as compared to previous year.

3.19 In the review period operating profit of development banks has been increased by 16.67 percent from Rs. 8.10 billion to Rs. 9.45 billion compared to previous year.Net interest income and operating profit of development banks are shown in the Annex 17.8.

Figure 12: Operating Efficiency of the Development Banks (As of Mid-July 2022)

Figures in Billion

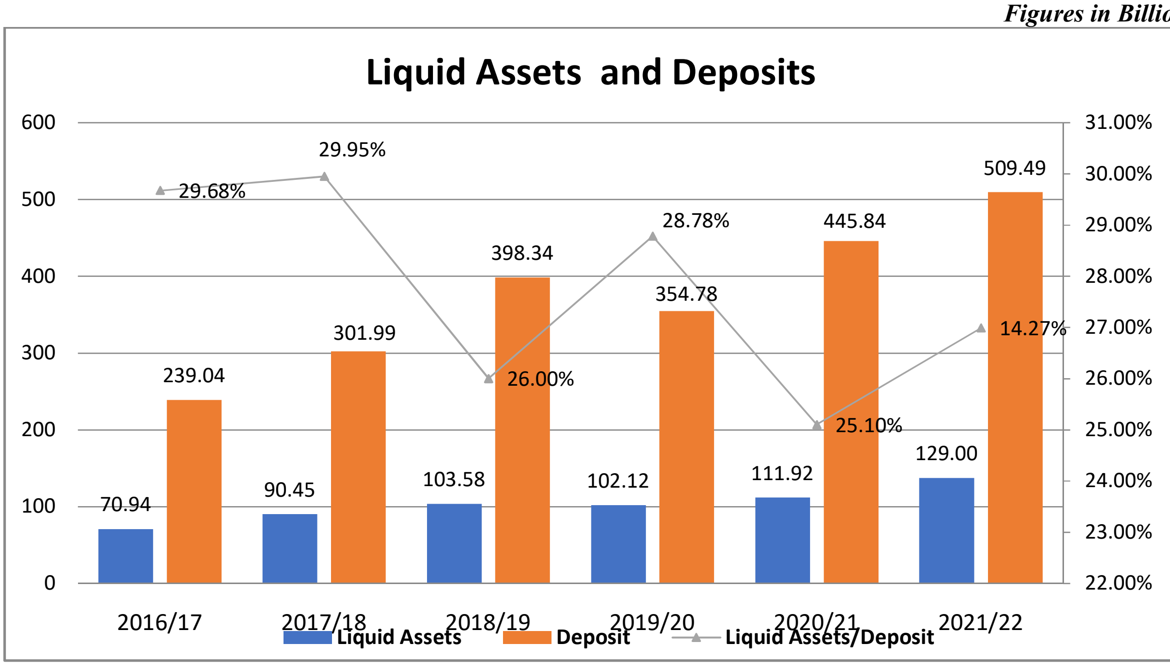


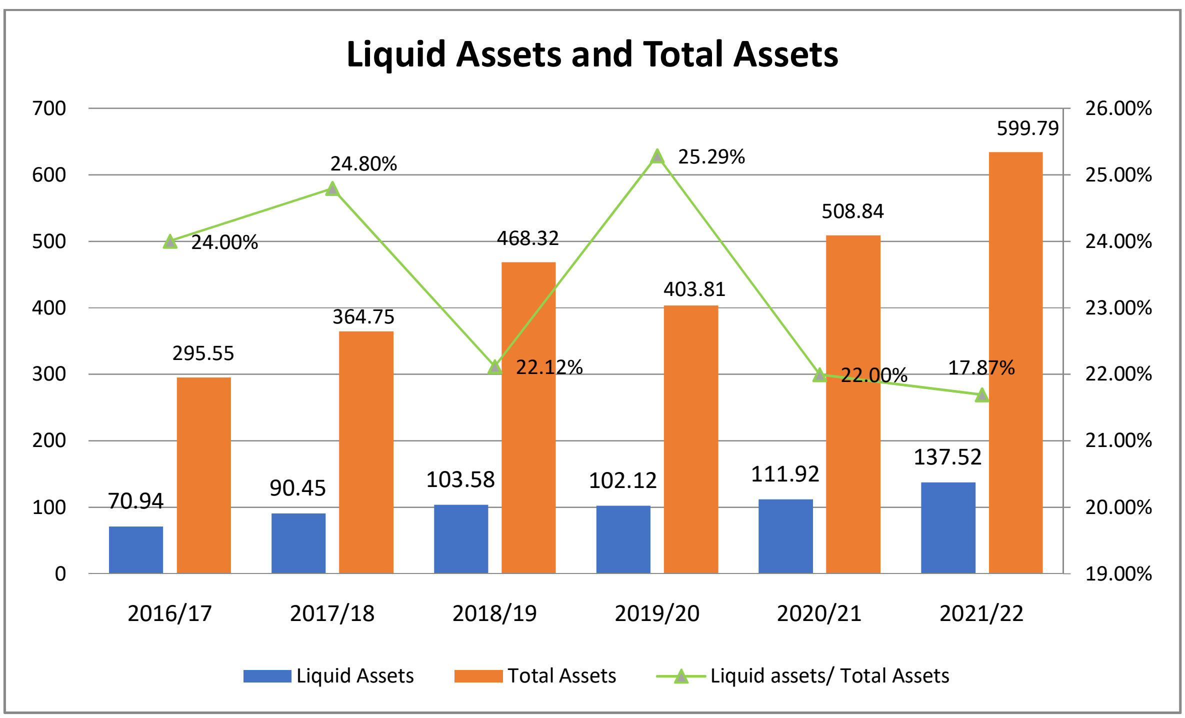
Liquidity

3.20 Liquid assets comprises of cash balance, bank balances with NRB and other BFIs, money at call and investment in Government Securities. Total Liquid assets of development banks have been increased by 15.26 percent from Rs. 111.92 billion as of mid-July 2021 to Rs. 129.00 billion as of mid-July 2022. The share of these liquid assets to total deposits increased by 0.22 percentage point from 25.10 percent at mid-July 2021 to 25.32 percent at mid-July 2022. Similarly, the share of these liquid assets to total assets decreased by 0.49 percentage point from 22.00 percent in mid-July 2021 to 21.51 percent in mid-July 2022.Detailed figures are indicated in figure 13 and year wise numbers are shown in Annex 17.7.

Figure 13: Liquidity Position of the Development Banks (As of Mid-July 2022)

Figures in Billion





Deprived Sector Lending

3.21 The overall position of deprived sector lending of development banks in FY 2021/22 was 11.44 percent as compared to 14.61 percent in FY 2020/21.

Base Rates and Spread Rates

3.22 Base rate of all development banks was 11.26 percent as on mid-July 2022 whereas it was 8.09 percent in mid-July 2021. The overall base rate of national level development banks stood at 11.24 percent in mid-July 2022, whereas it was 11.24 percent in mid-July 2021.

3.23 Interest spread of overall development banks stood at 4.56 percent as at mid July 2022 whereas it was at 4.52 percent as at mid July 2021. Interest spread of national level development banks was 4.47 percent 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 2021/22, number of internet banking customers and ATM has increased from such numbers in previous year due to change in consumer behavior after COVID pandemic. The Table 8 shows the change in number of electronic banking users during various years.

Table 8: Use of Electronic Banking (As of Mid-July 2022)

S. N.	Particulars	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
1	No. of Branchless Banking Centers	-	1	1	-	-	22
2	No. of Customers (Branchless Banking)	-	107	143	-	-	129
3	No. of Customers (Mobile Banking)	217432	351796	909512	1100743	1500050	2114559
4	No. of Internet Banking Customers	14634	14634	24124	23332	37063	394563
5	No. of ATMs	177	209	318	296	301	323
6	No. of Debit Cards	260225	206589	216991	231287	348411	538672

(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 2022 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 six development banks (out of total 17) would be able to withstand to which they were subjected in stress testing scenario. Six development banks would not comply with the minimum capital adequacy ratio requirement if 15 percent of performing loans deteriorated to substandard. Ten 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. Eight 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 depositor. And seven 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 5 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 except one 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 9: Summary Result on Stress Testing of Development Banks (As of Mid- July 2022)

Events		< 0%	0% - <10%	>=10%
	Pre Shock	0	0	17
		Post Shocks		
A. After Credit Shock		< 0%	0% - <10%	>=10%
C1	15 Percent of Performing loans deteriorated to substandard	0	6	11
	15 Percent of Substandard loans deteriorated to doubtful loans	0	0	17
	25 Percent of Doubtful loans deteriorated to loss loans	0	0	17
	5 Percent of Performing loans deteriorated to loss loans	0	10	7
C2	All NPLs under substandard category downgraded to doubtful.	0	0	17
	All NPLs under doubtful category downgraded to loss.	0	0	17
C3	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to substandard category of NPLs.	1	0	16
C4	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to Loss category of NPLs.	1	0	16
C5	Top 2 Large exposures downgraded: Performing to Substandard	0	1	16
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	17
IR-1b	Deposits interest rate changed by 1.5 percent point on an average.	0	0	17
IR-1c	Deposits interest rate changed by 2.0 percent point on an average.	0	0	17
IR-2a	Loan interest rate changed by -1.0 percent point on an average.	0	0	17
IR-2b	Loan interest rate changed by -1.5 percent point on an average.	0	0	17
IR-2c	Loan interest rate changed by -2.0 percent point on an average.	0	0	17
IR-3	Combine Shocks (IR-1a & IR-2a)	0	0	17
(b) Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by 20%	0	1	16
ER-1b	Appreciation of currency exchange rate by 25%	0	0	17
(c) Equity Price Shocks				
EQ-1	Fall in the equity prices by 50%	0	0	17

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%		8	

Number of Banks with Liquid Assets to Deposit Ratio		< 0%	0% - <20%	>=20%
	Pre-shocks	0	0	17
			After Shocks	
L-2a	Withdrawal of deposits by 5%	0	4	13
L-2b	Withdrawal of deposits by 10%	0	11	6
L-2c	Withdrawal of deposits by 15%	0	11	6
L-2d	Withdrawal of deposits by 20%	0	14	3
L-3a	Withdrawal of deposits by top 1 institutional depositor.	0	2	15
L-3b	Withdrawal of deposits by top 2 institutional depositors.	0	4	13
L-3c	Withdrawal of deposits by top 3 institutional depositors.	0	6	11
L-3d	Withdrawal of deposits by top 4 institutional depositors.	0	6	11
L-3e	Withdrawal of deposits by top 5 institutional depositors.	0	7	10
L-4a	Withdrawal of deposits by top 1 individual depositor.	0	0	17
L-4b	Withdrawal of deposits by top 2 individual depositors.	0	0	17
L-4c	Withdrawal of deposits by top 3 individual depositors.	0	0	17
L-4d	Withdrawal of deposits by top 4 individual depositors.	0	0	17
L-4e	Withdrawal of deposits by top 5 individual depositors.	0	0	17

Actions and Penalties

3.29 Following actions were taken against development banksaccording to existing legal and regulatory provision in the review year.

- Three development bank was penalized among which one was penalized thrice 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.

4 PERFORMANCE OF FINANCE COMPANIES

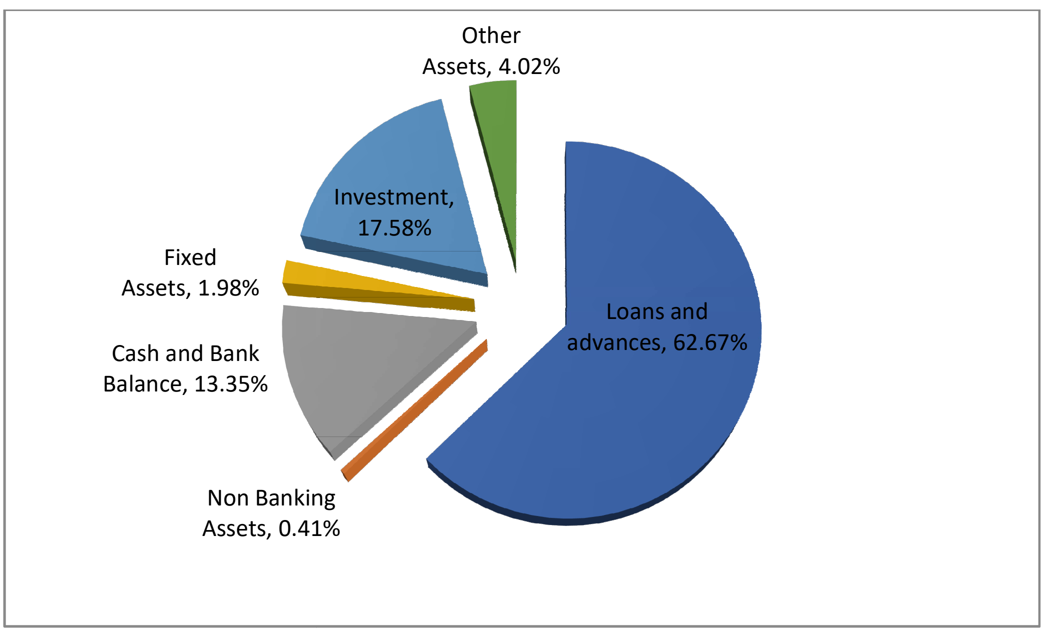
4.1 In the review period, the size of finance companies in terms of total assets and liabilities expanded and capital base further strengthened. Finance companies are in cushion with reference to liquidity. Total business of the overall sector expanded in comparison to that in previous fiscal year. Profitability has improved even during the time of post Covid-19 effect. Non–performing loan to total loan has decreased whereas non banking assets have increased.

4.2 Interest spread rate of financial institutions decreased nominally whereas base rate has increased slightly in comparison to previous fiscal year owing to market situation and regulatory requirements. The overall resilience of the finance companies to different shocks remained satisfactory during the review period. The consolidated statement of financial position and profit and loss account of finance companies are shown in Annex 11 and 12 respectively.

Assets of Finance Companies

4.3 Finance Company's total assets increased by 22.35 percent from Rs. 111.79 billion in mid July 2021 to Rs.140.88 billion in mid July 2022. 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 28.80 percent in the review period compared to increment of 16.76 percent in the previous year. Aggregate figures are shown in Annex 18.2.

Figure 14: Composition of Assets of finance companies (As of Mid-July 2022)



Composition of Liabilities

4.4 As on mid July 2022, the total equities and liabilities of the finance companies sector amounted to Rs. 136.78 billion, an increment of 22.43 percent compared to the Rs. 111.79 billion in mid July 2021. 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. Detail figure regarding capital fund of finance companies is given in Annex 18.3.

