



Development Bank Supervision Report

2015



Nepal Rastra Bank

Baluwatar, Kathmandu, Nepal

July 2015



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Acronyms Used

ADB/N	:	Agricultural Development Bank Limited, Nepal
BAFIA	:	Bank and Financial Institutions Act
BFI	:	Bank and Financial Institution
BSD	:	Bank Supervision Department
CRR	:	Cash Reserve Ratio
DB	:	Development Bank
DBSD	:	Development Bank Supervision Department
KYC	:	Know Your Customer
NBA	:	Non-Banking Asset
NBL	:	Nepal Bank Limited
NFRS	:	Nepal Financial Reporting System
NIDC	:	Nepal Industrial Development Corporation
NPL	:	Non-performing Loan
NRB	:	Nepal Rastra Bank
RWA	:	Risk Weighted Asset
SLR	:	Statutory Liquidity Ratio
SSA	:	Simplified Standardized Approach

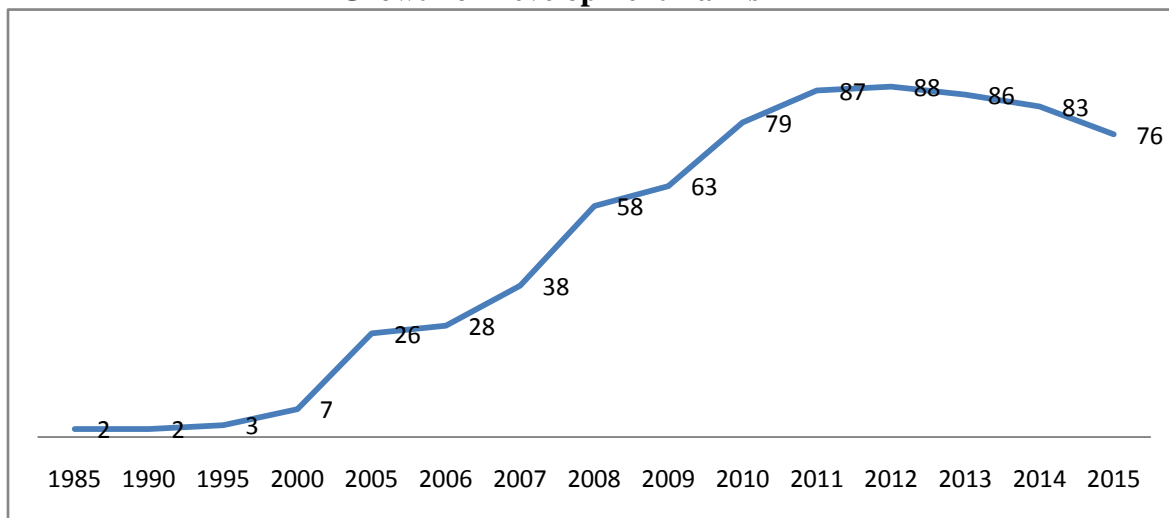
I. AN OVERVIEW OF DEVELOPMENT BANKS IN NEPAL

- 1.1 The history of Nepalese banking industry begins with an inception of Nepal Bank Limited (NBL) in 1937 AD, established as a maiden formal banking institute that marks the foundation of new era in the history of the modern banking of Nepal. However, today, we stand amidst much integrated yet diversified financial sector where banks and financial institutions have prominent presence and the banking sector is more liberalized, modernized and systematic managed.
- 1.2 The history of DBs in Nepal can be traced with an establishment of Industrial Development Bank in 1959 AD with total government ownership to promote the industrialization in Nepal, latterly; it was converted into Nepal Industrial Development Corporation (NIDC). Rastriya Banijya Bank was established in 1965 A.D. as the second commercial bank of Nepal. As the agriculture is the basic occupation of major Nepalese, the development of this sector plays in the prime role in the economy. So Agricultural Development Bank Nepal (ADB/N) was established in 1968 AD with a motive to support and advocate agricultural financing for agricultural development and growth of the country.
- 1.3 For the development of banking system in Nepal, NRB stimulated and changed in financial sector policies, its regulations and institutional developments in 1980 A.D. Government emphasized the role of the private sector for the investment in the financial sector. These policies opened the doors for foreigners to enter into banking sector in Nepal under joint venture.
- 1.4 Bank and Financial Institution Act (BAFIA), in 2004, abolished all Acts related to financial institutions including the ADB/N Act, 1967 and Nepal Rastra Bank categorised and licensed banks and financial institutions (BFIs) in four categories on the basis of minimum paid up capital namely, Commercial Banks as 'A' class, Development Banks (DBs) as 'B' class, Finance Companies as 'C' class and Micro credit institutions as 'D' Class respectively. Thus ADB/N was brought under the BAFIA purview as A- class financial institution.
- 1.5 Significant numbers of commercial banks with some foreign joint venture banks were added in a decade after 1984. The financial shapes for these banks have tremendous impact on the economy. However, till 1995 AD, the development banking industry was still in a passive stage with few players in operation managed under Development Bank Act, 1995. However, the first private sector DB was established in 11th November 1999 as Malika Bikas Bank with its Area of operation in 10 districts of Far Western Development Region. After this, there had been a steady increase in the number of DBs along with other financial institutions for next 13 years. The year 2012 AD reported all time highest 88 DBs.

1.6 In the recent times however, the number of DBs are on declining phase due to the merger wave, halt on issuing new license and advancement of DBs to upgraded class. As of mid July 2015, there were total 76 DBs in Nepal, with 24 National Level DBs, 13, 27 and 12 DBs operating with their jurisdictions in 10 districts, 3 districts and 1 district respectively.

1.7 The figure below shows the trend of number of development banks in Nepal:

**Figure 1.1
Growth of Development Banks**



NRB has encouraged merger and acquisition of BFIs in order to enhance the capability building and also to promote overall financial sector stability. NRB has mandated A,B and C class banks and financial institutions to enhance capital by four times by mid July 2017. Thus, in order to meet this requirement, the merger and acquisitions among BFI's have been vibrant in the recent times. In the review year, following DBs have merged or acquired to form new BFIs. By the end of review year, the total number of B-class institutions remained 76.

**Table 1.1
List of Merged Development Banks
(As of mid July, 2015)**

Merged BFIs	Name after Merger/ acquisition
Kist Bank Ltd. Prabhu Bikas Bank Ltd. Gaurishankar Development Bank Ltd. Zenith Finance Ltd.	Prabhu Bank Ltd.
Triveni Bikas Bank Ltd. Public Development Bank Ltd. Bright Development Bank Ltd.	Triveni Bikas Bank Ltd.
NDEP Development Bank Ltd. Rising Development Bank Ltd.	NDEP Development Bank Ltd.
Biswo Bikas Bank Ltd. Fewa Finance Ltd.	Fewa Bikas Bank Ltd.

Garima Bikas Bank Ltd. Nilgiri Bikas Bank Ltd.	Garima Bikas Bank Ltd.
Muktinath Bikas Bank Ltd. Civic Development Bank Ltd.	Muktinath Bikas Bank Ltd.

Nepal Rastra Bank as a Regulator and Supervisor

- 1.1 The Nepal Rastra Bank Act, 2002 supported by BAFIA, 2006 grants supervisory authority to the NRB. NRB is responsible for supervision on all the four classes of BFIs mentioned above. Nepal Rastra Bank Act, 2002, has made NRB an autonomous institution empowered to regulate and supervise Nepalese banking industry. The preambles of NRB act states:

Whereas, it is expedient to establish a NRB to function as the Central Bank to formulate necessary monetary and foreign exchange policies, to maintain the stability of price, to consolidate balance of payment for sustainable development of the economy of Nepal, and to develop a secure, healthy and efficient system of payment; to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of banking and financial system; and for the enhancement of public credibility towards the entire banking and financial system of the country.

- 1.2 Section 84, subsection (2), of the Nepal Rastra Bank Act, 2002 states that NRB may at *'any time, inspect and supervise or cause to inspect and supervise any of the offices of commercial banks or financial institutions.*
- 1.3 Similarly the Bank and Financial Institution Act, 2006 empowers NRB to regulate and supervise the BFIs. Section 49, subsection (1) of the Act states *'The Nepal Rastra Bank shall have full powers to regulate and systematize the functions and activities of licensed institutions.'* Also section 52, subsection (1) of the act states *'The Nepal Rastra Bank may inspect and supervise, or cause to be inspected and supervised, any office of a licensed institution at any time.*
- 1.4 As a regulator and supervisor of BFIs, NRB has been continuously issuing various policies, guidelines and directives to the licensed institutions, adopting international practices and norms. A dedicated department – Bank and Financial Institutions Regulation Department – is set in NRB's structure to issue regulating policies, directives and guidelines.
- 1.5 As a supervisor, NRB supervises the activities of the banks and financial institutions based on the existing legal framework, directives and guiding polices. To discharge the responsibilities of supervisor, NRB has set four departments, as per the class of institution, in its structure viz. Bank Supervision Department (BSD), Development Bank Supervision

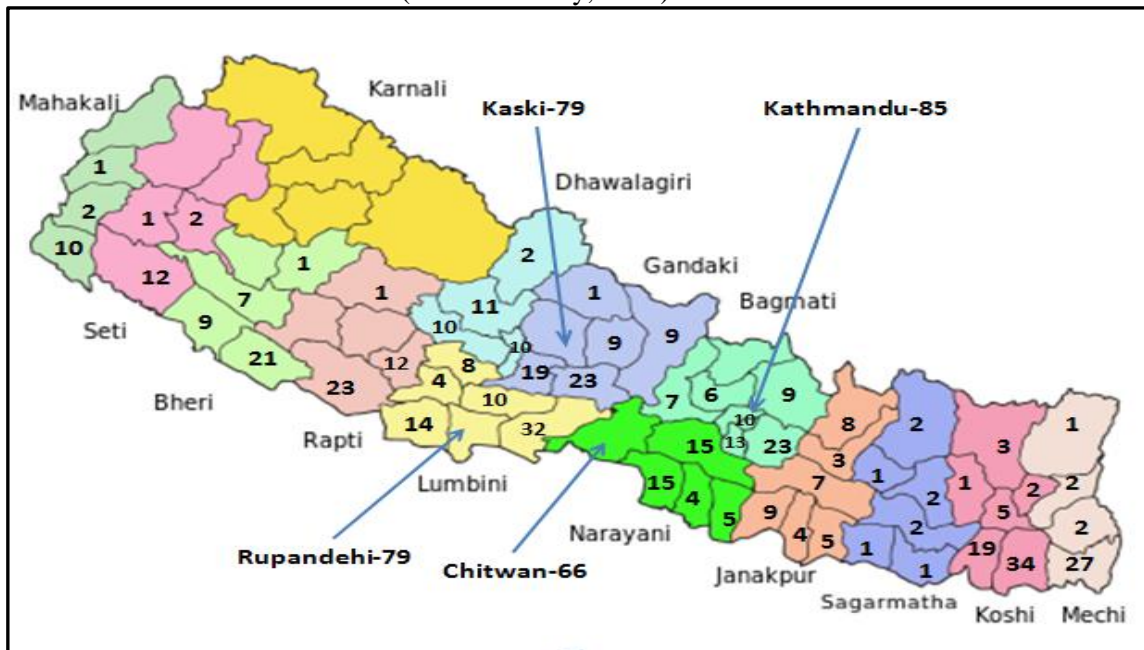
Department (DBSD), Finance Company Supervision Department and Micro Finance Promotion and Supervision Department.

- 1.6 Regulation and supervision of the financial system is a key tool for maintenance of financial stability. Taking this into consideration, NRB continued to focus on proactive regulation and supervision. The development banking sector presently remains adequately capitalised based on the regulatory requirement. NRB aims to become more proactive with regulatory and supervisory mechanisms that are forward looking and analytical.

The Development Banks Presence

- 1.7 As at mid July 2015, 24 National Level DBs, 13 DBs with 10 Districts as their area of operation, 27 DBs with 3 Districts as their area of operation and 12 DBs were operating in a single district jurisdiction. The details of all 76 DBs are highlighted in Annex 1.
- 1.8 The total number of DBs branches stood 823 in mid-July 2015. NRB has been encouraging BFIs to open branches to rural areas in order to increase the financial access. While the numbers of DB branches are increasing each year, chunk of banking services is still concentrated in urban areas. Bagmati Zone has largest number of DBs branches, 166, followed by Lumbini, 149 and Gandaki 140, while Karnali does not have even a single DBs Branch till the end of review period.

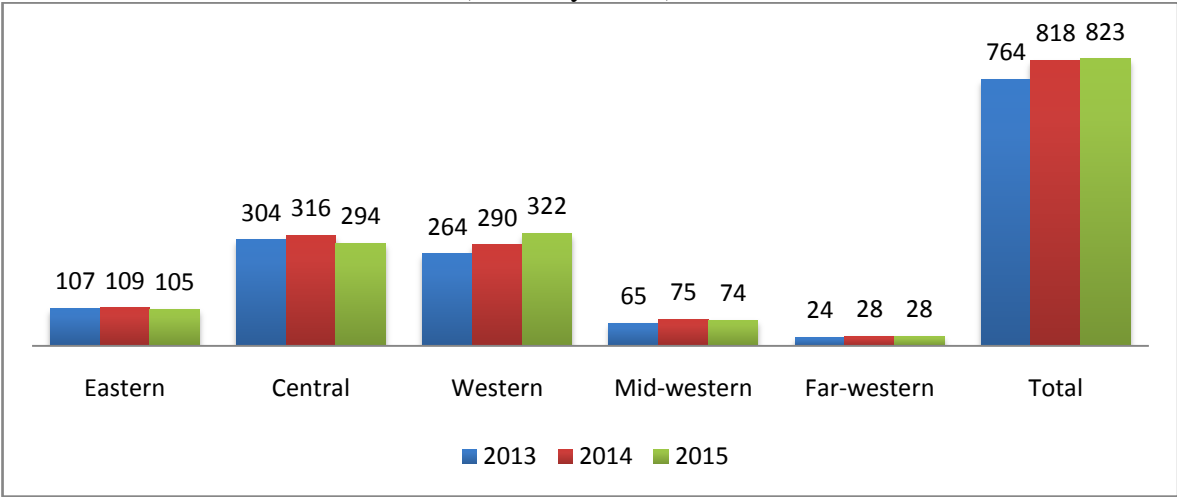
Figure 1.2
District and Zonal Presence of DBs
 (As of Mid July, 2015)



*Number marked in each district symbolises total DB branch operating in that particular District.

1.9 Considering the district-wise operations, Kathmandu have highest number of branches with 85, Rupandehi and Kaski together stand in the second position with 79 branches each and Chitwan is in third position with 66 branches. On the contrary, 12 districts do not even have a single DB branch and 10 districts have only a single DB branch. As depicted in the picture above, the numbers of DB branches have a dominating presence in Terai districts and clustered in central and western hills. While, mid western and far western regions have a limited presence.

Figure 1.3
Region-wise Distribution of Number of DB Branches
 (Mid July, 2015)



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

Assets Share of Banks and Financial Institutions

1.10 The respective shares of BFIs (licensed by NRB) in the total assets of banking industry as of Mid July for five consecutive years are depicted in the table 1.2.

Table 1.2
Total Assets/Liabilities of Banks and Financial Institutions
 (Mid July 2015)

Banks and Financial Institutions	Share Percentage				
	2010/11	2011/12	2012/13	2013/14	2014/15
Commercial Banks	75.3	77.3	78.2	77.9	78.73
Development Banks	12.0	12.4	13	13.7	13.34
Finance Companies	10.9	8.2	6.6	5.8	4.79
Micro Finance Development	1.8	2.2	2.2	2.6	3.14
Total	100	100	100	100	100

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

1.11 Table 1.2 shows the dominance of commercial banks, with the share of 78.73 percent of total assets of Nepalese banking industry, while the DBs have 13.34 percent total assets in mid July 2015. From 2010/11 to 2013/14, the total share of DBs increases by 3.1 percent on point to point basis from 2013/14 to 2014/15 the same has decreased by 36 basis points on point to point basis.

Existing Acts, By-laws and Guidelines

1.12 As a Central Bank of Nepal, NRB has a clear mandate to regulate and supervise banks and financial institutions in Nepal. NRB continuously issues regulations, circulars and guidelines and periodically amends its directives issued to the licensed BFIs. Likewise, NRB continuously conducts onsite inspections and offsite supervisions both on a regular and need-based ways to assess their compliance with the existing laws, regulations and prudential norms.