Figure 15: Composition of Equities and Liabilities of Finance Companies (As of Mid-July 2022)

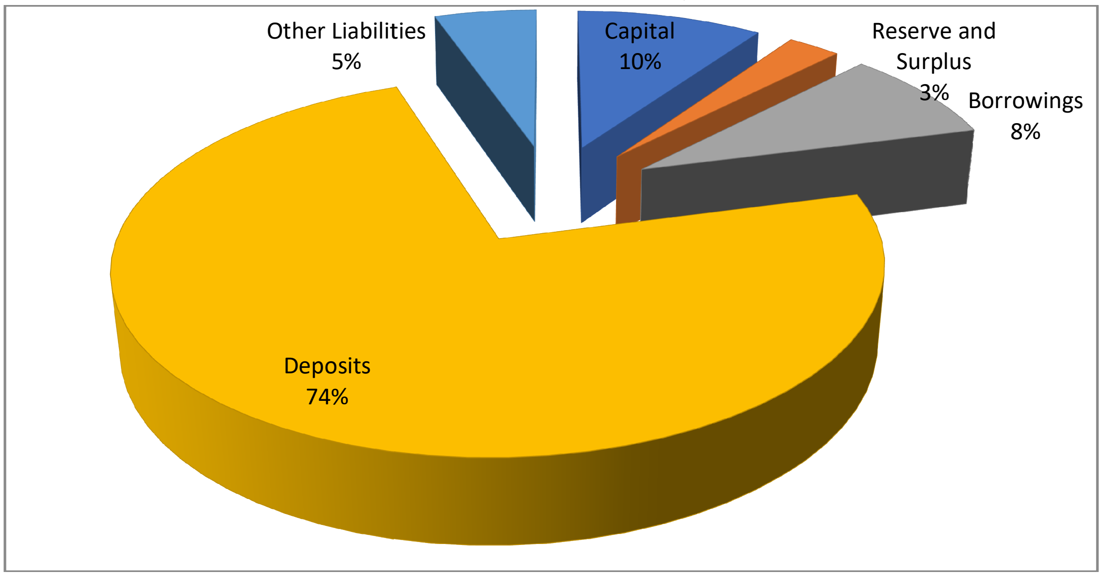
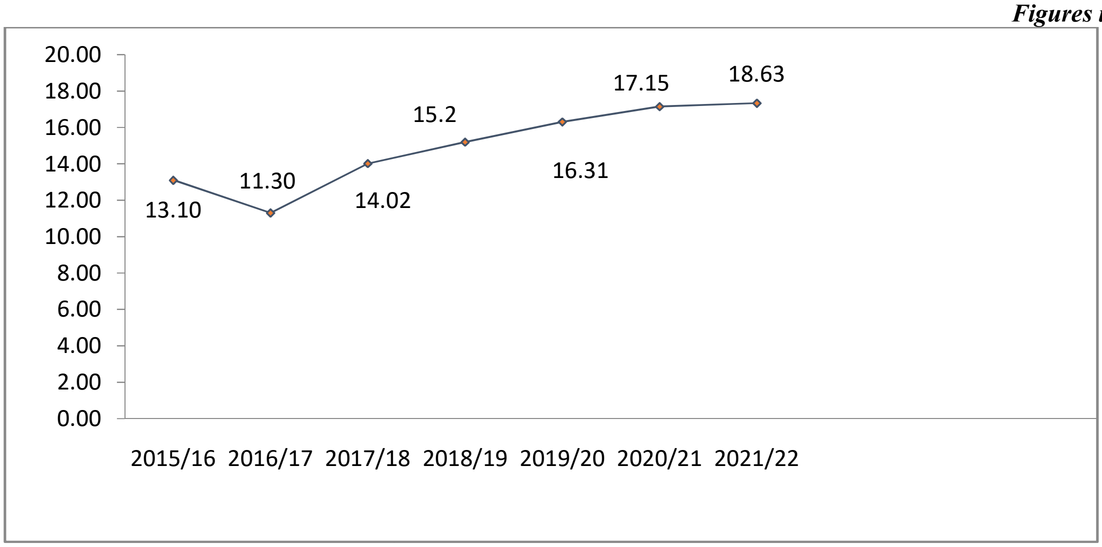


Figure 16: Capital Fund of the Finance Companies (As of Mid-July 2022)

Figures in Billion

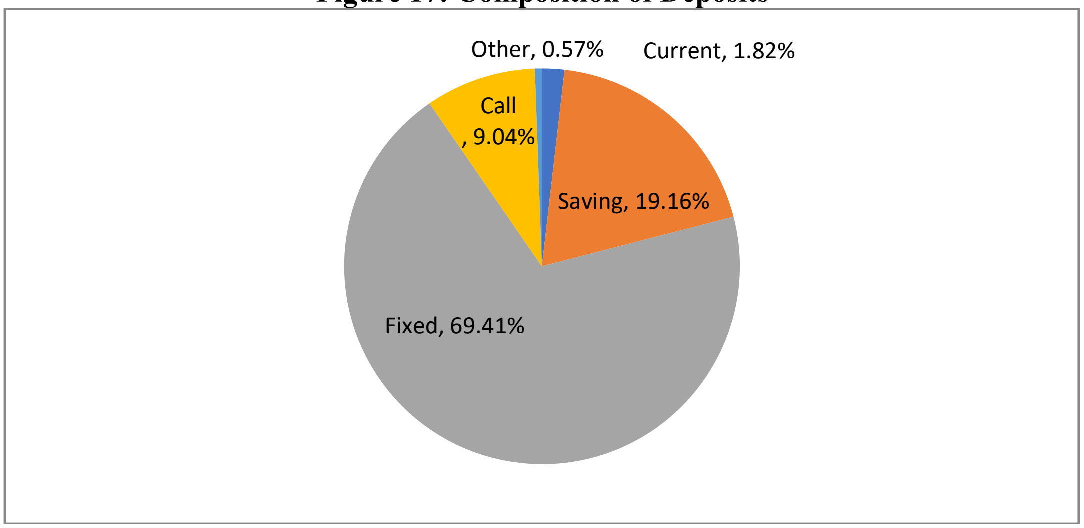


Deposit

4.5 Total deposits have increased by 17.32 percent from Rs. 88.10 billion to Rs. 103.36 billion during FY 2021/22. Out of total deposits, fixed deposit comprises the highest portion of Rs.71.75 billion, followed by saving deposits of Rs. 19.79 billion as at mid July 2022.

4.6 While looking into the deposit composition of the finance companies, fixed, saving, call and current deposit comprises 69.41 percent, 19.16 percent, 9.04 percent and 1.82 percent of total deposits respectively. Other deposits comprises nominal share of total deposits. Detailed figures are shown in Annex 18.4.

Figure 17: Composition of Deposits

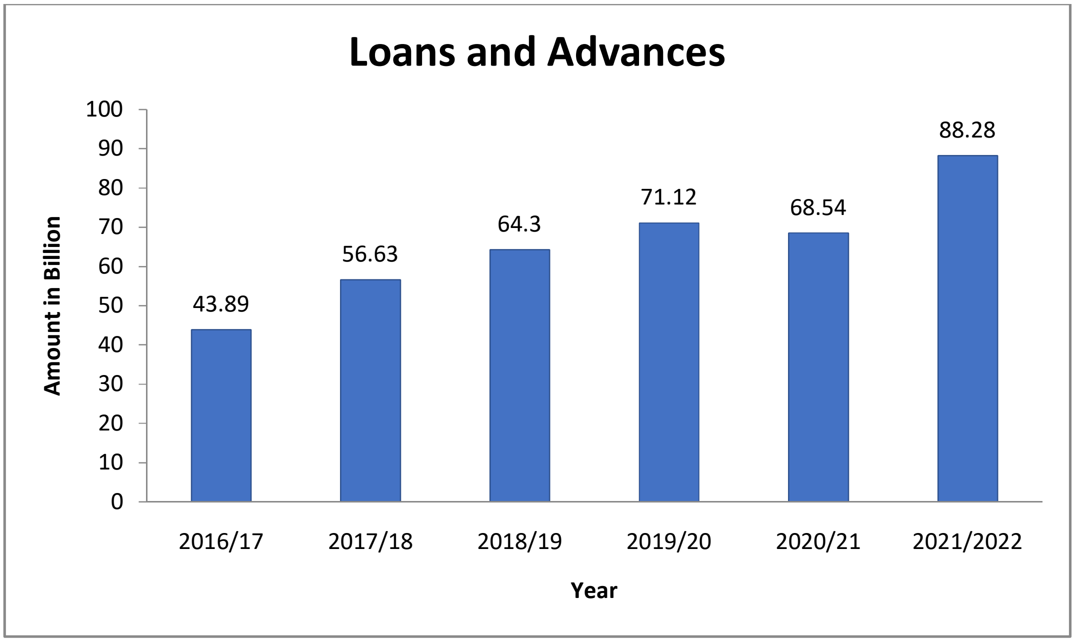


Loans and advances

4.7 Loan and advances of the finance companies have increased by 28.80 percent from Rs.68.54 billion in FY 2020/21 to Rs. 88.28 billion in FY 2021/22. Performing loan constitutes 97.21 percent of total loan which amounts to Rs. 86.05 billion and non-performing loan constitutes remaining 2.79 percent which amounts to Rs. 2.46 billion. Figures are shown in detail in Annex 13.

Figure 18: Loan and Advances (As of Mid-July 2022)

Figure in Billion



Sector-wise Loan and Advances

4.8 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 2021/22, consumable loans, 31.93 percent, wholesale and retail sector account for 14.27 percent, finance, insurance and real estate sector, 13.72 percent, tourism (hotel and restaurant), 4.88 percent, transportation, warehousing and communication 4.55percent of industry's loans and advances respectively. Detail regarding sector-wise loan and advances of finance companies is given in Annex 14.

Table 20: Sector-wise loan and advances of Finance Companies (As of Mid-July 2022)

Figures in percentage of total loan

S.N.	Sectors	Percent
1	Agriculture Forest	6.92
2	Fishery	0.26
3	Mining	0.11
4	Agriculture, Forestry & Beverage Production Related	1.35
5	Non-food Production Related	2.94
6	Construction	4.34
7	Electricity, Gas and Water	0.67
8	Metal Products, Machineries, Electronics and Installation	0.86
9	Transport, Warehousing and Communication	4.55
10	Wholesalers and Retailers	14.27
11	Finance, Insurance and Real Estate	13.72
12	Tourism (Hotel and Restaurant)	4.88
13	Other Services	2.80
14	Consumable Loans	31.93
15	Local Government	0.00
16	Others	10.40
	Total Loan	**100.00**

Security-wise Loan and Advance

4.9 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 82.85 percent of the total loan disbursed. Proportion of loans against guarantee constitutes 7.79 percent in the review year. Total compositions of all other forms of collateral are at 3 percent and below. Table 11 shows security wise loan and advance position of finance companies.

Table 11: Security wise loan and advance position of finance companies (As of Mid-July 2022)

Figures in percentage of total loan

S.N.	Security	2021/22
1	Gold and Silver	1.11
2	Government Bonds	0.06
3	Non Government Securities	3.02
4	Fixed Deposit	3.09
5	Property as Collateral	82.85
6	Security of Bills	-
7	Guarantee	7.79
8	Credit/Debit Card	-
9	Others	2.08
	Total	**100.00**

Product-wise Loan and Advance

4.10 The highest portion i.e. 19.72 percent of the loans and advances of finance companies is covered by term loan. Similarly, personal residential home loan comprises 11.29 percent, overdraft loan 13.23 percent, deprived sector loan is at 7.68 percent, and other product accounts 23.44 percent of total loan and advances respectively.

Table 12 below shows the composition of product wise loan and advances of finance companies.Detail regarding product-wise loan and advances of finance companies is given in Annex 15.

Table 32: Product-wise Loan and Advances (As of Mid-July 2022)

Figures in percentage of total loan

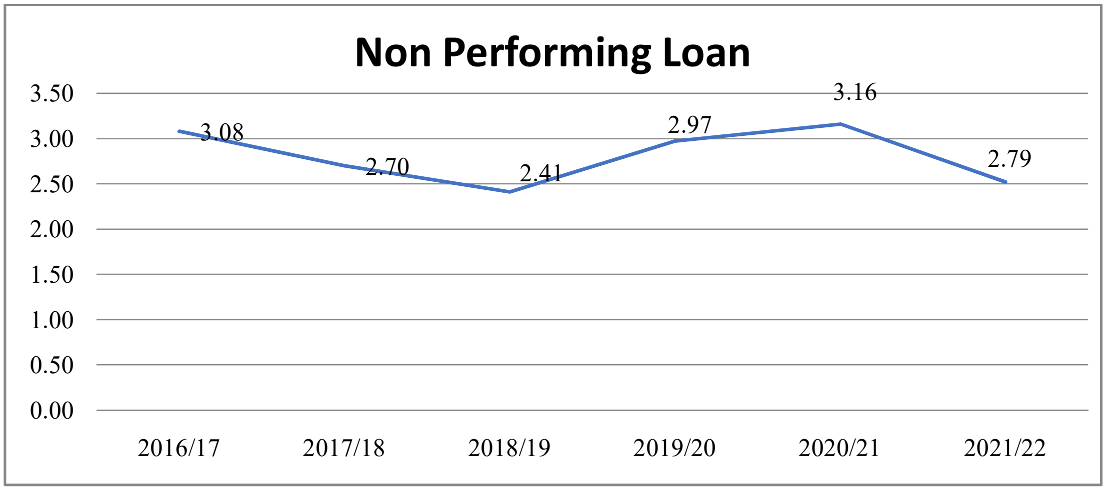
S.N.	Loan Product	2021/22
1	Term Loan	19.72
2	Overdraft	13.23
3	Trust Receipt Loan/Import Loan	-
4	Demand and Other Working Capital Loan	7.09
5	Personal Residential Home Loan	11.29
6	Real Estate Loan	8.74
7	Margin Loan	4.41
8	Hire Purchase Loan	4.40
9	Deprived Sector Loan	7.68
10	Bills Purchased	-
11	Other Product	23.44
	Total	**100.00**

Non- Performing Loans

4.11 The ratio of NPLs to gross loans and advances has been decreased by 11.70 percent compared to previous fiscal year and stood at 2.79 percent of total loan in mid July 2022 compared to 3.16 percent in mid July 2021. Detail regarding non-performing loans of finance companies is given in Annex 18.5.

Figure 19: Non–performing loans of the Finance Companies (As of Mid-July 2022)

Figures in percentage of total loan

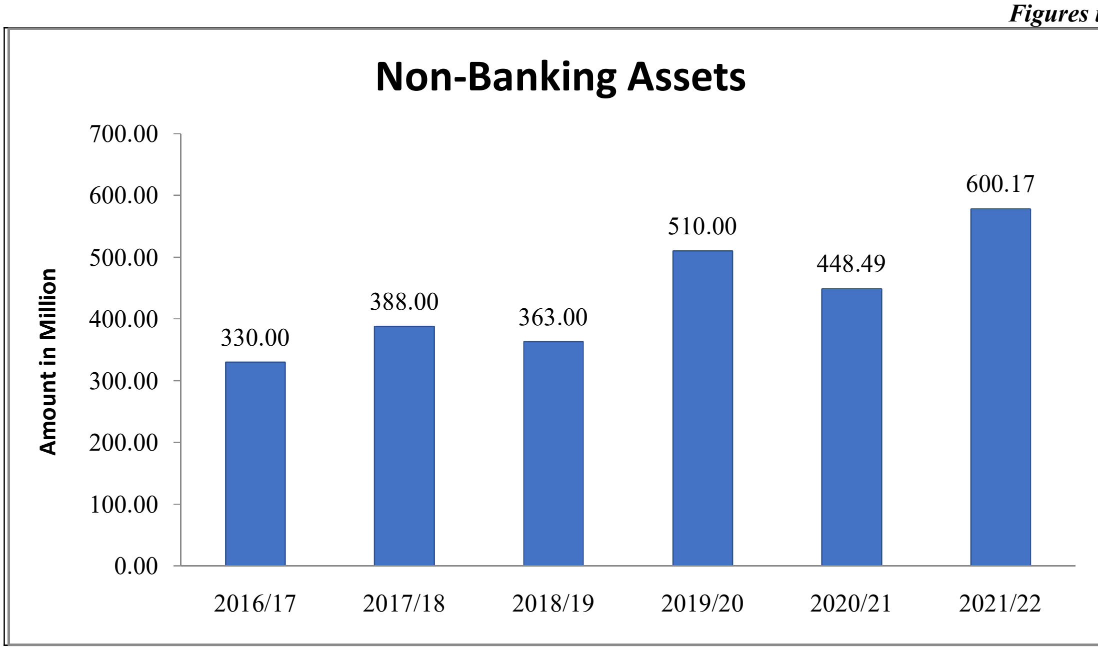


Non-Banking Assets

4.12 The total amount of non-banking assets of finance companies as on mid-July 2022, stood at Rs. 600.17 million. The total amount of non-banking assets (NBA) of finance companies for previous year stood at Rs. 448.49million. Details of NBA are shown in Annex 18.6.