1.13 The following are the key documents that guide the NRB's regulatory and supervision function:

- Nepal Rastra Bank Act, 2002.
- Bank and Financial Institutions Act, 2006.
- Company Act, 2006.
- Bank and Financial institution debt recovery Act, 2000.
- Banking offense and punishment Act, 2007.
- Asset (Money) Laundering Prevention Act, 2008.
- Act Relating to Institutions Acting as Financial Intermediary, 1999 (Amended, 2002).
- Nepal Rastra Bank, Inspection and Supervision By-laws, 2013.
- Nepal Rastra Bank, Banks and Financial Institutions Prompt Corrective Action By-rule, 2007.
- Unified Directives to licensed institutions
- New Capital Adequacy Framework, 2007 (Updated, 2008).
- 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.

Apart from above, NRB regularly issues circulars to BFIs on a need basis. The details of circulars issued during the review period are summarized in Annex 7.

II. DEVELOPMENT BANK SUPERVISION

Supervision Function

2.1 With the legal jurisdiction defined by Nepal Rastra Bank act, 2002 and the Bank and Financial Institution Act, 2006, NRB regulates and supervises the Banks and Financial Institutions (BFIs). Supervision is an important component of banking system as it promotes prudent banking system by continuous feedback and monitoring of BFIs. This provides proactive measures to maintain overall financial stability.

Development Bank Supervision Department

2.2 The DBSD is responsible for executing the supervisory policies and practices as per governing laws, regulations and policies. The DBSD prepares an annual onsite supervision plan before the new calendar year and supervises banks as per the plan approved by the Governor. The supervisory process includes mainly full-fledged on-site examination, special inspection, targeted inspection and follow up inspection if required. An onsite inspection is supported by an offsite supervision function which is responsible for further enforcement and monitoring DBs on a continuous basis based on the regular reporting submitted by DBs themselves. The DBSD is responsible for carrying out inspection and supervision of all B-class institutions licensed by NRB. The work division and staff composition is detailed in organization structure in Annex 8.

Supervision Methodology

2.3 The DBSD continues to adopt and implement the Core Principles framed by the Basel Committee. The inspection is mainly compliance based for all DBs. Further, NRB has adopted the Simplified Standardized Approach (SSA) based on BASEL II principles. However, SSA is on a parallel run only for national level development banks. The regional level DBs still observe BASEL I core principles. Though Supervision is compliance based, the different elements of CAMELS (Capital Adequacy, Asset Quality, Management competence, Earning, Liquidity, and Sensitivity to Market Risk) are closely observed to assess compliance, stability, sustainability, governance and overall risk exposure of "B - class" institutions.

Organization of Development Bank Supervision Department

2.4 The DBSD comprises of on-site inspection, policy planning and analysis unit, internal administration unit, off-site supervision unit and enforcement unit. Offsite and enforcement units are sub-divided to regulate DBs based on area of operation. For example, there are different units for the national level DBs, DBs operating in 10 districts, DBs operating in 3 districts and 1 district. The same goes with enforcement unit. Further, the Department closely co-ordinates with BSD when further complement is required from on a need based approach.

2.5 As per NRB inspection and supervision bylaw, 2013, DBSD is organized into following five units:

On-site Inspection

2.6 Onsite inspection of DBs is conducted as per the approved annual plan based on the Onsite Inspection Manual.

2.7 The on-site examinations include:

- *Initial examination*, generally conducted within six months of commencement of operation by a new institution.
- *Routine full-fledged*, corporate-level inspection, which is the regular examination, generally carried out once in a year.
- *Targeted inspection*, which addresses on specific areas of operation or transaction. The targeted inspection undertaken by the department in the review year is summarized in Annex 3.
- *Special inspection*, carried out based on offsite reports, press charges, legal charges or any information obtained from external sources that come as a complaint against company's action, undertaken against general welfare of public interest undertaken by the department in the review year is summarized in Annex 4.
- *Follow-up* inspection is carried out to examine on adherence on the enforcement instructions given to institution in a previous inspection. The follow-up inspection undertaken by the department in the review year is summarized in Annex 5.

2.8 The on-site examination unit takes feedback from the offsite unit, analyzes past inspection reports and reviews current financial figures of DBs before commencement of onsite inspections. A typical inspection team analyzes the compliance with the regulations and guidelines prescribed by NRB, contemporary laws and approved act, guidelines and manuals of the same DB. The team also identifies risk exposure on different areas such as credit, operations, management and overall functions. Issues with corporate governance are scrutinized in a detailed manner as well. The findings of the onsite inspection is communicated to respective DB institutions and directed to address in the areas that requires further compliance and improvement. This is further complemented by off-site supervision and enforcement unit to strengthen the capacity of an organization. The on-site inspection undertaken in the review year is summarized in Annex 2.

2.9 The major shortcomings as well as non-compliance observed at the DBs during on-site examinations in FY 2014/15 are summarized as follows:

2.9.1 Capital Adequacy:

- Errors in calculation of Risk weighted Asset (RWA).
- Insufficient capital due to low paid up capital.
- High accumulated losses and provisioning resulting in inadequacy.
- Operational risk omitted while RWA is calculated.
- Mistakes on calculating irrevocable loan commitment while RWA is calculated.
- Instances of DBs facing Prompt Corrective Action (PCA) imposed by NRB due to errors occurred in calculating RWA.

2.9.2 Asset Quality:

- Lack of adequate documents in credit files. (e.g. credit information report, tax clearance, audited financial statements of the borrower, stock inspection report, valuation report, inadequate insurance of collateral and assets, etc.)
- Credit risk classification.
- Insufficient analysis of customer background and need of credit.
- Credit policy guidelines in contradiction to Nepal Rastra Bank directives.
- Credit Management Practice is not robust enough to assess risk.
- Instances of decisions against credit policy guidelines and manuals.
- Non-compliance of the terms and conditions mentioned in the offer-letter.
- Detail study of customer cash flow not undertaken leading to high default rate.
- Wrong categorization while reporting loan loss provision.
- Insufficient collateral and errors in calculating market price and government rate composition.
- Term loans issued without identifying the needs of customer.
- Non-compliance of NRB Directives regarding blacklisting.
- Lack of monitoring in case of deprived sector loan.
- Delayed recovery process.
- Know-your-customer (KYC) not observed as per NRB guidelines.
- Non-compliance of loan classification and provisioning directives.

2.9.3 Management:

- Lack of strategic plan, medium term business plans, risk management policies and procedures, succession plans and other policies required for the effective management.
- Weak and inadequate human resources management practices.
- Lack of professionalism in terms of staff recruitment and selection.
- Incompetent board members to take effective decisions.
- Inadequate MIS, IT, Disaster Recovery, information security policy, weak data access control.
- Non-compliance of anti -money laundering directives.

- Less effective internal audit and compliance department.
- Non-compliance of direction given in the previous inspection report.
- Inadequate efforts made to recover written off loans and black listing process not initiated timely.
- Discriminating decision made for waiving interest, penal interest and other fees.

2.9.4 Earning

- Improper classification and provisioning.
- Issues on income recognition.
- Misuse of retained earnings by the Board of Directors and top level management for their vested interest.
- Non-compliance of service fees related guidelines.
- Unplanned and irrational expenses.
- Lack of proper liquidity management plan.

2.9.5 Liquidity:

- Weaknesses in monitoring liquidity profile and gap analysis.
- Heavy gap in short term asset and liabilities and no revival plan.

2.9.6 Sensitivity To Market:

- Investment Policy not formulated/implemented.
- Incompetency to analyse external market conditions.

Off-site Supervision

- 2.10 The offsite unit carries out off-site surveillance of the DBs. The core objective of this function is to conduct periodic financial reviews of DBs in order to identify potential problems and to assess whether an organization is in compliance to directives and laws.
- 2.11 The off-site unit is responsible for supervision of DBs operations on the basis of data submitted, review data and address the deviations if any. The unit also monitors important ratios of each DBs and submit the quarterly consolidated report desk wise for consolidated publication of the DB industry. Another important function of an offsite unit is to study upon the dividend proposed and bonus presented by DBs and issue clearance after a round of scrutiny. Apart from these, the unit reviews compliance in terms of Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) and Deprived Sector Lending and penalize in case of non-compliance. Table 2.2 shows important directives issued for compliance during the review year.