Figure 20: Non-banking Assets of the Finance Companies (As of Mid-July 2022)

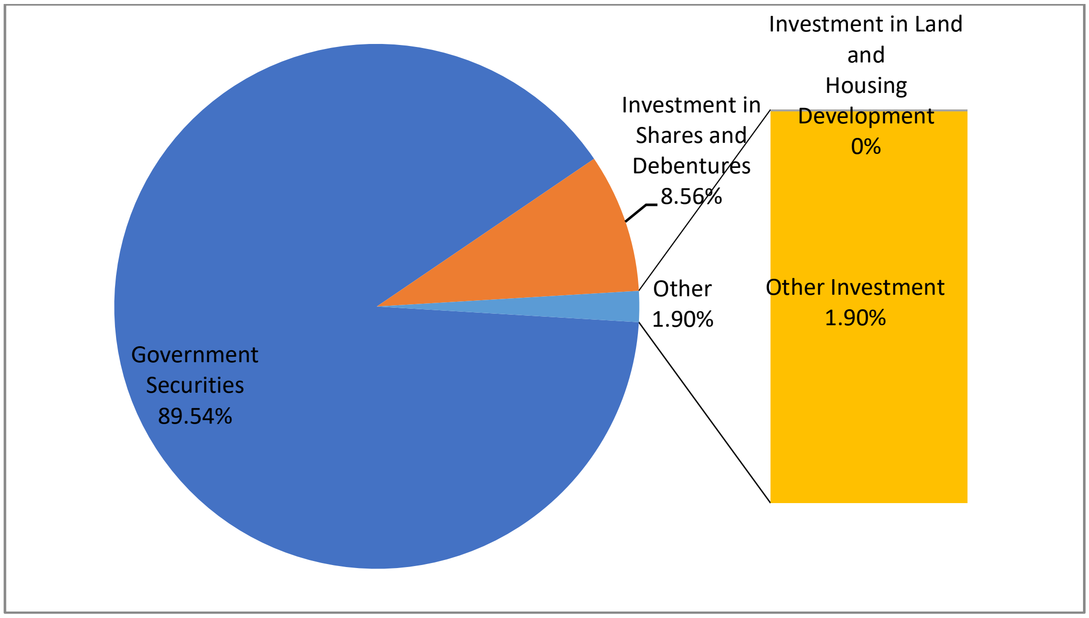
Figures in Million



Investment

4.13 The largest portion of investment made by finance companies was in government securities. This category accounted 89.54 percent of total investment of finance companies in the review year. Investment in shares/debentures and other investment accounted to 8.56 percent and 1.90 percent respectively. Details of investment of finance companies are shown in Annex 16 and 18.7.

Figure 21: Investment Portfolio of the Finance Companies (As of Mid-July 2022)



Profitability

4.14 Consolidated profitability of overall finance companies during FY 2021/22 amounted to Rs. 1.19 billion. It amounted to Rs. 2 billion during FY 2020/21. The aggregate net profit of finance companies has decreased by 40.5 percent during the review period due to decrease in other operating income and increase in interest expenses.

I4.15 Interest income of all finance companies increased by 35.49 percent to Rs. 11.49 billion in the review period compared to that of 8.48 billion from previous year. Similarly, interest expenses also increased by 37.52 percent to Rs. 8.10 billion in the review period compared to that of 5.89 billion in the previous year. Net interest income has increased by 31.60 percent to NRs. 3.38 billion in the review period from Rs. 2.58 billion compared to previous year.

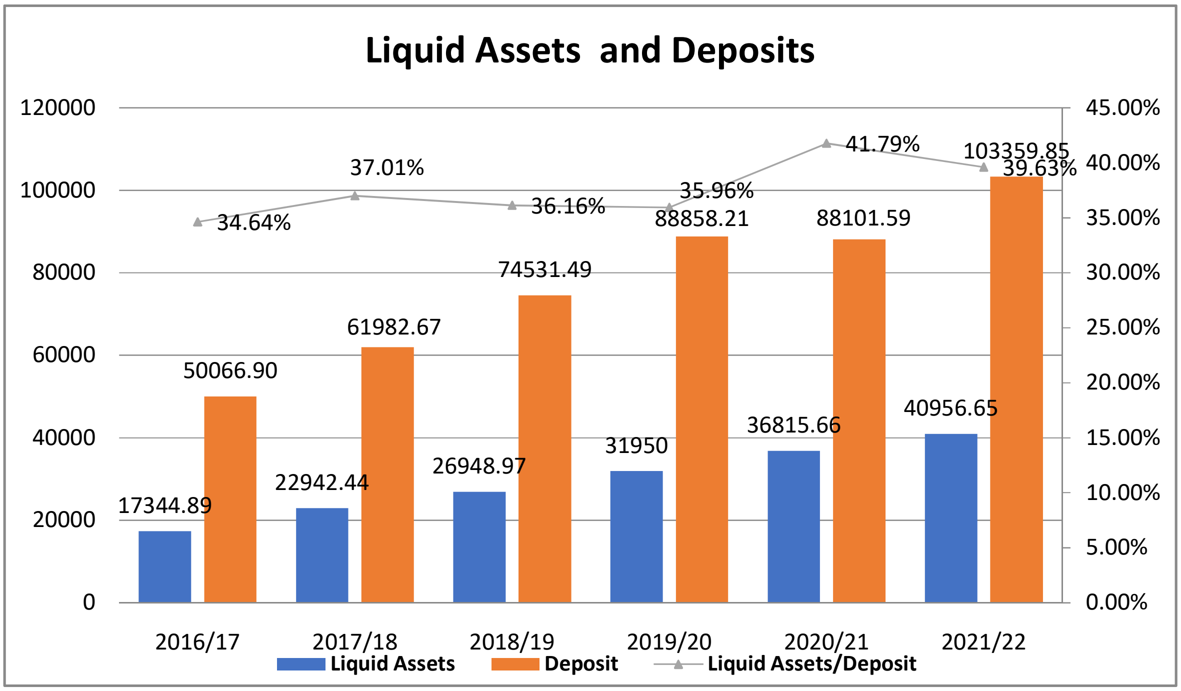
4.16 In the review period operating profit of finance companies has decreased by 46.83 percent to Rs. 1.51 billion from Rs. 2.84 billion in the previous year. Details regarding operation efficiency of finance companies are given in Annex 18.9.

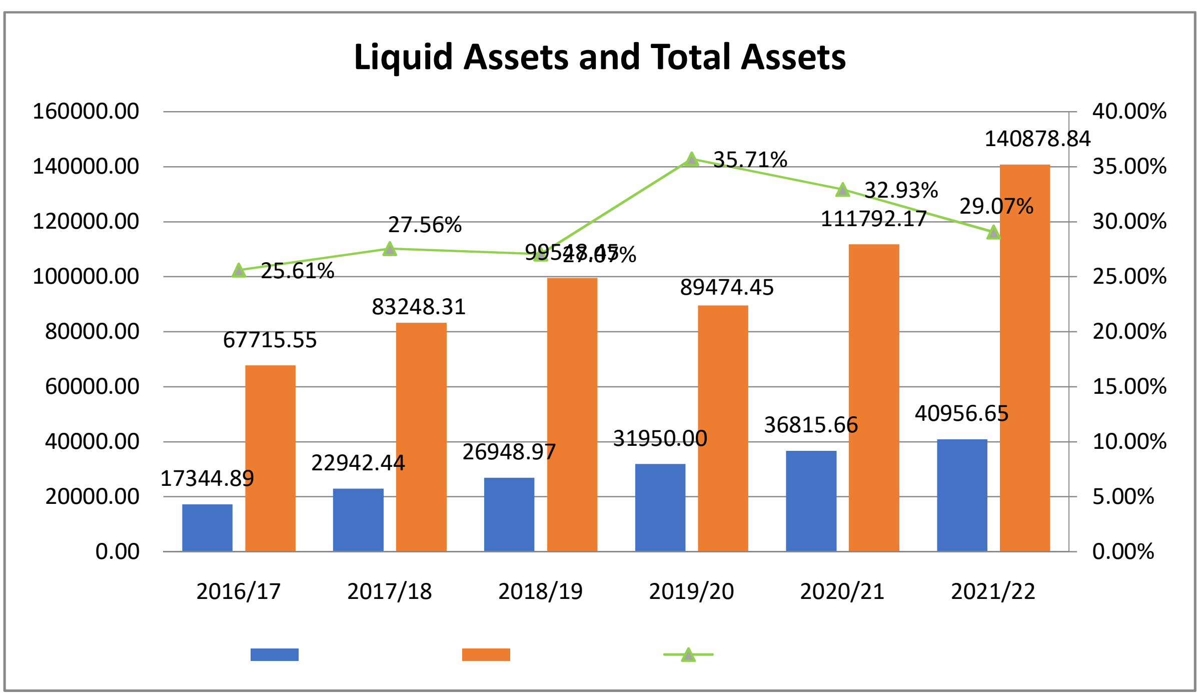
Liquidity

4.17 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 11.25 percent from Rs. 36.82 billion as of mid-July 2021 to Rs. 40.96 billion as of mid-July 2022. The share of these liquid assets to total deposits decreased by 5.17 percentage point from 41.79 percent at mid-July 2021 to 39.63 percent at mid-July 2022. Similarly, the share of these liquid assets to total assets decreased by 11.72 percentage point from 32.93 percent at mid-July 2021 to 29.07 percent at mid-July 2022. Detailed figures are indicated in figure 22 and are shown in Annex 18.8.

Figure 22: Liquidity Position of the Finance Companies (As of Mid-July 2022)

Figures in Million





Deprived Sector Lending

4.18 The overall position of deprived sector lending of finance companies in FY 2021/22 was 8.28 percent.

Base Rates and spread rates

4.19 Base rate of all finance companies was 12.03 percent as on mid-July 2022 whereas it was 9.19 percent in mid-July 2021.

4.20 Interest spread of overall finance companies stood at 4.41 percent as at mid July 2022 whereas it was at 4.44 percent as at mid July 2021. Base rate and interest spread is being regularly monitored and necessary instructions are given to the concerned institutions.

Stress Testing of Finance companies

4.21 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 2022 indicate that finance companies have adequate regulatory capital and also needs buffer capital to absorb various shocks as detailed below:

Credit Shock

4.22 Standard credit shock test results indicate that all except one finance company (out of total 15 excluding two problematic finances) 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. In the same way, one finance company 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 and one finance company would not comply with the minimum capital adequacy ratio requirements if top 5 large exposures downgraded: Performing to Substandard.

Liquidity Shock

4.23 Standard liquidity shock test results suggested that one finance company would not comply if illiquid after on 5th day while withdrawal of deposits by 10 percent. Similarly, fall below mandatory liquidity ratio in stress scenarios. Similarly, seven 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 ten 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

4.24 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 13: Summary Result on Stress Testing of Finance Companies (As on Mid July 2022)

		Number of Banks with CAR		
Events		**< 0percent**	**0percent - <10percent**	**>=10percent**
	Pre Shock	0	0	15
		Post Shocks		
A. After Credit Shock		**< 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	1	14
C5	Top 5 Large exposures downgraded: Performing to Substandard	0	1	14
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	1

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	1	14
L-2b	Withdrawal of deposits by 10percent	0	4	11
L-2c	Withdrawal of deposits by 15percent	0	7	8
L-2d	Withdrawal of deposits by 20percent	0	10	5
L-3a	Withdrawal of deposits by top 1 institutional depositor.	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	2	13
L-3e	Withdrawal of deposits by top 5 institutional depositors.	0	3	12

L-4a	Withdrawal of deposits by top 1 individual depositor.	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

Actions and Penalties

4.25 Following actions were taken against finance companies according to existing legal and regulatory provision in the review year.

- One finance company was penalized 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.

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 2021/22 are summarized below:

Capital Adequacy

- ICAAP formulation, implementation and reporting process is not satisfactory.
- Identification, measurement, monitoring, and controlling of inherent risks as guided by NRB Internal Capital Adequacy Assessment Process (ICAAP) were found inadequate in some of the banks and financial institutions.
- Bank does not have adequate system for monitoring and reporting of risk exposures based on changing risk profile to determine the adequacy of capital as Internal Capital Adequacy Assessment Process (ICAAP) report has not been prepared as per ICAAP guideline to capture all material risk along with stress testing results.
- Risk Weighted Asset (RWA) has not been properly computed.
- Recording, processing, and computing the risk-weighted exposure to credit risk is all manual processes for BFIs. It takes a lot of manual work to dispute the accuracy of reports submitted to NRB.
- Regulatory minimum paid up capital is not met in few cases and paid up capital calculation is erroneous as well.
- 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.

Asset Quality:

- BFIs has invested loan on the basis of estimated financial statements without properly assessing the borrowers loan needs and ability to repay.
- 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.
- Same credit files have been temporarily extended for multiple times. In some cases, loans disbursed were not found to be used for the intended purpose. Also banks have not monitored the utilization of fund for the intended purpose strictly.
- Credit policies, guidelines and manuals were not reviewed periodically.
- Insufficient loan loss provision amount.
- Credit information of the borrowers of the financial institutions is not updated timely in records of Credit Information Centre Ltd.

- Most of the banks did not have adequate automated MIS report generation software that could provide information on the risk profile and the structure of credit portfolios (including off-balance sheet items also).
- Post disbursement monitoring mechanism especially for working capital loans is weak.
- Excessive waivers on bank's policies and procedures have been provided specially to large borrowers without considering risk factors. Waivers are given in low collateral coverage, loan draw down limit, interest rate, access road to land etc. Impact of such waivers on the level of credit risk are not assessed/ reviewed by credit risk management department.
- Monitoring mechanism and reporting of deprived sector loan is not timely.
- BFIs have not developed internal credit risk rating methodology of the borrower. Furthermore, bank does not price its loans according to the risk profile of the borrower and risks associated with the loan.
- There has been delay in sale of collaterals written off.
- 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.
- Selected credit file provisions are insufficient.

Management:

- Many banks and financial institutions do not have the practice of making self-assessments regarding the effectiveness of their governance practices, management of conflicts of interest, strengths, and weaknesses in terms of Strategic Value 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.
- Some banks have not developed separate policy/procedure regarding corporate social responsibility.
- Board minutes do not show discussions on the identification, measurement, monitoring and control of inherent risks across the business lines of the Institution. Review of the minutes of the Board meetings reveal that BOD activities are limited to acknowledging and approving the periodic report of concern departments, approving new product papers and Credit files and other general administrative agendas rental agreement, interior design cost, purchase of vehicles, laptop/computer etc.
- 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.
- 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

- Board has not provided adequate oversight to test and monitor internal controls and ensure the reliability of the bank's financial statements and reporting. Many instances were found that bank’s both total deposit and total loan were artificially inflated by transferring amount form client’s underutilized overdraft limit to deposit account.
- 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.
- Board has not approved the risk tolerance level and risk appetite limits. Assessment of board oversight over the risk management process revealed inadequate coverage of board over risk management process.
- 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.
- Review of the minutes of the Board meetings revealed that board has not done the periodic review of Bank’s strategy, the result of which board will be unaware of the achievement set forth by the Strategy.
- The operational risk has escalated due to the personnel and employees' inefficiency and incompetence.