Table 2.1
Important Directives regarding Capital, Credit and Liquidity (Effective for 2014/15)

SN	Particulars	Rate or Percentage	Days/Month	Remarks I	Remarks II
1.	Minimum Capital fund "A" class	Core Capital =6% & Capital Fund =10%		Minimum capital fund to be maintained based on the risk-weight assets (percent)	
	"B" class & "C" class	Core Capital = 5.5% & Capital Fund = 11%			
2.	Refinance Facility (i) General Refinance Hydro, Agro, productive and, infrastructure industry or business run by youths returned from abroad.	5%	Max. 6 months	Cannot charge more than 9%	i. provided against good loan.
	(ii) <u>Special Refinance</u> Sick industries, Cottage & small industries, foreign emp. Small business run by <i>Dalits, janajati, utpidit</i> , women, deprive class and community	1%		Cannot charge more than 4.5%	ii. not exceed the 80% of core capital of BFIS
	(iii) Export credit refinance	1%		Cannot charge more than 4.5%	iii. max. of 6 months.
	(iv) Small & Medium Ent. Refinance (limit up to 10 lakhs)	5%		Cannot charge more than 10%	
3.	Bank Rate	8%			
4.	SLF Rate (For A, B & C)	Bank rate	Max. 5 days	Merger 30 days	
5.	Lender of Last Resort		Max. 6 months		
6.	Repo & Reverse Repos	Max. 21 days			
7.	CRR				
	"A" class	5%			
	"B" class "C" class	4.5% 4%			
8.	SLR				
	"A" class	12%			
	"B" class (taking call n current deposit) "C" class (taking call n current deposit)	9% 8%			
9.	Deprived Sector				
	"A" class	4.5%			
	"B" class "C" class	4% 3.5%			
10.	Productive Sector lending				
	"A" class in productive & Agriculture +Energy "B" & "C" class	20% & 12% 15% & 10%			

Cash Reserve Ratio

2.12 BFIs are the backbone of the payment system and are the main conduits of monetary policy. As an indirect monetary instrument, NRB uses CRR to control money supply in the economy, and for this NRB sets a minimum CRR for different class of institutions. CRR position of BFIs is monitored weekly. For DB, the minimum requirement in the review period was 4.5 percent of total local currency deposit liabilities. Banks that fail to maintain such reserves face monetary penalties based on the bank rate. The penalty rate escalates for repeated violations. In the review year, following DBs were penalized for not complying with CRR aforementioned.

Table 2.2
List of DB's Penalized for Not Complying with CRR Requirement
(FY 2014/15)

S.No	Name of Development Bank	Area of Operation	Amount (Rs)
1	Karnali Development Bank Ltd.	National Level	8,763.08
2	Sajha Bikas Bank Ltd.	3 Districts	263.00
3	Kasthamandap Development Bank Ltd.	3 Districts	438.46

Direct Lending

2.13 BFIs are required to disburse prescribed percent of their total loan portfolio in the deprived sector as directed lending. DBs have a mandatory requirement to disburse 4 percent, and the average deprived sector lending of the DBs is 6.06 percent in the review year. DBs that fail to maintain the minimum requirement in deprived sector lending as per regulatory requirement is entitled to monetary penalty. In the review year, following are the institutions that did not meet the minimum threshold for deprived sector lending and were penalized as following:

Table 2.3
List of DB's Penalized for Not Complying with Deprived Sector lending
(FY 2014/15)

S.N.	Name of Development Bank	Area of Operation	Amount
1	NIDC Development Bank	National Level	2,541,120.74
2	Kasthamandap Development Bank Ltd.	National Level	18,23,800.00

Statutory Liquidity Ratio

2.14 DBs have a regulatory obligation to maintain statutory liquidity ratio (SLR) of 9 percent of their total domestic deposit liabilities. Failing to meet such obligation results in monetary penalties-computed on the basis of bank rate. During the review year all the DBs complied with the SLR norm.

Capital Adequacy Ratio

2.15 The Capital Adequacy Framework requires BFIs to maintain minimum capital requirements where the DBs need to maintain at least 5.5 percent of core capital and 11 percent of Capital Fund. The minimum capital adequacy requirements are based on Risk Weighted Assets (RWA) of the DBs. The overall Capital Adequacy Ratio percentage of the DBs in the review year is 14.65 percent for core capital and 15.40 percent for capital fund.

Policy, Planning and Analysis Unit

2.16 The Policy, Planning and Analysis Unit reviews and formulates the annual plans of DBSD in line with NRB's strategic plan. It also facilitates inter departmental communication and exchanges information relating to the department. The Unit also reviews the progress of annual plan on a quarterly basis, analyses the periodical data of the industry and explores the best practices and emerging issues in a global supervision and regulation arena. Further, the Unit works closely with Policy, planning and analysis unit of BSD unit in areas of new initiatives and global practices on supervision. The Unit also prepares Annual Report for the department.

Internal Administration

2.17 The Internal Administration Unit performs the functions related to human resources and internal administration within the DBSD. It includes internal placement, issuance of travel orders, and maintaining leave records and also serving as the back office. This Unit also looks after procurement for the DBSD such as supply of office logistics and stationery in coordination with the General Services Department of NRB. This Unit also carries out coordination to assist other units to carry out the functions more effectively.

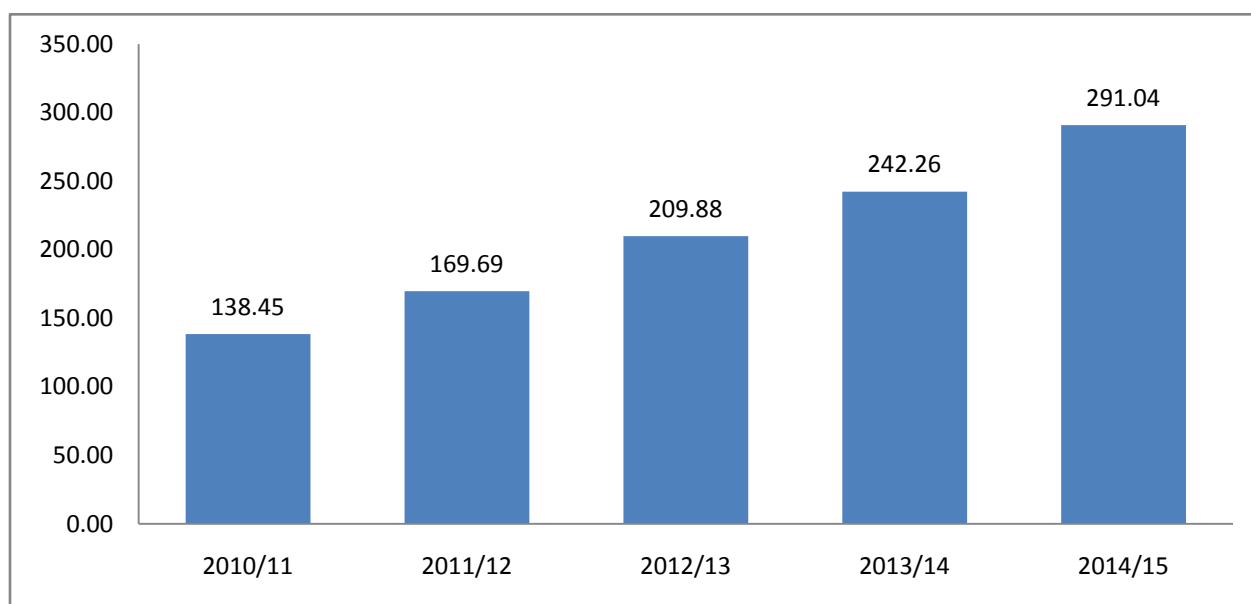
III. OPERATIONAL PERFORMANCE OF DEVELOPMENT BANKS

Assets of the Development Banks

3.1 The total assets of the DBs have increased by 20.35 percent to Rs.291.56 billion in the review year from that of previous year. The same was as increased by 15.43 percent to Rs 242.26 billion in FY 2013/14 in comparison to FY 2012/13. The total assets of the DBs have increased mainly due to an increase in DBs excess liquidity deposited in NRB and Call accounts apart from increased loan portfolio. The total of call accounts and balance at NRB increased by Rs.11.78 billion while loan amount increased by 33.92 billion. Aggregate figures are shown in Annex 9.1 and 9.9.