Earning:

- Interest income from loans and advances contributes the largest share of total income at BFIs. The bank needs to diversify the sources of income to avoid risk of concentration of interest income on earnings performance.
- Compliance to service fees related guidelines is missing.

Liquidity:

- Most of the financial institutions lack liquidity contingency plan.
- Board surveillance over liquidity management is inadequate since the Contingency liquidity plan for liquidity management is not formulated.
- Institution specific liquidity position monitoring framework is missing.
- Institutions have not designed its Institution specific liquidity Indicators. Except gap analysis, no other mechanisms have been developed so far to measure the liquidity risk. Further, Liquidity Risk Management strategy including targeted mix of assets and liabilities has not been prepared and implemented.
- Asset liability gap analysis and stress testing result analysis are not effective.
- ALCO minute suggests that there have not been adequate discussion about management of liquidity risk indicated by structural liquidity matrix and concentration risk arising from imbalance in deposit mix.
- 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.

Sensitivity to Market:

- There is no risk-based pricing mechanism for interest rate determination. Premium rates are determined on the basis of prevailing market rates rather than inherent risk of the customers.
- Market risk management policy has not been timely amended on the basis of changes in market risks.
- The provisions and measures related to interest rate risk management are very inadequate. It has merely defined the interest rate risk without stating any explicit measures to manage the interest rate risk.
- The interest rate calculation system has not been included by BFIs into the Core Banking System.
- Few institutions have established an investment policy, and some haven't updated it frequently. An issue like sectoral investment caps for equities, intervention points to record profits/limit losses, etc. are not covered by these policies.

Compliance to AML/CFT:

- Some instances were observed where the account opening forms and KYC were not duly filled up according to NRB directives no. 19/078. Details of the annual transactions done by customer were missing in the form.
- 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.
- AML/CFT committee has not been formulated separate Customer identification as risk grading and customer acceptance policy as per the NRB directive 6/2078 point 7 sub point 5 (Gha).
- Front officers are not actively involved in identification of suspicious transactions and risk grading of customers.
- There is no separate mechanism to identify beneficial owner in the institution and the process are not adopted yet as prescribed in unified directives no. 19 point no.5(2) except self-declaration by the customers.
- Inherent AML/CFT risk associated with new products, wire transfer, E-banking, mobile banking (including QR code), mobile wallet transactions etc and control measures for such risk was not found discussed in AML committee as required by Unified Directive 6/078 point no. 5 (chha).

Others

- Disaster Recovery & Business Continuity Plan is not effective.
- ATM Card and PIN storage was found to be kept in same vault under the custody of a single person. And also, delivery of ATM and PIN was found to be delivered together through single courier. There should be separate Vault and separate custodian for Card & PIN and must be delivered through the different couriers. The log of Card and PIN delivery was not kept properly which is not in accordance with the Unified directives no 5/078 point no 5(kha).

- 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.

If any insufficient provisioning is discovered during an on-site inspection or any issues are observed in overall risk management, operational risk, market risk, and disclosure, a capital charge is imposed on the concerned financial institution as a corrective measure.

Issues

Risk Management

5.2 FISD has fully implemented the Risk Based Supervision of the national level development banks. The risk profile of development banks is being prepared and updated during the full scope on-site inspection. The on-site inspection reports reveal that development banks fall short of adopting recommendations outlined in the Risk Management Guidelines issued by the NRB. Most of the risk management practices are found to be traditional, and hence effective risk management mechanisms are in early stages of development. While most development banks have now formulated risk-related policies, their implementation remains weak. Both the Board and senior management need to develop and promote risk management culture.

Digital Banking and Technology Risk

5.3 Nepal's banking sector is transitioning towards a less cash society through promotion of digital banking. Internet banking, mobile banking and QR payment are gaining momentum among the customers. With the development of transactions of different goods and cash like instruments over the internet it exposes less financially literate customers to greater risks. Hence, enhancing and supporting the growth of digital banking as well as properly managing the technology and cyber related risks are the issues for supervisors and BFIs.

AML/CFT Compliance

5.4 Complying with AML/CFT rules and standards remains one of the major priorities in the recent years. Failure to abide by AML related rules can result in various kinds of risks. NRB has issued AML/CFT related directive (Directive No.19), which supplements the Money Laundering Prevention Act and Rules. NRB expects that institution's board members and senior management officials have adequate knowledge and awareness in this area. NRB also believe that institutions have taken adequate initiative to train staffs to acknowledge the importance of AML/CFT compliance. However staffs are not adequately trained in the subject.

Limited access of funds

5.5 Institutions in Nepal have limited access to funds, which makes it difficult for them to provide long-term loans for development projects. They borrow at high cost or pay higher interest rate for deposits than A class banks. This is because they rely on deposits from the public as their primary source of funds, which could be volatile. 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.

Misutilization of the credit

5.6 Inspection observation of some of the financial institutions has questioned on whether disbursed loans were being used into targeted sector and whether the loans have been used in intended purposes as well. Proper utilization of the credit facilities for its intended purpose has emerged as a major issue in the banking sector as a whole. It has been noted that the credit expansion is mainly fueling haphazard import of non-essential items and the growth of consumption rather than supporting productive and priority sector. The scantiness of the available resources in the productive sector and diversion of abundant resources in the non-productive sector only increases the import bill of non-essential items and consumption which eventually retards actual growth of the economy.

Merger of BFIs

5.7 The merger of the BFIs has been one of the major agenda in the banking industry. More specifically, consolidation of the commercial banks through merger and acquisition (M&A) has been highly encouraged by the NRB. But, there is reluctance and delay in accelerating merger and acquisition process by the financial institutions. NRB has been successful in lowering the number of development banks and finance companies.

Human Resource and associated risk

5.8 The Nepalese banking industry has become more complex with the development of new products and the adoption of advanced information and communication technology (ICT). This has resulted in the need for a competent skill set in the industry. However, there is a shortage of skilled human resources in the financial institutions sector in Nepal, which affects the quality of services provided by these institutions. This is particularly true in the areas of risk management, credit analysis, and loan recovery. It is crucial that financial institutions have taken initiative to adequately train and develop their employees to adapt to emerging technology and innovation in the financial services industry. Incidents regarding the fraud, financial embezzlement and activities related to the banking offence carried out by financial institutions employee have emerged as major problems. Due to ill intention of the few employees, whole banking sector might face the reputational risk.

Regulatory Issues

5.9 Enhancing coordination between financial institutions supervisors and other regulators of the financial sector is important. Supervisory effectiveness can be further enhanced through proper coordination among different regulators and the concerned authorities such as the

Ministry of Finance (Government), Securities Board of Nepal (SEBON), Insurance Authority, Credit Information Bureau (CIB), Debt Recovery Tribunal (DRT), and Credit Rating Agencies. With the growing complexity in the financial system, systemic risks are also building up due to which the need for coordination among regulators and policymakers is becoming a must.

Challenges

Deterioration of the asset quality and default

5.10 Post Covid Nepal has also witnessed the re-bounce in business activities due to which demand for credit facilities have gone up resulting in sudden increase in loan and advances to the private sector. The accumulation of loanable fund and drive to increase the earnings encouraged financial institutions for the aggressive lending making compromises in customer due diligences and other associated risks. The inadequate financial analysis, risk and repayment capacity assessment and poor credit worthiness might increase the likelihood of customer defaulting their repayments. Ultimately, the BFIs in Nepal are facing relatively high levels of non-performing loans, which means that a large percentage of their loans are not being good borrowers. This leads to a reduction in the institution's profitability, which affects its ability to lend further and threats to financial sector stability.

5.11 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.

Limited Technological Infrastructure:

5.12 The Financial Institutions in Nepal have been slow to adopt new technologies, which limits their ability to compete effectively and offer innovative financial products and services. At the same time, 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 that are friendly with the new technologies.

5.13 Many Financial Institutions still use manual processes and have limited access to technology. This makes it difficult for them to automate their operations, provide online services, and improve their efficiency. They have been extensively utilizing IT in the areas of core banking system, payment system and data management. As such, they 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 as well.

IT Risk

5.14 The adoption and introduction of the new technology has made banking services faster and easier than ever before. The convenience and facilities brought by the technology has also made the banking sector vulnerable to the Information Technology (IT) related risks including cyber crimes. Nepalese banking industry has witnessed the incidence of cyber-attack and hacking. The incidence of tempering ATMs, hacking SWIFT system and credit cards has been recorded in Nepalese banking industry. Phishing and password attack has alarmed cyber security of the banking industry. The utmost priority of the banking industry should be strengthening the cyber security level. Nepalese financial institutions have also been extensively using the IT system in the areas of Core Banking System, Management Information System, Payment System, and data management. Financial Institutions need to ensure that these IT systems are adequately secured and robust. IT losses can be huge and may even endanger the stability of the whole financial system, in addition to the soundness of the individual institutions.

Shadow Banking

5.15 Nonbanking financial transactions, as the IMF noted in its Global Financial Stability Report (GFSR), have grown to be one of the main threats to global financial stability. Non-banking transactions are forbidden in Nepal, although they are a serious danger to the country's economy. The operation of the BFIs has been impacted by some of the issues encountered in the cooperative sectors. The number of non-banking transactions is rising, making it more challenging to trace capital transfers. Along with consumer protection issues, there are also cases of wider public fraud.

Enhancing Consumer Protection

5.16 It is one of the major objectives of NRB to protect the customer. In this regard, NRB has the major responsibility of the consumer protection which ensures that there is equitable and fair treatment, adequate complaints handling and addressing mechanisms, protection of consumer data and privacy and broad-based financial education and information dissemination mechanism in functioning of financial institutions' operation. We do not expect the customers having capacity or even focused concentration to read all the terms and conditions before signing contracts with the banks. This will create a major problem when contracts have any special covenants and consumers are unaware of it. So, the banks should clearly communicate all the terms and conditions before offering any products and services to the consumer. It has been noted that in many cases, consumers are unaware of the appropriate procedures for lodging complaints and grievance addressing structures and their functions. Therefore, for consumer protection, educating the consumer is utmost important.

Specified sector Lending

5.17 Directed lending is one of the major characteristics of the banking sector of the developing countries. Generally, there is unbalanced development in developing countries. Financial Institutions are not much motivated to allocate their funds in the less profitable sector which results in the shortage of the fund in that sector which are already backward and vulnerable. In order to address this problem, NRB has directed Banks and Financial Institutions for mandatory lending in some of the sectors. The major challenge for NRB is to find the optimum balance between directed lending and lending made on institution's own discretion.

Governance and Management

5.18 Some financial institutions in Nepal have been facing governance and management issues, such as weak internal controls, lack of transparency, and inadequate monitoring of loan disbursements. This has led to instances of fraud and corruption, which have affected the credibility of these institutions. They need to strengthen their governance and management practices to ensure transparency and accountability in their operations.

5.19 To overcome these challenges, financial institutions in Nepal need to focus on improving their risk management practices, diversifying their funding sources, increasing their capital base, adopting new technologies, and attracting and retaining skilled human resources. Additionally, there is a need for regulatory reforms to improve the overall regulatory environment and increase the confidence of investors and customers in the industry.

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Financial Institution Supervision Report

(FY- 2021/22)

Annexure

Annex 1: Number of Banks and Financial Institutions

Types of Financial Institutions	As of Mid-July 2022												
	1995	2000	2005	2010	2014	2015	2016	2017	2018	2019	2020	2021	2022
Commercial Banks	10	13	17	27	30	28	28	28	28	27	27	27	24
Development Banks	3	7	26	79	76	67	40	33	29	20	18	18	17
Finance Companies	21	45	60	79	48	42	28	25	23	22	17	17	17
Micro finance Financial Institutions	4	7	11	18	38	42	53	65	90	85	62	70	64
Infrastructure Development Bank	-	-	-	-	-	-	-	-	1	1	1	1	1
Total	**38**	**72**	**114**	**203**	**192**	**179**	**149**	**151**	**171**	**155**	**125**	**133**	**123**

Annex 2: List of Development Banks (As of Mid-July 2022)

S. N.	Name	Operation Date (A.D.)	No. of Branches
1	Narayani Development Bank Ltd.	2001-10-17	14
2	Karnali Development Bank Ltd.	2004-02-18	1
3	Excel Development Bank Ltd.	2005-07-21	19
4	Miteri Development Bank Ltd.	2006-10-13	22
5	Muktinath Bikas Bank Ltd.	2007-01-03	5
6	Corporate Development Bank Ltd.	2007-11-07	26
7	Sindhu Bikas Bank Ltd.	2010-09-09	5
8	Salapa Bikash Bank Ltd.	2012-07-16	5
9	Green Development Bank Ltd.	2013-08-25	1
10	Shangrila Development Bank Ltd.	2014-07-13*	27
11	Shine Resunga Development Bank Ltd.	2013-03-17*	22
12	Jyoti Bikas Bank Ltd.	2016-08-12*	26
13	Garima Bikas Bank Ltd.	2016-09-20*	22
14	Mahalaxmi Bikas Bank Ltd.	2017-07-02*	27
15	Lumbini Bikas Bank Ltd.	2017-07-09*	13
16	Kamana Sewa Bikas Bank Ltd.	2017-08-04*	17
17	Saptakoshi Development Bank Ltd.	2019-07-07*	15

Joint Operation date after merger

Annex 3: Onsite Inspection in FY 2021/22

3.1 Full Scope Onsite Inspection

Quarter	Development Bank	Finance Company
First Quarter (I)	1. Saptakoshi Development Bank 2. Corporate Development Bank 3. Lumbini Bikash Bank 4. Kamana Sewa Bikash Bank	1. Samriddhi Finance 2. Goodwill Finance 3. Gurkhas Finance 4. Nepal Finance 5. Shree Investment and Finance
Second Quarter (II)	1. Salapa Bikash Bank 2. Green Development Bank 3. Excel Development Bank 4. Miteri Development Bank 5. Narayani Development Bank 6. Garima Bikash Bank 7. Muktinath Bikash Bank	1. Multipurpose Finance Company 2. Reliance Finance Ltd 3. Janaki Finance Company
Third Quarter (III)	1. Mahalaxmi Bikash Bank 2. Karnali Development Bank	1. Pokhara Finance Ltd 2. ICFC Finance
Fourth Quarter (IV)	1. Shine Resunga Development Bank 2. Jyoti Bikash Bank 3. Sindhu Bikash Bank 4. Shangrila Development Bank	1. Manjushree Finance 2. Best Finance

3.2 Special (Case Basis) Onsite Inspection

Quarter	Development Bank	Finance Company
Quarter I	-	-
Quarter II	1. Saptakoshi Development Bank 2. Shine Resunga Development Bank	
Quarter III	1. Mahalaxmi Bikash Bank	1. Central Finance
Quarter IV	1. Kamana Sewa Bikash Bank 2. Mahalaxmi Bikash Bank	

3.3 Special (AML/CFT) Onsite Inspection

Quarter	Development Bank
Quarter I	1. Green Development Bank 2. Miteri Development Bank 3. Garima Bikash Bank 4. Jyoti Bikash Bank
Quarter II	1. Kamana Sewa Bikash Bank 2. Salapa Bikash Bank 3. Excel Development Bank 4. Muktinath Bikash Bank 5. Shine Resunga Development Bank 6. Shangrila Development Bank
Quarter III	-
Quarter IV	-