Figure 3.1
Total Assets of the Development Banks
(Mid July 2015)

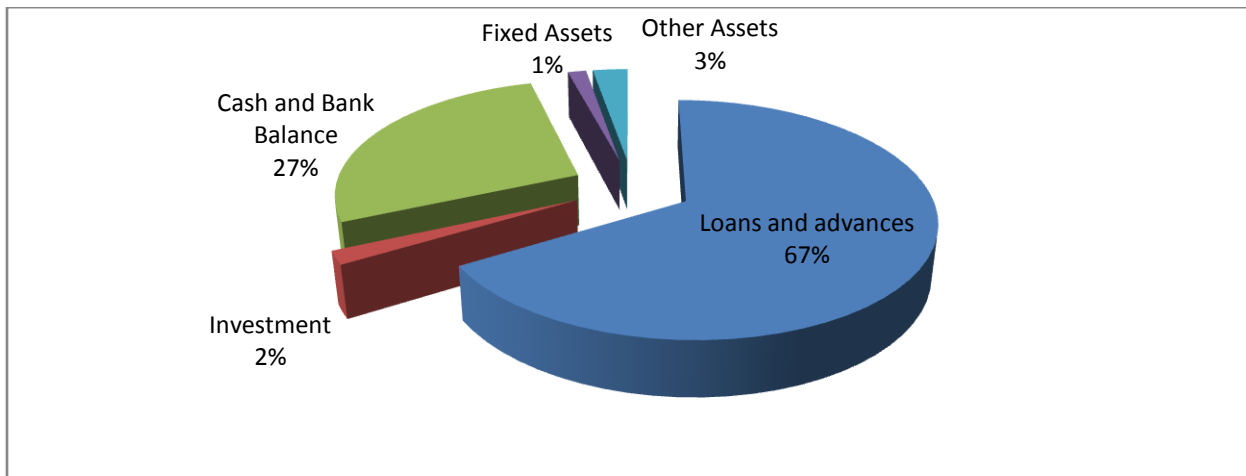
Figure in billion



Composition of Assets

3.2 The major portion of the assets of the DBs is covered by the loans & advances which comprises 66.35 percent of total asset i.e. Rs 193.47 billion, followed by cash and bank balance with 27.42 percent of total assets composition. Investment, fixed assets and other assets altogether craft 6.23 percent contribution on a total assets composition. Detail figures are shown in Annex 9.9.

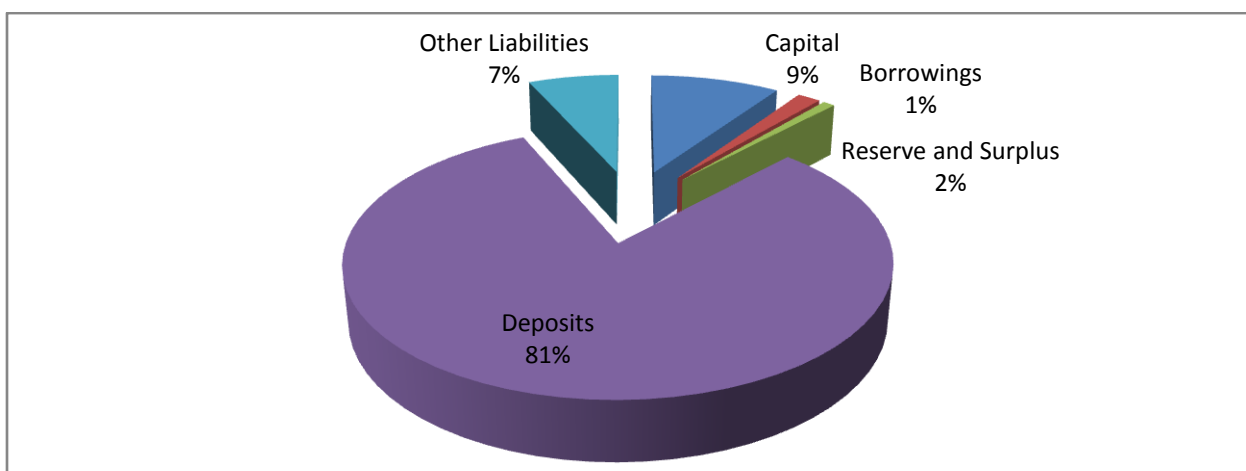
Figure 3.2
Composition of Assets of Development Banks
 (Mid July 2015)



Composition of Liabilities

3.3 The composition of liabilities is obtained by adding up various sources of funds like share capital, reserves, deposits and borrowings. In the review period, deposits were the largest component of liabilities accounting to 81.31 percent, i.e. Rs 237.06 billion. Detail figures are shown in Annex 9.9.

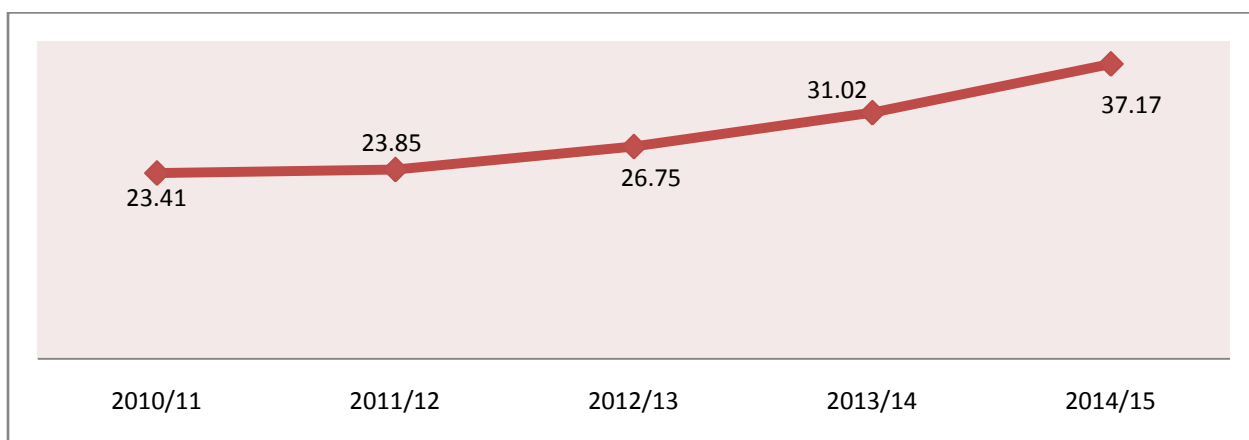
Figure 3.3
Composition of Liabilities of Development Banks
 (Mid July 2015)



Capital

- 3.4 The consolidated total capital of the DBs showed a positive growth during the review year. Capital fund increased by 19.83 percent to Rs 37.17 billion in the fiscal year 2014/15. The same was increased by 15.96 percent and 12.16 percent in FY 2013/14 and 2012/13 respectively. The detailed figures are presented in Annex 9.2

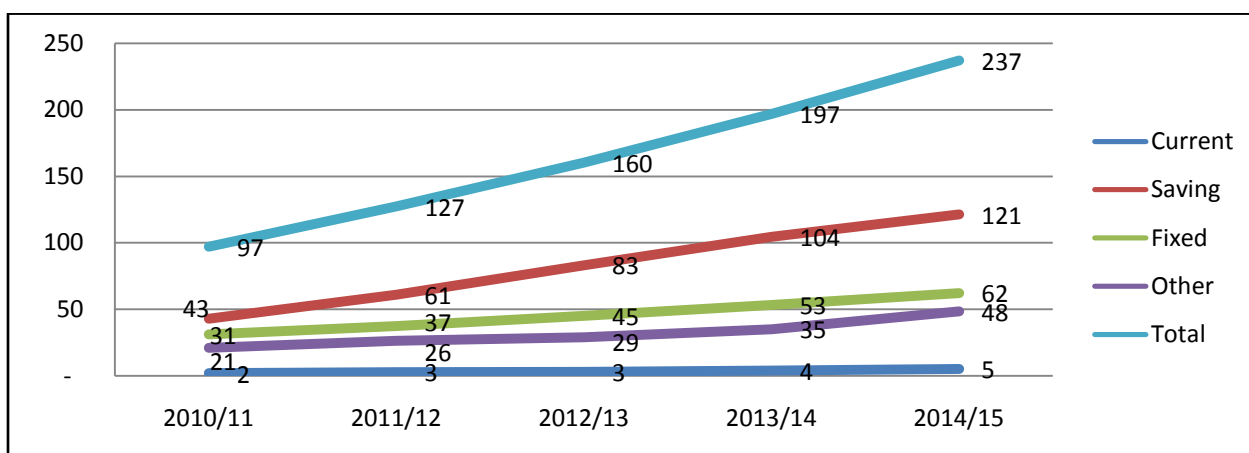
Figure 3.4
Capital Funds of the Development Banks
 (Mid July)



Deposits

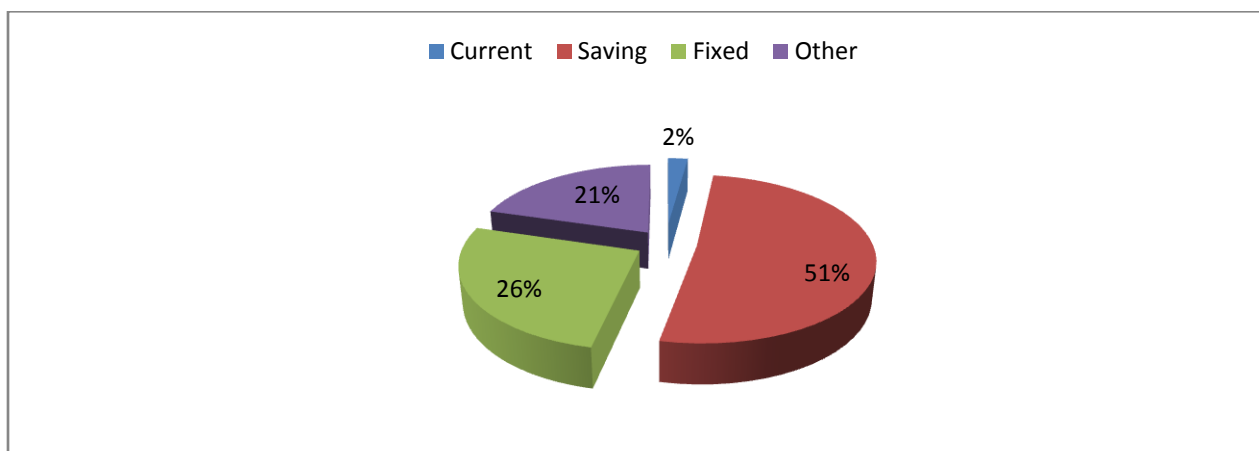
- 3.5 Total deposits of the DBs increased by 20.41 percent to Rs. 237.06 billion in mid-July 2015 compared to mid July 2014 where the aggregate deposits were Rs. 196.87 billion. Aggregate figures are shown in Annex 9.1.

Figure 3.5
Deposit Mix of the Development Banks
 (Mid July)



3.6 In an aggregate scenario of DB industry, saving deposits contributed more than half total deposits with 51.17 percent while fixed deposits comprised 26.24 percent of total deposits. Detailed figures are shown in Annex 9.3.

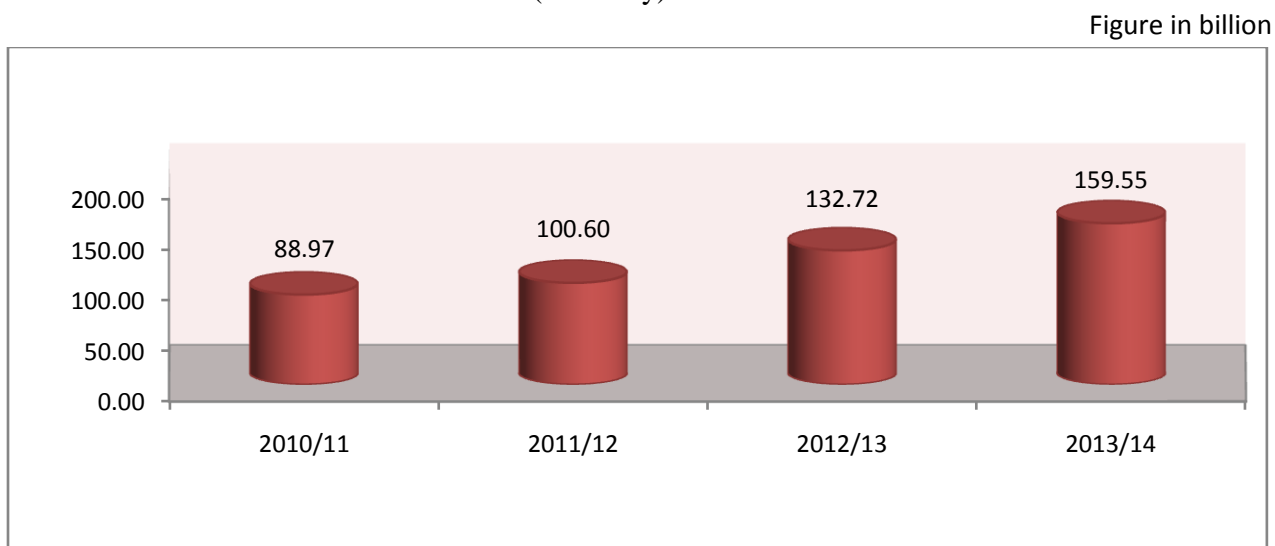
Figure 3.6
Deposit Mix of the Development Banks
 (Mid July 2015)



Loan and Advances

3.7 Loan and advances of the DBs increased by 21.26 percent to Rs. 193.47 billion in the review year as against 20.21 percent growth to Rs 159.55 billion in the previous year. Of Rs 193.47 billion in the review year, Rs 188.04 billion is performing loan while the rest 5.46 billion is non-performing loan. Detailed figures are shown in Annex 9.1.

Figure 3.7
Loan and Advances of the Development Banks
 (Mid July)



Sector-wise Loan and Advances

3.8 The DBs loans are diversified in different economic groups. Of these, in the review year, the highest concentration falls under wholesaler and retailer sector with 18.58 percent followed by construction sector with 11.54 percent of total disbursement. The table below shows a declining trend on borrowing from manufacturing sector and wholesalers and retailers while, there is a gradual rise in borrowings by agriculture and forest sector owing to regulatory requirement. Table 3.1 shows Sector-wise loan and advances of the Development Banks as at mid-July 2015.

Table 3.1
Sector-wise loan and advances of the Development Banks

Sector	Percent of Total Loan (mid-July)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Agriculture Forest	2.87	3.65	4.70	5.21	6.24
Fishery	0.03	0.04	0.10	0.13	0.21
Mining	0.26	0.19	0.20	0.17	0.20
Manufacturing	8.05	7.08	6.93	6.61	6.33
Construction	11.54	12.00	11.49	12.06	13.49
Electricity, Gas and Water	1.25	1.31	1.58	2.24	2.56
Metal Products, Machineries, Electronics and Installation	1.71	1.55	1.55	1.47	1.54
Transport, Warehousing and Communication	9.91	9.01	8.46	7.97	7.84
Wholesalers and Retailers	18.98	21.13	20.40	18.31	16.91
Finance, Insurance and Real Estate	10.73	9.87	9.48	7.91	6.95
Hotel and Restaurant	3.31	3.83	3.57	3.88	3.76
Other Services	6.08	5.32	4.74	4.89	4.50
Consumable Loans	5.78	6.08	7.36	7.87	8.09
Local Government	0.83	0.03	0.02	0.02	0.02
Others	18.67	18.90	19.37	21.26	21.37
Total Loan	100.00	100.00	100.00	100.00	100.00

Source: Bank and Financial Institutions Regulation Department

Security-wise Loan and Advances

3.9 Of the total loans and advances disbursed by the DBs, loans being secured by property as collateral are widely used. In the review year, this comprised of 91.93 percent of the total loan disbursed. All the other forms of security used are negligible hovering around 1 to 2 percent. Table 3.2 shows the security wise loan and advances position of the development banks as at mid-July 2015.

Table 3.2
Security used to Secure Loan and Advances

Security	Percent of total loan (mid-July)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Gold and Silver	1.02	1.77	2.53	2.27	2.13
Government Bonds	0.02	0.05	0.02	0.00	0.01
Non Government Securities	1.70	1.52	1.52	1.97	1.72
Fixed Deposit	1.85	1.34	1.23	1.06	1.04
Property as Collateral	86.62	90.60	91.83	90.98	91.93
Security of Bills	0.03	0.01	0.02	0.00	0.01
Guarantee	1.53	1.74	1.98	2.24	2.78
Credit/Debit Card	0.00	0.00	0.00	0.00	0.00
Others	7.22	2.97	0.87	1.48	0.39
TOTAL	100.00	100.00	100.00	100.00	100.00

Source: Bank and Financial Institutions Regulation Department

Product-wise Loan and Advances

3.10 The DBs have classified their loan products as per the NRB's directives. Major part of the loan and advances, i.e. 23.72 percent of the total loan is covered by overdraft products. Similarly, Term loan and demand and working capital loan comprises 14.47 percent and 10.60 percent respectively. There is a steady rise of personal residential home loan in last four years. Table 3.3 shows the composition of product wise loan and advances of the development banks for last five fiscal years.