Annex 4: Capital Adequacy Ratios

4.1 Development Banks

SN	FI's Name	As of Mid-July 2022	
		Core Capital	Total Capital Fund
1.	Muktinath Bikash Bank Ltd.	8.89	11.86
2.	Jyoti Bikash Bank Ltd	9.39	13.28
3.	Garima Bikash Bank	10.28	13.49
4.	Mahalaxmi Bikash Bank	10.76	11.94
5.	Shine Resunga Development Bank	13.46	14.78
6.	Lumbini Bikas Bank Ltd.	10.32	11.77
7.	Shangrila Development Bank	8.85	11.85
8.	Kamana Sewa Bikash Bank	9.72	13.28
9.	Saptakoshi Development Bank	17.48	19.13
10.	Excel Development Bank	11.59	12.80
11.	Miteri Development Bank	23.89	25.13
12.	Sindhu Bikas Bank	11.82	12.93
13.	Karnali Development Bank	10.65	11.35
14.	Green Development Bank	19.01	21.15
15.	Corporate Development Bank	57.82	59.10
16.	Narayani Development Bank	25.90	26.76
17.	Salapa Bikash Bank	24.66	25.49

4.2 Finance Companies

SN	FI's Name	As of Mid-July 2022	
		Core Capital	Total Capital Fund
1.	Nepal Finance Ltd.	41.16	42.06
2.	Gurkhas Finance Ltd.	15.02	15.98
3.	Goodwill Finance Ltd.	11.01	14.15
4.	Shree Investment & Finance Co. Ltd.	20.49	21.71
5.	Best Finance Company Ltd.	22.49	23.72
6.	Progressive Finance Ltd.	24.86	26.81
7.	Janaki Finance Ltd.	22.58	23.22
8.	Pokhara Finance Ltd.	13.15	14.59
9.	Central Finance Ltd.	21.31	22.65
10.	Multipurpose Finance Ltd.	50.14	51.60
11.	Samriddhi Finance Ltd.	27.12	28.71
12.	Guheshwori Merchant Banking & Finance Ltd.	16.42	17.54
13.	ICFC Finance Ltd.	9.31	11.61
14.	Manjushree Finance Ltd.	14.01	19.70
15.	Reliance Finance Ltd.	17.63	18.74

Annex 5: Consolidated Statement of Financial Position of DBs (As of Mid July22)

NRS in 000

Assets	Corporate	Excel	Garima	Green	Jyoti	Kamana
Cash and cash equivalent	416,777	2,345,426	5,223,856	797,927	9,835,183	6,299,336
Due from Nepal Rastra Bank	15,266	133,360	1,998,863	101,225	1,323,398	1,234,517
Placement with Bank and Financial Institutions		-	500,000	-	-	
Derivative financial instruments		-	-	-	-	
Other trading assets		-	-	-	-	
Loan and advances to B/FIs		272,625	2,845,675	24,150	2,635,385	1,798,623
Loans and advances to customers	940,902	10,231,444	58,046,661	2,571,905	48,314,595	42,362,426
Investment securities	-	748,563	9,909,528	142,286	7,076,198	6,261,365
Current tax assets	8,274	21,730	-	1,013	617,494	34,223
Investment in subsidiaries		-	123,900	-	153,000	
Investment in associates		-	5,965	-	-	
Investment property	57,643	193,388	36,515	-	92,989	237,680
Property and equipment	53,315	264,627	748,792	74,172	766,079	1,200,767
Goodwill and Intangible assets	1,392	3,629	101,487	1,419	18,173	14,785
Deferred tax assets	14,014	13,472	-	475	69,291	75,189
Other assets	4,675	89,926	489,284	18,003	506,084	362,789
TOTAL ASSETS	**1,512,259**	**14,318,191**	**80,030,527**	**3,732,575**	**71,407,867**	**59,881,700**
EQUITY AND LIABILITIES	**Corporate**	**Excel**	**Garima**	**Green**	**Jyoti**	**Kamana**
Liabilities	809,775	12,684,660	73,433,989	3,166,970	65,770,613	55,517,121
Due to Bank and Financial Institutions		422,548	2,035,639	208,661	3,452,415	4,303,590
Due to Nepal Rastra Bank		267,452	807,904	-	5,643,032	2,809,542
Derivative financial instruments		-	-	-	25,887	
Deposits from customers	786,361	11,750,564	68,410,212	2,885,264	53,793,000	46,256,070
Borrowing		-	22,917	-	-	
Current Tax Liabilities		-	25,314	-	566,178	
Provisions		16,786	-	-	-	16,045
Deferred tax liabilities		-	1,054	-	-	
Other liabilities	23,414	227,310	1,136,728	73,045	799,112	1,137,734
Debt securities issued		-	994,222	-	1,490,989	994,139
Subordinated Liabilities		-	-	-	-	
Equity	**702,484**	**1,633,531**	**6,596,537**	**565,605**	**5,637,254**	**4,364,579**
Share capital	500,000	1,151,792	4,579,892	519,000	4,267,753	3,142,577
Share premium	23,921	9,546	92,312	2	-	
Retained earnings	48,431	128,505	584,442	21,269	290,289	146,720
Reserves	130,132	343,688	1,339,891	25,335	1,079,212	1,075,282
TOTAL EQUITY AND LIABILITIES	**1,512,259**	**14,318,191**	**80,030,527**	**3,732,575**	**71,407,867**	**59,881,700**
Contingent Liabilities and Commitments		**788,766**	**1,656,294**	**16,393**	**1,998,713**	**1,301,008**

Assets	Lumbini	Mahalaxmi	Miteri	Muktinath	Narayani	Salapa
Cash and cash equivalent	4,264,391	2,932,489	532,900	6,269,721	74,089	396,522
Due from Nepal Rastra Bank	1,318,007	1,098,204	134,468	2,564,749	19,037	-
Placement with Bank and Financial Institutions	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Other trading assets	-	-	-	-	-	-
Loan and advances to B/FIs	2,516,007	4,371,225	459,877	3,483,613	15,792	-
Loans and advances to customers	29,673,540	30,150,720	4,489,614	72,919,250	68,638	565,882
Investment securities	4,977,423	7,301,480	824,930	14,513,403	4,494	-
Current tax assets	257,032	58,008	4,111	44,298	9,791	6,097
Investment in subsidiaries	-	-	-	117,500	-	-
Investment in associates	583,735	2,500	-	104,907	-	-
Investment property	65,731	306,499	-	-	5,514	-
Property and equipment	305,937	328,924	36,915	813,780	10,887	24,254
Goodwill and Intangible assets	2,782	2,938	431	8,349	3,538	1,651
Deferred tax assets	-	-	6,898	55,018	166	3,768
Other assets	160,589	908,600	214,975	237,135	4,766	5,452
TOTAL ASSETS	**44,125,173**	**47,461,587**	**6,705,120**	**101,131,723**	**216,712**	**1,003,625**
EQUITY AND LIABILITIES	**Lumbini**	**Mahalaxmi**	**Miteri**	**Muktinath**	**Narayani**	**Salapa**
Liabilities	**38,830,601**	**41,882,258**	**5,543,885**	**94,300,160**	**134,466**	**778,584**
Due to Bank and Financial Institutions	408,344	1,195,072	45,189	5,419,587	-	61,067
Due to Nepal Rastra Bank	1,426,928	1,230,698	-	832,446	-	-
Derivative financial instruments	-	-	-	-	-	-
Deposits from customers	36,371,467	38,686,162	5,446,860	86,902,914	98,470	682,864
Borrowing	-	-	-	-	-	-
Current Tax Liabilities	-	-	-	-	-	-
Provisions	-	66,762	-	3,732	-	4
Deferred tax liabilities	194,461	32,701	-	-	-	-
Other liabilities	429,402	670,863	51,836	1,141,480	35,997	34,649
Debt securities issued	-	-		-	-	-
Subordinated Liabilities	-	-		-	-	-
Equity	**5,294,572**	**5,579,329**	**1,161,235**	**6,831,564**	**82,245**	**225,041**
Share capital	2,906,454	3,342,403	797,377	4,811,551	131,234	28,000
Share premium	-	-	-	-	2,957	-
Retained earnings	435,012	706,869	148,108	896,316	(217,156)	(13,844)
Reserves	1,953,106	1,530,057	215,750	1,123,697	165,211	210,885
TOTAL EQUITY AND LIABILITIES	**44,125,173**	**47,461,587**	**6,705,120**	**101,131,723**	**216,712**	**1,003,625**
Contingent Liabilities and Commitments	**2,790,566,710**	**1,934,193**	**91,887**	**4,177,971**	**-**	**8,809**

Assets	Shangrila	Shine	Sindhu	Karnali	Saptakoshi
Cash and cash equivalent	6,151,424	4,151,806	1,000,941	1,443,056	1,116,060
Due from Nepal Rastra Bank	1,450,384	1,322,982	87,659	140,527	177,476
Placement with Bank and Financial Institutions	-	-	-	-	
Derivative financial instruments	-	-	-	-	
Other trading assets	-	-	-	-	
Loan and advances to B/FIs	2,907,340	3,372,229	445,251	-	
Loans and advances to customers	40,570,945	34,418,237	3,548,577	3,261,503	3,941,161
Investment securities	7,370,136	6,509,154	56,857	-	199,607
Current tax assets	33,493	77,916	28,811	23,462	25,138
Investment in subsidiaries	-	-	-	-	
Investment in associates	-	-	-	-	
Investment property	157,077	-	77,503	-	2,487
Property and equipment	768,853	573,825	198,440	133,364	81,935
Goodwill and Intangible assets	5,128	132,376	2,165	189	2,934
Deferred tax assets	54,455	1,849	18,233	114	6,920
Other assets	353,184	112,850	102,948	60,448	166,452
TOTAL ASSETS	**59,822,418**	**50,673,224**	**5,567,386**	**5,062,663**	**5,720,170**
EQUITY AND LIABILITIES	**Shangrila**	**Shine**	**Sindhu**	Karnali	**Saptakoshi**
Liabilities	55,633,613	45,261,689	4,952,765	4,538,291	**4,880,151**
Due to Bank and Financial Institutions	3,429,750	173,245	-	-	139,648
Due to Nepal Rastra Bank	1,744,042	1,407,995	-	-	23,100
Derivative financial instruments	-	-	-	-	
Deposits from customers	48,775,395	43,276,548	4,785,770	4,481,465	4,497,572
Borrowing	-	25,000	20,000	-	
Current Tax Liabilities	-	-	28,415	-	
Provisions	-	-	-	-	
Deferred tax liabilities	-	-	-	-	
Other liabilities	938,140	378,901	118,580	56,826	219,831
Debt securities issued	746,286		-	-	
Subordinated Liabilities	-		-	-	
Equity	**4,188,805**	**5,411,535**	**614,622**	**524,372**	**840,019**
Share capital	3,010,670	3,781,009	557,456	502,830	834,338
Share premium	-	55,110	-	-	
Retained earnings	270,444	477,724	(70,330)	(165,044)	(68,795)
Reserves	907,691	1,097,692	127,495	186,586	74,475
TOTAL EQUITY AND LIABILITIES	**59,822,418**	**50,673,224**	**5,567,386**	**5,062,663**	**5,720,170**
Contingent Liabilities and Commitments	**1,535,329**	**1,689,556**	**77,515**		**146,168**

Annex 6: Consolidated Statement of Profit & Loss A/C of DBs (FY 2021/2022)

NRS in 000

Development Banks	Corporate	Excel	Garima	Green	Jyoti	Kamana
Interest Income	107,448	1,236,719	7,948,247	309,260	6,229,391	5,836,291
Interest Expenses	51,290	784,729	5,354,384	191,078	4,203,145	3,843,576
Net Interest Income	**56,158**	**451,990**	**2,593,863**	**118,182**	**2,026,245**	**1,992,715**
Fee and commission income	7,480	72,156	359,307	11,789	194,592	295,329
Fee and commission expense		8,773	15,566	661	20,998	13,517
Net Fee and commission income	**7,480**	**63,383**	**343,741**	**11,128**	**173,594**	**281,813**
Net Interest, Fee and commission income	**63,638**	**515,373**	**2,937,603**	**129,310**	**2,199,839**	**2,274,527**
Net trading income		-	314	-	23,480	95
Other operating income		1,961	112,389	2,755	109,774	39,594
Total operating income	**63,638**	**517,334**	**3,050,307**	**132,064**	**2,333,093**	**2,314,216**
Impairment charge/(reversal) for loans and other losses	21,231	15,517	172,760	16,364	164,037	284,128
Net operating income	**42,408**	**501,817**	**2,877,546**	**115,700**	**2,169,056**	**2,030,088**
Personnel expenses	16,652	204,782	830,219	45,331	750,283	698,610
Other operating expenses	9,202	78,956	409,142	25,221	316,595	276,855
Depreciation &Amortization	3,603	44,054	148,360	14,713	147,249	189,745
Operating Profit	**12,950**	**174,025**	**1,489,825**	**30,435**	**954,929**	**864,878**
Non operating income	1,943	-	23,688	-	105	-
Non operating expense		29,022		1,950	-	17,134
Profit before income tax	**14,894**	**145,003**	**1,513,513**	**28,485**	**955,034**	**847,744**
Income Tax Expense						
Current Tax	5,109	56,876	473,957	10,100	295,745	279,435
Deferred Tax	6,068	(8,329)	9,542	(290)	(10,712)	(21,777)
Profit/Loss for the period	**3,717**	**96,456**	**1,030,014**	**18,675**	**670,001**	**590,085**

Development Banks	Karnali	Lumbini	Mahalaxmi	Miteri	Muktinath	Narayani
Interest Income	429,938	4,821,046	5,002,996	759,027	11,563,216	22,715
Interest Expenses	339,591	3,288,682	3,109,814	449,656	8,233,437	13,123
Net Interest Income	**90,347**	**1,532,363**	**1,893,182**	**309,372**	**3,329,779**	**9,592**
Fee and commission income	17,762	162,435	217,398	26,496	497,493	3,730
Fee and commission expense		8,478	11,655	913	49,952	-
Net Fee and commission income	**17,762**	**153,957**	**205,743**	**25,583**	**447,542**	**3,730**
Net Interest, Fee and commission income	**108,109**	**1,686,320**	**2,098,925**	**334,955**	**3,777,321**	**13,322**
Net trading income		(52)	956		8,445	-
Other operating income		51,117	193,081	9,197	46,879	778
Total operating income	**108,109**	**1,737,385**	**2,292,962**	**344,152**	**3,832,644**	**14,100**
Impairment charge/(reversal) for loans and other losses	31,571	34,063	36,113	9,744	74,712	38,072
Net operating income	**76,538**	**1,703,322**	**2,256,849**	**334,409**	**3,757,932**	**(23,972)**
Personnel expenses	59,242	458,218	648,591	79,881	1,216,355	15,110
Other operating expenses	50,975	194,048	305,321	29,224	394,299	17,103
Depreciation &Amortization	4,251	109,151	56,571	12,513	213,905	6,343
Operating Profit	**(37,929)**	**941,906**	**1,246,366**	**212,791**	**1,933,373**	**(62,528)**
Non operating income	-	500	40,565		-	
Non operating expense		4,553	29,975		2,282	
Profit before income tax	**(37,929)**	**937,852**	**1,256,956**	**212,791**	**1,931,092**	**(62,528)**
Income Tax Expense						
Current Tax		309,536	386,198	66,175	600,303	
Deferred Tax		(8,877)	(34,038)	(1,238)	(11,017)	(3,820)
Profit/Loss for the period	**(37,929)**	**637,193**	**904,796**	**147,853**	**1,341,805**	**(58,708)**

Development Banks	Salapa	Saptakoshi	Shangrila	Shine	Sindhu
Interest Income	105,261	541,192	5,544,897	4,680,341	446,742
Interest Expenses	47,745	318,427	3,853,655	3,017,286	279,460
Net Interest Income	**57,517**	**222,765**	**1,691,242**	**1,663,055**	**167,282**
Fee and commission income	4,953	21,720	206,529	196,694	20,577
Fee and commission expense	389		14,540	24,456	1,360
Net Fee and commission income	**4,565**	**21,720**	**191,989**	**172,238**	**19,218**
Net Interest, Fee and commission income	**62,081**	**244,485**	**1,883,232**	**1,835,293**	**186,500**
Net trading income	-		-		
Other operating income	329	3,956	19,808	39,702	2,662
Total operating income	**62,411**	**248,441**	**1,903,040**	**1,874,995**	**189,161**
Impairment charge/(reversal) for loans and other losses	(16,932)	81,652	159,953	186,321	(46,606)
Net operating income	**79,342**	**166,789**	**1,743,087**	**1,688,674**	**235,767**
Personnel expenses	37,022	94,912	588,651	497,270	94,503
Other operating expenses	10,330	68,666	277,514	241,937	50,990
Depreciation &Amortization	6,936	30,530	135,676	69,471	16,025
Operating Profit	**25,054**	**(27,319)**	**741,246**	**879,996**	**74,249**
Non operating income	-		1,601	-	
Non operating expense	-		2,301	1,657	
Profit before income tax	**25,054**	**(27,319)**	**740,546**	**878,339**	**74,249**
Income Tax Expense					
Current Tax	7,651		218,871	265,213	28,143
Deferred Tax	932	(1,224)	(5,499)	(35,581)	(194)
Profit/Loss for the period	**16,471**	**(26,095)**	**527,174**	**648,707**	**46,300**

Annex 7: Loan & Advances of Development Banks (As of Mid-July 2022)

NRS in '000

DBs'	Pass (1.3%)	Pass (5%)	Watch List (5%)	Rescheduled / Restructured	Substandard (25%)	Doubtful (50%)	Bad (100%)	Additional Provision	**Total Loan**	**Total (NPL)**
Corporate	880,665	-	46,385	-	1,645	31,991	14,558	-	**975,244**	**48,194**
Excel	9,843,187	116,067	407,663	-	82,029	75,453	146,510	-	**10,670,908**	**303,992**
Garima	58,469,822	225,286	2,258,715	-	231,510	173,195	115,749	-	**61,474,276**	**520,453**
Green	2,244,489	-	80,170	-	14,063	12,889	5,146	-	**2,356,757**	**32,098**
Jyoti	48,453,059	-	2,037,975	-	367,923	169,123	214,342	-	**51,242,422**	**751,387**
Kamana	42,815,635	-	816,446	-	361,796	322,509	347,137	-	**44,663,523**	**1,031,442**
Karnali	2,580,798	-	472,182	20,000	54,593	12,559	20,365	-	**3,160,497**	**107,517**
Lumbini	37,931,431	691,821	1,812,305	1,760	223,662	136,190	336,305	-	**41,133,473**	**697,916**
Mahalaxmi	36,767,967	-	2,674,179	-	452,905	225,799	303,786	-	**40,424,635**	**982,489**
Miteri	5,002,003	-	29,121	-	21,886	14,076	17,172	-	**5,084,258**	**53,135**
Muktinath	87,389,852	1,294,579	778,170	-	127,330	13,872	50,540	-	**89,654,342**	**191,742**
Narayani	-	-	-	-	-	-	-	-	**-**	**-**
Salapa	601,208	33,907	2,363	4,872	6,342	9,688	-	-	**658,380**	**20,902**
Saptakoshi	3,463,673	-	707,014	3,396	90,561	69,738	27,146	-	**4,361,529**	**190,841**
Shangrila	40,746,848	382,669	1,507,925	-	144,245	340,568	117,906	-	**43,240,161**	**602,720**
Shine	36,910,400	59,102	632,951	-	126,419	108,272	200,042	-	**38,037,186**	**434,733**
Sindhu	3,776,790	-	178,748	-	14,043	41,150	9,045	-	**4,019,776**	**64,237**
Grand Total	**417,877,828**	**2,803,430**	**14,442,311**	**30,028**	**2,320,951**	**1,757,072**	**1,925,748**		**441,157,369**	**6,033,799**

Annex8: Sector-wise Statement of Loan of Development Banks (As of Mid–July 2022)

NRS in '000

DBs'	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
Corporate	1,870,519	95,375	4,075	364,463	961,113	5,331,084	655,898	150,513	1,181,868	7,028,537	6,248,274	791,036	574,952	4,290,381	-	10,876,547	**40,424,635**
Excel	24,017	-	-	180	-	48,168	-	2,696	20,089	58,774	2	11,780	8,000	34,184	-	144,623	**352,513**
Garima	538,282	-	-	332,253	-	89,639	-	-	117,779	1,006,317	200,000	-	801,801	74,426	-	-	**3,160,497**
Green	2,331,391	42,601	6,912	929,015	1,682,424	1,929,022	670,465	145,397	1,923,647	6,527,522	5,710,831	1,849,071	1,593,635	12,898,333	3,338	4,996,557	**43,240,161**
Jyoti	469,009	16,786	-	296,036	458,733	116,348	1,401	24,928	153,809	3,015,123	788,152	334,324	615,301	3,631,747	-	749,210	**10,670,908**
Kamana	353,037	3,578	-	183,950	135,152	302,030	-	23,767	282,366	660,197	289,346	50,943	38,941	2,010,717	1,500	748,735	**5,084,258**
Karnali	5,924,665	128,085	49,949	836,491	3,172,204	636,846	337,484	179,914	2,225,666	13,133,121	9,827,378	3,641,423	1,645,457	23,565,760	-	24,349,896	**89,654,338**
Lumbini	3,256,022	245,358	107,229	1,224,002	1,137,598	10,186,659	258,966	300,408	2,884,420	7,944,273	4,526,891	2,857,320	1,250,393	3,910,985	34	21,383,754	**61,474,310**
Mahalaxmi	3,096,274	154,759	-	916,673	1,161,241	2,560,303	32,156	182,734	1,828,880	9,237,202	3,183,408	1,405,531	1,178,533	2,951,101	-	16,774,728	**44,663,523**
Miteri	75,197	44,896	-	8,537	164,590	164,877	-	46,154	37,353	109,297	-	11,231	24,464	123,443	-	165,204	**975,244**
Muktinath	4,189,525	136,285	46,725	1,320,052	3,954,005	5,383,363	1,025,938	450,219	797,682	5,485,276	3,702,901	2,651,271	1,139,668	4,944,797	3,320	16,031,964	**51,262,993**
Narayani	2,297,646	303,415	82,244	1,916,642	2,656,567	2,770,154	-	139,169	1,201,860	8,263,018	5,134,948	4,882,096	1,909,653	4,849,230	-	1,630,545	**38,037,187**
Salapa	3,600,450	148,687	600	835,334	795,477	1,327,627	3,498,801	68,573	840,481	4,068,835	7,055,877	1,413,087	2,019,342	15,443,316	-	16,988	**41,133,473**
Saptakoshi	284,163	-	-	111,785	99,024	176,481	-	872	218,687	581,278	606,800	321,320	19,156	1,586,961	-	13,250	**4,019,776**
Shangrila	298,293	2,541	-	51,560	-	7,232	-	9,869	1,177	74,960	6,818	35,859	2,272	28,903	-	138,971	**658,456**
Shine	883,888	7,354	-	41,381	91,774	288,239	2,142	-	80,810	1,064,475	403,482	87,851	202,555	1,205,766	-	1,811	**4,361,529**
Sindhu	420,376	11,038	4,592	289,103	78,428	303,856	5,109	25,838	124,598	200,241	56,813	98,591	64,359	137,092	-	789,062	**2,609,096**
Grand Total	**29,912,754**	**1,340,758**	**302,326**	**9,657,459**	**16,548,329**	**31,621,927**	**6,488,360**	**1,751,050**	**13,921,173**	**68,458,447**	**47,741,921**	**20,442,734**	**13,088,483**	**81,687,142**	**8,191**	**98,811,845**	**441,782,898**

Annex 9: Product-wise Statement of Loan of Development Banks (As of Mid-July 2022)

NRS in '000

DBs'	Term Loan	Overdraft	Trust Receipt Loan / Import Loan	Demand & Other Working Capital Loan	Residential Personal Home Loan (Up to Rs. 15 million)	Real Estate Loan	Margin Nature Loan	Hire Purchase Loan	Deprived Sector Loan	Bills Purchased	Other Product	Grand Total
Corporate	11,561,810	8,561,242	1,187	21,964	4,751,265	848,319	1,811,132	1,846,581	5,045,369	-	5,975,767	**40,424,635**
Excel	170,515	95,161	-	-	36,738	-	7,469	33,555	569		8,506	**352,513**
Garima	413,908	1,420,975	-	-	89,639	200,000	-	117,779	158,193		760,003	**3,160,497**
Green	12,366,580	9,446,411	-	1,177,371	6,173,668	2,696,950	1,198,956	3,479,768	5,274,508	-	1,425,950	**43,240,161**
Jyoti	2,958,748	985,788	-	2,884,413	1,416,104	458,200	218,530	530,735	702,228		516,161	**10,670,908**
Kamana	846,519	501,320	-	-	913,351	65,438	-	382,239	664,421		1,710,970	**5,084,258**
Karnali	31,588,478	16,920,282	-	858,415	11,352,014	5,757,945	2,032,550	3,594,967	10,472,498	-	7,077,190	**89,654,338**
Lumbini	15,541,263	11,400,872	-	484,780	9,480,621	2,041,249	1,040,311	4,102,590	7,233,623		10,149,001	**61,474,310**
Mahalaxmi	21,087,039	11,652,711	41,728	612,551	2,140,463	83,470	1,199,289	2,208,335	4,350,146		1,287,791	**44,663,523**
Miteri	246,516	315,134	-	105,656	179,780	-	-	48,878	39,770		39,512	**975,244**
Muktinath	15,211,096	15,915,865	-	78,164	4,410,106	926,013	1,843,107	2,022,682	5,143,882	-	5,712,077	**51,262,993**
Narayani	7,527,294	1,361,624	-	9,070,281	2,248,783	1,646,754	554,111	1,489,154	5,046,421		9,092,766	**38,037,187**
Salapa	6,905,225	6,751,017	-	2,028,602	4,636,212	3,508,065	1,539,302	1,482,924	3,578,560	-	10,703,566	**41,133,473**
Saptakoshi	491,312	423,310	-	409,651	452,364	119,973	281,939	243,885	479,079		1,118,263	**4,019,776**
Shangrila	185,955	153,182	-	-		-	-	6,941	159,773		152,604	**658,456**
Shine	2,136,456	793,025	-	80,506	141,190	345,978	17,613	50,862	358,775	-	437,125	**4,361,529**
Sindhu	969,964	532,964	-	-	282,398	40,999	9,056	172,148	458,813		142,754	**2,609,096**
Grand Total	**130,208,678**	**87,230,884**	**42,914**	**17,812,354**	**48,704,693**	**18,739,353**	**11,753,365**	**21,814,021**	**49,166,628**	**-**	**56,310,007**	**441,782,898**

Annex10: Investment details of Development Bank

DBs'	Investment in Government/NRB Securities	Government Securities	NRB Bond	Deposit Auction	Investment in Shares and Debentures	Purchase/Investment in Land and Housing Development	Other Investment	Grand Total
Mahalaxmi	6,173,875	6,173,875	-	-	1,057,665	-	-	13,405,415
Narayani	4,000	4,000	-	-	8,829	-	-	16,829
Karnali	-	-	-	-	-	-	-	-
Shangrila	6,811,962	6,811,962	-	-	602,555	-	-	14,226,478
Excel	561,675	561,675	-	-	233,256	-	-	1,356,606
Miteri	1,803,905	1,803,905	-	-	29,806	-	-	3,637,616
Muktinath	17,478,369	17,478,369	-	-	818,983	-	-	35,775,720
Garima	9,295,623	9,295,623	-	-	1,337,772	-	-	19,929,018
Kamana	6,008,573	6,008,573	-	-	688,572	-	-	12,705,718
Corporate	-	-	-	-	-	-	-	-
Jyoti	6,148,900	6,148,900	-	-	1,116,012	-	-	13,413,812
Shine	6,193,550	6,193,550	-	-	1,683,496	-	-	14,070,596
Lumbini	7,851,061	7,851,061	-	-	630,433	-	-	16,332,555
Sindhu	-	-	-	-	61,728	-	-	61,728
Salapa	-	-	-	-	-	-	-	-
Saptakoshi	250,000	250,000	-	-	14,153	-	-	514,153
Green	120,000	120,000	-	-	22,500	-	-	262,500
Grand Total	68,701,492	68,701,492	-	-	8,305,760	-	-	145,708,744

Annex 11: Consolidated Statement of Financial Position of FCs (2021/2022)

Assets	Best	Central	GMBFL	Goodwill	Gurkhas	ICFC
Cash and cash equivalent	468,836	548,457	542,194	804,344	2,054,194	1,727,439
Due from Nepal Rastra	138,556	312,400	181,088	420,692	236,089	611,508
Placement with Bank and			-		50,000	
Derivative financial			-		-	
Other trading assets			-		-	
Loan and advances to B/FIs	4,950	164,624	376,237	626,745	694,601	571,131
Loans and advances to	3,196,003	5,011,541	5,604,863	8,698,516	5,709,796	14,056,619
Investment securities	949,341	1,629,346	1,772,293	3,840,937	848,110	6,959,521
Current tax assets	46,547	26,538	-	37,442	76,706	26,993
Investment in subsidiaries		-	-		-	
Investment in associates		-	43,384		-	
Investment property	183,370	681	-	106,215	81,030	23,038
Property and equipment	252,421	202,963	244,492	527,161	98,035	474,404
Goodwill and Intangible	3,811	1,754	-	6,927	1,223	4,798
Deferred tax assets		-	-		46,253	
Other assets	26,720	35,159	135,777	98,251	126,448	136,321
TOTAL ASSETS	**5,270,555**	**7,933,465**	**8,900,327**	**15,167,229**	**10,022,486**	**24,591,772**
EQUITY AND LIABILITIES						
Liabilities	**4,080,427**	**6,722,227**	**7,602,707**	**13,232,361**	**8,440,739**	**22,827,128**
Due to Bank and Financial Institutions'	217,355	237,174	271,516	36,925	615,805	346,256
Due to Nepal Rastra Bank	65,912	300,230	350,000	1,458,500	200,000	4,179,135
Derivative financial		-	-		-	
Deposits from customers	3,605,279	6,089,461	6,829,104	10,947,98	7,540,749	17,719,984
Borrowing			-		-	
Current Tax Liabilities			1,788		-	
Provisions			-		-	
Deferred tax liabilities	35,144	3,906	25,813	213,022	-	26,565
Other liabilities	156,737	91,456	124,486	327,920	84,185	355,737
Debt securities issued			-	248,014	-	199,450
Subordinated Liabilities			-		-	
Equity	**1,190,128**	**1,211,238**	**1,297,620**	**1,934,868**	**1,581,747**	**1,764,645**
Share capital	828,914	948,875	950,400	946,115	867,994	1,127,115
Share premium	3,025	443	-	2,476	22,399	
Retained earnings	(204,414)	50,650	78,341	80,058	18,760	129,243
Reserves	562,603	211,269	268,879	906,219	672,593	508,286
TOTAL EQUITY AND LIABILITIES	**5,270,555**	**7,933,465**	**8,900,327**	**15,167,229**	**10,022,486**	**24,591,772**