Table 3.3
Product-wise Loan and Advances

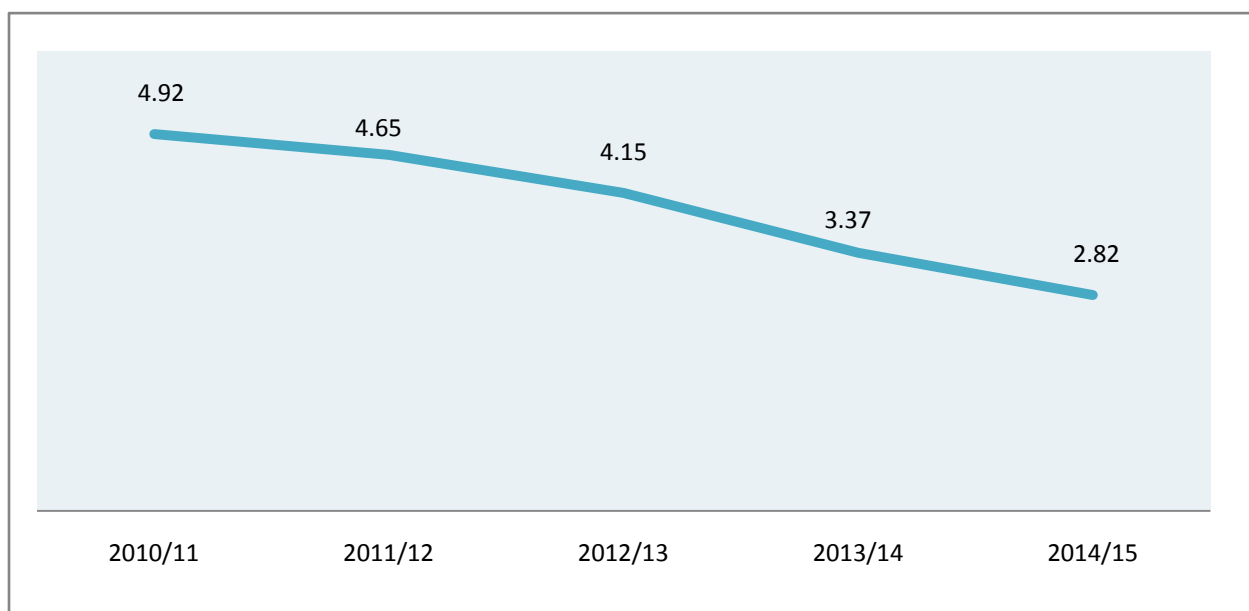
Loan Products	% of total loan				
	2010/11	2011/12	2012/13	2013/14	2014/15
Term Loan	11.83	12.51	11.35	13.25	14.47
Overdraft	23.77	26.04	25.85	25.03	23.72
Trust Receipt Loan/Import Loan	0.02	0.10	0.00	0.00	0.00
Demand / Other Working Capital Loan	14.63	12.67	14.09	12.27	10.60
Personal Residential Home Loan	6.34	9.24	9.27	10.40	11.62
Real Estate Loan	14.68	11.85	9.69	7.89	6.78
Margin Loan	2.58	1.99	2.04	2.54	1.98
Hire Purchase Loan	11.26	10.35	10.02	9.83	9.81
Deprived Sector Loan	3.25	3.56	3.93	4.68	5.27
Bills Purchased	0.05	0.01	0.01	0.00	0.00
Other Product	11.58	11.68	13.74	14.11	15.76
	100.00	100.00	100.00	100.00	100.00

Source: Bank and Financial Institutions Regulation Department

Non- Performing Loans

3.11 Non-performing loans (NPL) of Development Banks has been gradually declining from 2010/11 to 2014/15. In the review period the non-performing loans of DBs declined by 55 basis points i.e. from 3.37 percent to 2.82 percent. The same in the previous year to from a year before that has declined by 78 basis points.

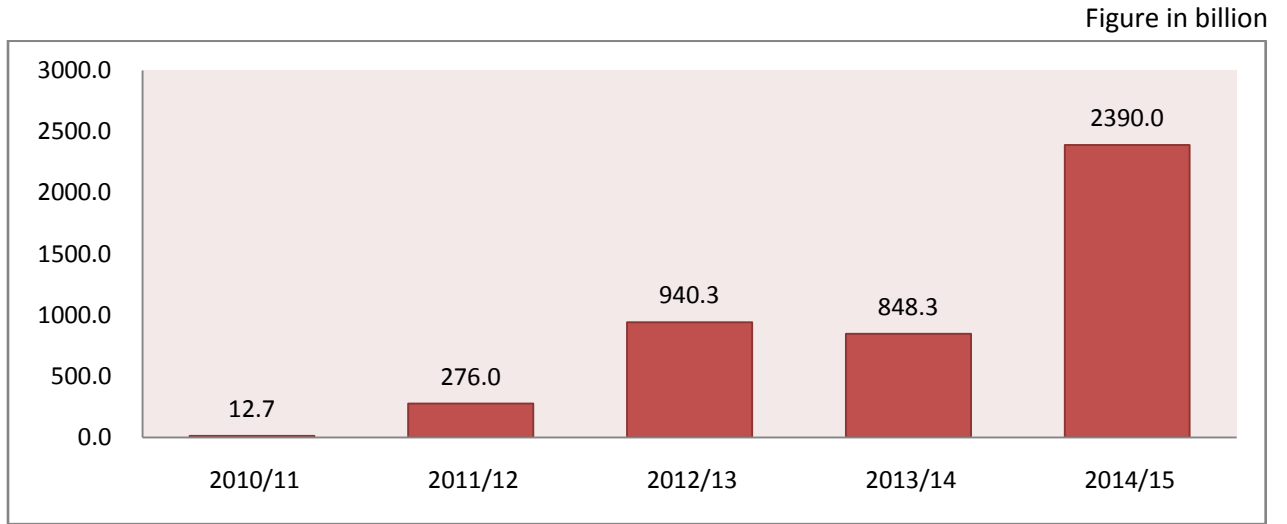
Figure 3.8
Non-performing loans of the Development Banks
(Mid July)



Non-Banking Assets

3.13 The total amount of non-banking assets (NBA) increased from Rs. 848.3 million to Rs.2390 million while even including unaudited figures of Gurkha Bikas Bank, Apex Development Bank, Reliable Development Bank, Corporate Development Bank, Narayani Development Bank and Sajha Bikas Bank. The substantial increase in the Non Banking asset from previous is mainly because part of these DBs, apparently bearing highest NBAs were not included in previous year's analysis. In the review year Yeti Development Bank, Apex Development Bank, and Gurkha Bikas Bank have high non banking asset of 572 million, 566 million, 357 million respectively. The level and structure of NBA during the last five years is presented in the figure 3.9. Details on Non-Banking Assets for various years are shown in Annex 9.5.

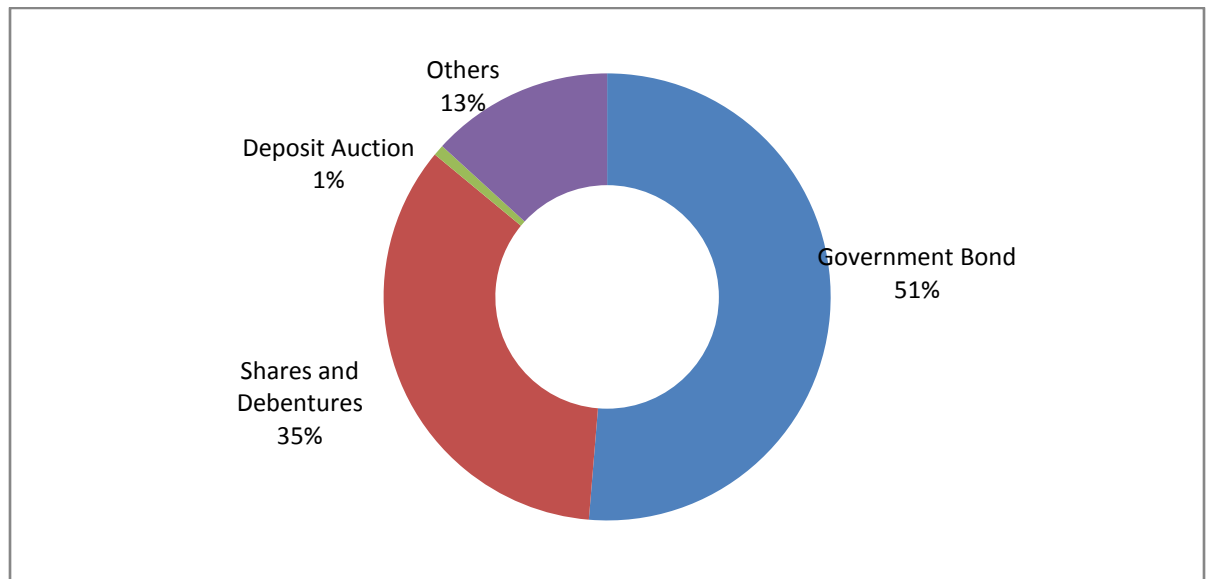
**Figure 3.9
Non-banking Assets of the Development Banks**



Investment

3.14 DBs predominantly invest in government securities accounting to 51.3% and in the review year. The investment on shares and debentures has been gradually increasing in the recent times that amounted total of 34.69% of the total investment. The total investment of DBs increased by 11 percent to Rs.5420.26 million in the review year as compared to 2013/14.. The details are shown in Annex 9.6.