Assets	Janaki	Manju	Multi	NFL	Pokhara	Progressive
Cash and cash equivalent	1,183,094	2,743,683	337,113	630,693	1,507,842	1,120,406
Due from Nepal Rastra Bank	88,668	317,679	23,801	126,024	316,134	120,010
Placement with Bank and Financial Institutions	-	-	-	-	-	
Derivative financial instruments	-	-	-	-	-	
Other trading assets	-	-	-	-	-	
Loan and advances to B/FIs	16,519	981,079	5,826	226,253	1,147,574	234,813
Loans and advances to customers	2,710,786	9,712,405	712,314	980,657	9,028,288	3,648,538
Investment securities	44,032	1,863,899	74,374	441,991	1,009,803	858,659
Current tax assets	10,346	-	3,695	22,183	46,545	7,120
Investment in subsidiaries	-	-	-	-	-	
Investment in associates	-	-	-	-	-	
Investment property	968	25,906	3,372	100,607	-	8,640
Property and equipment	26,109	192,362	166,781	177,903	190,989	126,652
Goodwill and Intangible assets	1,984	1,426	2,358	22,160	2,776	121,325
Deferred tax assets	82,220	16,771	3,806	38,163	22,993	4,847
Other assets	4,726	72,559	11,633	18,451	136,079	40,309
TOTAL ASSETS	**4,169,451**	**15,927,769**	**1,345,074**	**2,785,085**	**13,409,025**	**6,291,319**
EQUITY AND LIABILITIES						
Liabilities	**3,391,574**	**14,119,616**	**846,072**	**1,821,534**	**11,989,446**	**5,372,299**
Due to Bank and Financial Institutions'	54,061	1,872,544	-		888,288	325,739
Due to Nepal Rastra Bank	-	1,100,988	-	140,066	216,023	454,206
Derivative financial instruments	-	-	-	-	-	
Deposits from customers	3,279,972	10,411,002	840,761	1,474,202	10,621,511	4,432,454
Borrowing	-	-	-	-	-	
Current Tax Liabilities	-	11,751	-	-	-	
Provisions	-	-	-	-	-	
Deferred tax liabilities	-	-	-	-	-	-
Other liabilities	57,541	223,330	5,312	207,266	263,624	159,900
Debt securities issued	-	500,000	-		-	
Subordinated Liabilities	-		-		-	
Equity	**777,877**	**1,808,153**	**499,002**	**963,551**	**1,419,579**	**919,020**
Share capital	690,473	1,351,553	452,000	725,472		848,106
Share premium	-	-	-	51,039	1,040,920	-
Retained earnings	(210,896)	1,519	(7,914)	(255,113)	44,538	8,789
Reserves	298,301	455,081	54,916	442,153	334,121	62,125
TOTAL EQUITY AND LIABILITIES	**4,169,451**	**15,927,769**	**1,345,074**	**2,785,085**	**13,409,025**	**6,291,319**

Assets	Reliance	Samriddhi	Shree
Cash and cash equivalent	605,836	518,124	653,447
Due from Nepal Rastra Bank	221,570	93,501	208,196
Placement with Bank and Financial Institutions	-		-
Derivative financial instruments	-		-
Other trading assets	-		-
Loan and advances to B/FIs	356,003	19,896	390,359
Loans and advances to customers	5,200,699	1,564,756	5,088,216
Investment securities	2,479,377	316,106	2,536,429
Current tax assets	4,032	5,429	30,944
Investment in subsidiaries	-		-
Investment in associates	-		-
Investment property	6,456	49,633	-
Property and equipment	337,940	63,123	135,788
Goodwill and Intangible assets	2,699	2,551	935
Deferred tax assets	641	20,004	-
Other assets	24,207	18,314	9,137
TOTAL ASSETS	**9,239,461**	**2,671,435**	**9,053,451**
EQUITY AND LIABILITIES			
Liabilities	**7,910,700**	**2,045,692**	**7,718,810**
Due to Bank and Financial Institutions	206,958	481,481	334,861
Due to Nepal Rastra Bank	863,500	90,000	867,442
Derivative financial instruments	-	-	-
Deposits from customers	6,669,672	1,434,113	6,417,562
Borrowing	-	-	-
Current Tax Liabilities	-	-	-
Provisions	-	-	-
Deferred tax liabilities	-	-	20,240
Other liabilities	170,570	40,098	78,705
Debt securities issued	-	-	-
Subordinated Liabilities	-	-	-
Equity	**1,328,761**	**625,743**	**1,334,641**
Share capital	1,053,006	742,175	958,675
Share premium	1,141	20,037	-
Retained earnings	51,092	(315,892)	74,592
Reserves	223,522	179,423	301,374
TOTAL EQUITY AND LIABILITIES	**9,239,461**	**2,671,435**	**9,053,451**

Annex 12: Consolidated Statement of Profit & Loss A/C of FCs (FY 2021/2022)

NRS in 000

Finance Companies	Best	Central	GMBFL	Goodwill	Gurkhas	ICFC
Interest Income	400,912	725,855	811,414	1,297,290	819,189	1,892,674
Interest Expenses	279,202	491,561	562,358	979,446	582,661	1,434,912
Net Interest Income	**121,710**	**234,293**	**249,056**	**317,843**	**236,528**	**457,761**
Fee and commission income	21,731	38,111	33,890	92,842	35,598	112,798
Fee and commission expense	419		1,808		165	3,359
Net Fee and commission income	**21,312**	**38,111**	**32,082**	**92,842**	**35,433**	**109,440**
Net Interest, Fee and commission income	**143,022**	**272,404**	**281,138**	**410,685**	**271,961**	**567,201**
Net trading income		-	0		-	
Other operating income	39,547	5,475	16,282	29,805	129,125	28,304
Total operating income	**182,569**	**277,879**	**297,420**	**440,490**	**401,086**	**595,505**
Impairment charge/(reversal) for loans and other losses	(148,159)	44,677	29,483	(38,945)	(15,815)	12,942
Net operating income	**330,728**	**233,202**	**267,937**	**479,435**	**416,901**	**582,563**
Personnel expenses	92,567	85,781	95,442	145,410	141,532	179,683
Other operating expenses	41,820	41,179	36,593	77,571	95,368	83,445
Depreciation & Amortization	19,451	27,573	29,217	29,978	20,950	50,628
Operating Profit	**176,890**	**78,670**	**106,686**	**226,476**	**159,052**	**268,807**
Non operating income	3,842	1,169	-		-	4,698
Non operating expense	45,227	24	-		27,461	
Profit before income tax	**135,505**	**79,815**	**106,686**	**226,476**	**131,591**	**273,505**
Income Tax Expense						
Current Tax		26,355	46,631	74,162	34,733	76,468
Deferred Tax	(621)	(2,529)	(931)	(5,655)	4,745	(2,533)
Profit/Loss for the period	**136,126**	**55,990**	**60,986**	**157,969**	**92,113**	**199,570**

Finance Companies	Janaki	Manju	Multi	NFL	Pokhara	Progressive
Interest Income	442,511	1,466,212	91,544	165,116	1,168,163	454,322
Interest Expenses	275,114	1,013,484	57,902	96,704	816,451	293,011
Net Interest Income	**167,398**	**452,729**	**33,642**	**68,412**	**351,712**	**161,311**
Fee and commission income	13,399	75,152	8,689	8,932	53,137	28,782
Fee and commission expense	-		-	254	1,588	201
Net Fee and commission income	**13,399**	**75,152**	**8,689**	**8,678**	**51,549**	**28,581**
Net Interest, Fee and commission income	**180,797**	**527,880**	**42,331**	**77,090**	**403,261**	**189,892**
Net trading income	-		824			
Other operating income	12,873	8,277	-	10,662	8,022	20,549
Total operating income	**193,670**	**536,157**	**43,156**	**87,752**	**411,283**	**210,440**
Impairment charge/(reversal) for loans and other losses	313,277	75,668	7,996	(40,142)	52,810	(564)

Net operating income	**(119,607)**	**460,489**	**35,160**	**127,894**	**358,473**	**211,004**
Personnel expenses	18,178	184,203	20,354	51,694	144,068	72,087
Other operating expenses	13,864	82,887	8,209	28,579	67,472	51,990
Depreciation & Amortization	5,909	35,982	1,880	20,594	16,560	30,736
Operating Profit	**(157,559)**	**157,416**	**4,716**	**27,027**	**130,373**	**56,191**
Non operating income	160		-			60
Non operating expense	-		-			523
Profit before income tax	**(157,399)**	**157,416**	**4,716**	**27,027**	**130,373**	**55,728**
Income Tax Expense						
Current Tax	36,109	53,473	1,188	8,374	42,541	15,415
Deferred Tax	(82,714)	(5,403)	1,173	(8,672)	(3,014)	(1,646)
Profit/Loss for the period	**(110,793)**	**109,346**	**2,354**	**27,325**	**90,846**	**41,958**

Finance Companies	**Reliance**	**Samriddhi**	**Shree**
Interest Income	770,764	199,701	788,378
Interest Expenses	521,018	132,001	571,759
Net Interest Income	**249,746**	**67,700**	**216,620**
Fee and commission income	38,742	12,312	35,966
Fee and commission expense		-	154
Net Fee and commission income	**38,742**	**12,312**	**35,813**
Net Interest, Fee and commission income	**288,488**	**80,012**	**252,433**
Net trading income		-	-
Other operating income	4,719	10,185	3,717
Total operating income	**293,207**	**90,197**	**256,150**
Impairment charge/(reversal) for loans and other losses	(32,389)	(22,948)	7,440
Net operating income	**325,596**	**113,145**	**248,710**
Personnel expenses	105,613	48,912	70,931
Other operating expenses	61,383	28,268	37,572
Depreciation & Amortization	29,025	9,536	13,786
Operating Profit	**129,575**	**26,428**	**126,421**
Non operating income		10,961	-
Non operating expense		34,234	-
Profit before income tax	**129,575**	**3,155**	**126,421**
Income Tax Expense			
Current Tax	39,992	-	33,641
Deferred Tax	506	2,927	1,880
Profit/Loss for the period	**89,077**	**228**	**90,900**

Annex13: Loan & Advances of Finance Companies (As of Mid-July 2022)

NRS in '000

FCs'	Pass (1.3%)	Pass (5%)	Watch List (5%)	Rescheduled / Restructured (12.5%)	Substandard (25%)	Doubtful (50%)	Bad (100%)	Additional Provision	Total Loan	Total (NPL)
Best	2,956,768	-	207,901	-	44,537	7,282	34,837	-	**3,251,325**	**86,656**
Central	4,920,279	-	208,955	2,074	58,380	48,547	27,408	-	**5,265,643**	**136,409**
GMBFL	5,706,777	-	296,816	-	43,073	2,891	306	-	**6,049,863**	**46,270**
Goodwill	8,806,607	-	372,078	-	100,281	29,379	97,505	18,600	**9,424,450**	**227,165**
Gurkhas	6,189,126	-	73,115	-	12,439	13,148	483,649	-	**6,771,477**	**509,236**
ICFC	14,246,720	-	401,184	-	42,565	34,509	2,532	-	**14,727,510**	**79,607**
Janaki	2,011,238	580,117	-	101,118	128,646	285,207	-	-	**3,106,325**	**514,971**
Manju	9,458,047	-	1,089,358	-	70,818	9,517	146,555	-	**10,774,295**	**226,890**
Multi	640,271	-	73,417	-	7,986	1,128	273	-	**723,074**	**9,387**
NFL	1,192,342	-	19,661	-	2,949	6,968	188,508	-	**1,410,427**	**198,424**
Pokhara	9,615,216	30,342	431,043	-	74,383	20,011	43,899	-	**10,214,894**	**138,293**
Progressive	3,492,445	-	289,403	19,988	61,414	15,847	10,991	-	**3,890,088**	**108,240**
Reliance	5,329,537	-	165,053	-	53,328	11,919	14,277	-	**5,574,114**	**79,524**
Samriddhi	1,419,190	-	95,470	-	71,278	-	1,369	-	**1,587,307**	**72,647**
Shree	5,460,176	-	36,250	-	5,833	14,876	12,654	-	**5,529,789**	**33,363**

Annex 14: Sector-wise Statement of Loan of Finance Companies (As of Mid–July 2022)

NRS in '000

FCs'	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
NFL	95,312	13,116	-	-	-	161,095	-	-	46,463	269,237	238,395	14,508	-	270,051	-	302,251	**1,410,427**
Gurkhas	459,091	4,091	-	249,520	129,477	50,000	-	-	182,013	816,747	1,356,164	134,473	93,835	2,702,482	-	593,583	**6,771,477**
Goodwill	375,845	11,041	27,161	193,470	272,825	596,334	212,445	307,777	1,079,355	297,637	1,171,728	744,585	650,218	2,460,115	-	1,005,312	**9,405,850**
Shree	592,625	38,260	-	87,914	132,175	1,103,672	-	39,594	89,190	517,357	563,753	155,730	734,166	579,980	-	895,373	**5,529,789**
Best	461,878	5,147	20,484	32,250	109,197	5,460	-	43,998	105,256	208,502	205,208	112,092	25,827	1,869,340	-	46,686	**3,251,325**
Progressive	338,762	27,776	-	102,789	180,994	443,837	7,253	24,758	63,782	468,206	476,285	96,085	103,883	1,468,566	-	87,112	**3,890,088**
Janaki	626,853	-	-	35,955	158,092	-	-	-	-	1,107,289	194,042	92,501	-	133,709	-	757,886	**3,106,325**
Pokhara	607,430	2,236	-	-	451,587	11,607	-	-	862,775	2,521,798	1,931,772	629,391	60,741	3,130,430	-	5,144	**10,214,911**
Central	399,517	6,981	27,478	50,905	133,559	330,418	-	85,312	269,118	672,999	454,367	68,701	64,105	724,112	-	1,978,070	**5,265,643**
Multipurpose	157,753	-	-	17,748	-	41,072	-	-	-	154,530	1,200	-	1,000	284,229	-	65,543	**723,074**
Samriddhi	311,478	-	-	1,350	41,843	51,728	-	2,470	96,133	200,669	100,036	54,747	19,290	463,567	2,604	241,392	**1,587,307**
GMBFL	269,251	7,872	976	79,827	95,766	110,726	127,110	5,165	64,804	709,531	607,351	266,390	40,796	1,875,082	-	1,789,216	**6,049,863**
ICFC	493,966	69,076	25,009	131,320	535,993	338,507	146,840	10,989	544,206	2,587,508	1,937,800	1,347,783	442,320	5,828,449	-	287,744	**14,727,510**
Manju	644,702	24,619	-	84,503	176,056	231,932	73,483	166,662	340,163	1,377,988	2,240,783	248,408	189,758	4,177,829	-	797,411	**10,774,295**
Reliance	276,265	17,000	-	121,887	177,423	357,122	27,508	72,324	271,395	684,966	629,562	345,246	48,694	2,217,287	-	327,437	**5,574,114**

Annex 15: Product-wise Statement of Loan of Finance Companies (As of Mid–July 2022)

NRS in '000

FCs'	Term Loan	Overdraft	Trust Receipt Loan / Import Loan	Demand & Other Working Capital Loan	Residential Personal Home Loan (Up to Rs. 15 million)	Real Estate Loan	Margin Nature Loan	Hire Purchase Loan	Deprived Sector Loan	Bills Purchased	Other Product	Grand Total
NFL	459,490	189,492	-	-	99,423	100,347	185,198	56,145	229,822		90,512	**1,410,427**
Gurkhas	542,956	638,845	-	1,139,659	544,634	651,109	251,536	228,770	709,564		2,064,403	**6,771,477**
Goodwill	2,558,725	-	-	1,257,442	892,255	971,392	425,520	903,374	676,356		1,720,784	**9,405,850**
Shree	843,271	222,749	-	382,339	905,311	694,218	364,647	60,363	496,972	-	1,559,918	**5,529,789**
Best	89,181	312,207	-	81,688	504,992	202,882	228,091	173,693	212,456		1,446,135	**3,251,325**
Progressive	333,961	-	-	194,496	200,517	447,032	219,841	117,308	338,516		2,038,417	**3,890,088**
Janaki	5,209	1,253,840	-	-	34,529	177,305	-	470	157,366		1,477,607	**3,106,325**
Pokhara	3,612,380	1,883,985	-	539,971	792,786	785,909	219,512	919,138	1,162,598	-	298,632	**10,214,911**
Central	1,018,785	294,587	-	946,030	691,368	216,824	5,034	343,432	242,447		1,507,136	**5,265,643**
Multipurpose	129,197	422,304	-	33,265	41,072	1,200	-	1,737	65,543		28,757	**723,074**
Samriddhi	545,736	279,571	-	3,267	163,193	104,898	128,612	121,344	209,583		31,102	**1,587,307**
GMBFL	662,655	504,215	-	185,989	1,170,628	322,609	390,553	68,799	443,361		2,301,054	**6,049,863**
ICFC	4,156,162	5,130,371	-	197,120	1,397,510	1,291,765	444,701	452,785	821,994		835,103	**14,727,510**
Manju	2,454,379	500,402	-	1,296,377	1,862,579	1,408,081	583,744	175,006	574,132		1,919,596	**10,774,295**
Reliance	260	51,401	-	-	669,631	343,864	442,266	260,563	437,138		3,368,990	**5,574,114**

Annex16: Investment details of Finance Companies (As of Mid-July 2022)

FCs'	Investment in Government/NRB Securities	Government Securities	NRB Bond	Deposit Auction	Investment in Shares and Debentures	Purchase/Investment in Land and Housing Development	Other Investment	Total Investment
NFL	380,000	380,000	-	-	77,492	-	-	**457,492**
Gurkhas	606,848	606,848	-	-	283,523	-	-	**890,371**
Goodwill	2,944,975	2,944,975	-	-	313,477	-	-	**3,258,452**
Shree	2,334,350	2,334,350	-	-	98,461	-	-	**2,432,811**
Best	630,000	630,000	-	-	237,436	-	-	**867,436**
Progressive	759,170	759,170	-	-	130,578	-	-	**889,748**
Janaki	-	-	-	-	55,597	-	-	**55,597**
Pokhara	920,652	920,652	-	-	112,495	-	-	**1,033,146**
Central	1,326,600	1,326,600	-	-	255,727	-	-	**1,582,327**
Multipurpose	19,545	19,545	-	-	55,907	-	-	**75,452**
Samriddhi	259,976	259,976	-	-	79,951	-	-	**339,927**
GMBFL	1,361,975	1,361,975	-	-	338,104	-	-	**1,700,079**
ICFC	6,503,267	6,503,267	-	-	383,290	-	-	**6,886,557**
Manju	1,847,919	1,847,919	-	-	-	-	-	**1,847,919**
Reliance	2,274,887	2,274,887	-	-	169,141	-	-	**2,444,028**

Annex 17: Industry Statistics (Development Bank)

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

Annex 17.1: Development Banks Operation

NRS in Billion

Particulars	Years							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Total Assets	291.56	334.84	295.55	364.75	468.32	403.81	508.84	599.8
Percentage Change	20.35	14.84	-14.84	23.41	28.39	-13.77	26.01	17.87
Total Deposits	237.06	278.2	239.04	301.99	398.34	354.78	445.84	509.31
Percentage Change	20.41	17.35	-14.09	26.33	31.9	-10.94	25.67	14.23
Total Loans and Advances	193.47	232.59	209.3	253.24	345.17	287.12	383.43	414.04
Percentage Change	21.26	20.22	-10.01	20.99	36.3	-16.81	33.53	7.98

Annex 17.2: Capital Fund of Development Banks

NRS in Billion

Particulars	Years							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Industry	37.17	43.16	46.42	49.84	58.07	44.63	48.77	60.03
Percentage Change	19.83	16.12	7.55	(23.35)	16.51	(23.14)	9.28	23.08

Annex17.3: Deposit Mix of Development Banks

NRS in Billion

Particulars	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Current Deposit	5.12	6.65	4.73	7.29	9.42	9.04	14.12	9.93
Saving Deposit	121.31	137.11	96.15	115.38	135.37	113.13	140.72	120.62
Fixed Deposit	62.21	65.86	93.57	124.98	178.88	188	243.41	327.12
Call Deposit	47	67.56	44.09	54.12	74.36	44.14	47.57	51.61
Other Deposit	1.42	1.01	0.5	0.22	0.31	0.47	0.02	0.04
Total Deposit	**237.06**	**278.19**	**239.04**	**301.99**	**398.34**	**354.79**	**445.84**	**509.49**

Annex 17.4: Non-Performing Loan of Development Banks

Particulars	Non Performing Loan to Total Loans and Advances in percentage							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Industry	2.82	5.17	1.28	1.09	0.90	1.48	1.30	1.36
Percentage Change	-18.8	83.33	-75.24	-14.84	-17.43	64.44	-0.18	4.61

Annex 17.5: Non Banking Assets of Development Banks

NRS In Million

Particulars	Years								
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Industry	848.3	2390.0	783.1	390.2	644.2	604.5	613.6	521.95	1469.06
Percentage Change		181.74	(67.23)	(50.17)	65.09	(6.19)	1.51	(14.94)	181.45

Annex 17.6: Investment of Development Banks

NRS In Million

Particulars	Years								
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
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	77,007.25
Percentage Change		10.58	27.30	(12.46)	41.11	78.10	61.37	96.52	21.10

Annex 17.7: Liquid assets to Deposits & to Total assets of Development Banks

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Liquid Assets	68.25	79.93	74.03	70.94	90.45	103.58	102.12	111.92	129
Percentage Change		17.11	-7.38	-4.17	27.5	14.51	-1.21	9.6	15.26
Deposit	200	237.06	278.2	239.04	301.99	398.34	354.78	445.84	509.49
Percentage Change		18.57	17.35	-14.08	26.33	31.9	-10.79	25.67	14.28
Liquid Assets/Deposit	34.14%	33.72%	26.61%	29.68%	29.95%	26%	28.78%	25.10%	25.32
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Total Assets	242.26	291.04	334.84	295.55	364.75	468.32	403.81	508.84	599.79
Percentage Change		20.14	15.05	-11.73	23.41	28.39	-13.77	26.01	17.87
Liquid assets/ Total Assets	28.17%	28.17%	22.11%	24.00%	24.80%	22.12%	25.29%	22.00%	21.51

Annex 17.8: Operation Efficiency of Development Bank

NRS in Billion

Particulars	Years							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Net Interest Income	10.53	12.68	12.43	13.27	17.45	13.6	14.74	18.2
Operating Profit	5.35	7.78	8.26	7.76	10.56	5.63	8.1	9.45

Annex 17.9: Consolidated Statement of Financial Position of Development Banks

NRS in '000

ASSETS	Year			
	2018/19	2019/20	2020/21	2021/22
Cash and cash equivalent	80,073,536.02	61,067,977.15	44983174.61	58033371.79
Due from Nepal Rastra Bank	15,351,839.32	15,513,238.74	13470577.88	13466215.53
Placement with Bank and Financial Institutions	2,515.28	325,452.59	5547.19	500000
Derivative financial instruments	1,711,668.29	-		0
Other trading assets	340,835.21	444,892.95	540000	0
Loan and advances to B/FIs	9,087,607.53	7,399,885.97	23361547.38	24242341.71
Loans and advances to customers	333,445,520.06	278,326,222.81	355750380.3	414041971
Investment securities	18,437,675.45	31,632,662.60	59905029.61	73487474.8
Current tax assets	380,679.88	606,174.10	707466.06	1114204.79
Investment in subsidiaries	117,500.00	117,500.00	117500	394400
Investment in associates	647,089.15	546,283.30	695690.35	780975.17
Investment in property	690,595.68	672,843.84	554060.56	1469061.26
Property and equipment	5,645,199.67	4,947,786.90	4620116.86	8050746.09
Goodwill and Intangible assets	126,186.81	213,257.62	282051.77	314622.45
Deferred tax assets	410,478.09	307,338.38	188099.45	437971.66
Other assets	1,848,778.20	1,690,746.21	3661948.18	3458257.54
TOTAL ASSETS	**468,317,704.63**	**403,812,263.17**	**508843190.2**	**599791613.77**
EQUITY AND LIABILITIES	-	-		
Liabilities	**411,945,549.02**	**360,444,114.02**	**461,822,693.72**	**231406612.25**
Due to Bank and Financial Institutions	33,401,764.99	11,568,624.21	15,697,230.47	7755396.71
Due to Nepal Rastra Bank	1,406,378.15	605,830.77	7,975,330.51	4249632.90
Derivative financial instruments	1,783,300.00	-	-	0.00
Deposits from customers	368,366,498.70	343,218,899.61	431,181,188.07	213002628.12
Borrowing	684,825.00	-	-	70016.44
Current Tax Liabilities	133,910.20	5,338.75	29,592.93	29691.27
Provisions	86,683.39	179,696.52	119,106.76	4155.49

Deferred tax liabilities	56,691.12	74,330.85	367,482.28	0.00
Other liabilities	6,025,497.47	4,791,393.32	5,459,780.70	4302316.45
Debt securities issued	-	-	992,982.01	1992774.87
Subordinated Liabilities	-	-	-	0.00
Equity	**56,372,155.61**	**43,368,149.15**	**47,020,496.49**	**20883679.35**
Share capital	40,070,421.92	32,038,896.01	32,242,169.49	15034549.70
Share premium	107,649.74	87,581.92	71,238.08	65210.98
Retained earnings	5,870,788.41	2,857,102.94	4,801,202.24	1233057.99
Reserves	10,323,295.54	8,384,568.28	9,905,886.68	4550860.68
TOTAL EQUITY AND LIABILITIES	**468,317,704.63**	**403,812,263.17**	**508,843,190.21**	**599791613.77**

Annex 18: Industry Statistics (Finance Companies)

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

Annex 18.1: List of Finance Companies

S.N.	Name	Operation Date (A.D.)	No. of Branches
1	Nepal Finance Ltd.	1993/01/06	3
2	Nepal Share Markets and Finance Ltd.	1993/10/19	19
3	Goodwill Finance Ltd.	1995/05/15	45
4	Progressive Finance Ltd.	1996/02/26	18
5	Janaki Finance Co. Ltd.	1997/03/07	188
6	Pokhara Finance Ltd.	1997/03/16	4
7	Multipurpose Finance Ltd.	1998-04-15	27
8	Samriddhi Finance Company Limited	2001/08/10	6
9	Capital Merchant Banking & Finance Ltd.	2002/02/01	16
10	Guheshwori Merchant Banking & Finance Ltd.	2002/06/13	112
11	ICFC Finance Ltd.	2004-07-15	86
12	Manjushree Finance Ltd.	2007-10-17	120
13	Reliance Finance Ltd.	2014-05-08*	122
14	Gurkhas Finance Ltd.	2016-04-10*	104
15	Shree Investment & Finance Co. Ltd.	2017-02-01*	87
16	Central Finance Ltd.	2017-03-23*	136
17	Best Finance Ltd.	2018-08-02*	35

**Joint Operation date after merger*

Annex 18.2: Operations of Finance Companies

NRS in Billion

Particulars	Years		
	2019/20	2020/21	2021/22
Total Assets	89.47	111.79	136.78
Percentage Change		24.94	22.35
Total Deposits	88.86	88.1	103.36
Percentage Change		-0.86	17.31
Total Loans and Advances	71.12	68.54	88.28
Percentage Change		16.76	28.80

Annex 18.3: Capital Fund of Finance Companies

NRS in Billion

Particulars	Years		
	2019/20	2020/21	2021/22
Industry	16.31	17.15	18.63
Percentage Change		5.15	8.63

Annex 18.4: Deposit Mix of Finance Companies

NRS in Billion

Particulars	Years		
	2019/20	2020/21	2021/22
Current Deposit	2.17	1.3	1.87
Saving Deposit	23.86	25.88	19.79
Fixed Deposit	50.47	50.53	71.75
Call Deposit	10.69	9.74	9.34
Other Deposit	1.67	0.65	0.56
Total Deposit	88.86	88.10	103.36

Annex 18.5: Non Performing Loan of Finance Companies

Particulars	Non Performing Loan to Total Loans and Advances in percentage		
	2019/20	2020/21	2021/22
Industry	2.97	3.16	2.79
Percentage Point Change		0.19	-11.70

Annex 18.6: Non Banking Assets of Finance Companies

NRS in Million

Particulars	Years		
	2019/20	2020/21	2021/22
Industry	510.00	448.49	600.17
Percentage Change		(12.06)	33.82

Annex 18.7: Investment

NRS in Billion

Particulars	Years		
	2019/20	2020/21	2021/22
Industry	10.67	23.09	24.76
Percentage Change		116.40	7.23

Annex 18.8: Liquid assets to Deposits & Liquid assets to Total assets

NRS in Billion

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Liquid Assets	28.67	17.34	22.94	26.95	31.95	36.82	40.96
Percentage Change		-39.51	32.27	17.46	18.59	15.21	11.25
Deposit	60.88	50.07	61.98	74.53	88.86	88.1	103.36
Percentage Change		-17.76	23.8	20.25	19.22	-0.86	17.32
Liquid Assets/Deposit	47.1	34.64	37.01	36.16	35.96	41.79	39.63
Total Assets	86.25	67.72	83.25	99.55	89.47	111.79	140.88
Percentage Change		-21.49	22.94	19.58	-10.13	24.94	26.02
Liquid assets/ Total Assets	33.25	25.61	27.56	27.07	35.71	32.94	29.07

Annex 18.9: Operation Efficiency of Finance companies

Particulars	Year		
	2019/20	2020/21	2021/22
Net Interest Income	2.78	2.58	3.38
Percentage Change		-6.47	31.00
Operating Profit	1.48	2.84	1.51
Percentage Change		91.89	-46.83

Annex 19: Circulars and Policies issued to Bank and Financial Institutions

(For FY 2021/22)

S. N.	Name with Link of the Circulars issued to A, B and C Class Financial Institution
1	Circular 01: Unified Directives 2077 Amendment
2	Circular 02: Unified Directives 2077-Amendment
3	Circular 03: Unified Directives 2077-Amendment
4	Circular 04: Unified Directives 2077-Amendment
5	Circular 05: Unified Directive 2077-Amendment
6	Circular 06: Unified Directive 2077 Amendment
7	Circular 07: Unified Directive 2078
8	Circular 08: Unified Directive 2078-Amendment
9	Circular 09: Notice Regarding Unclaimed Deposit
10	Circular 10: Unified Directive 2078-Amendment
11	Circular 11: Unified Directive-Amendment related with Review of half yearly Monetary Policy
12	Circular 12: Unified Directive 2078-Amendment
13	Circular 13: Unified Directive 2078-Amendment regarding Interim Financial Report Publication

Annex 20: 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

Annex 21: Organization Structure of FISD

Nepal Rastra Bank
Financial Institutions Supervision Department
Organization-Chart