**Figure 3.10
Investment Portfolio of the development Banks
(Mid July 2015)**



Earnings

3.15 Earning is the backbone of organisation's sustainability. In the review period, out of 76 development banks following reported loss on their financial statements:

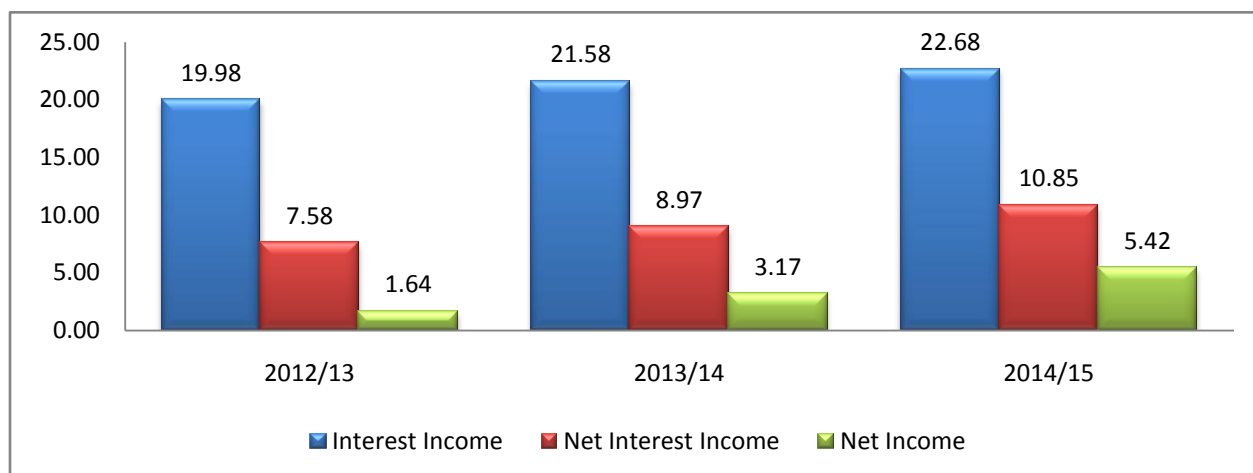
Table 3.4
List of Development Banks that Reported Losses
 (FY 2014/15)

Rs. in thousand

Name of Institution	Operation Area	Net Loss
Apex Development Bank	National Level	12,636
Green Development Bank	3 Districts	2,758

3.16 Interest is a major component of income as well as expenses of DBs. Thus, the total interest income of DBs increased by 5.09 percent to Rs. 22.68 billion in 2014/15 from previous year. However, the net interest income has increased by 20.94 percent from 8.97 billion to 10.85 billion owing to an increase in interest spread rate. The net profit of an industry has improved by 71.04 percent mainly because of few organizations recovering from their huge losses and partially from rise in operational profit. Earnings of the development banks over two years are shown in the Annex 9.8.

Figure 3.11
Operating Efficiency of the Development Banks
 (Mid July)



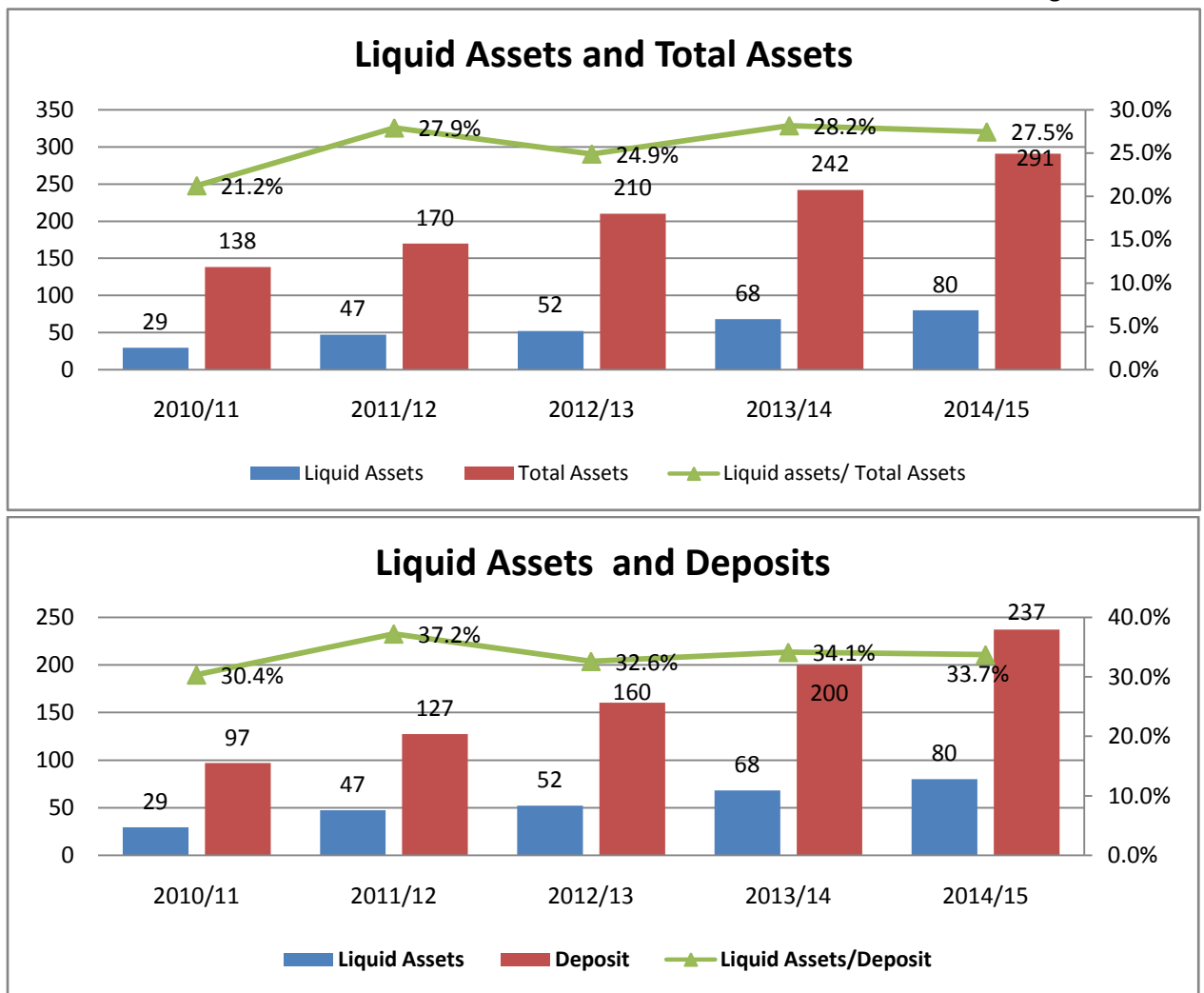
Liquidity

3.17 The cash balance, bank balances with NRB and other banks and financial institutions, money at call and the investment in the government securities are considered as the total liquid assets of the

development. The total liquid assets of the development banks increased by 17.11 percent to Rs. 79.93 billion in 2014/15 compared to its growth of 30.54 percent in 2013/14. The proportion of liquid assets to total deposits of the DBs in 2014/15 was 33.72 percent which was 34.14 percent in 2013/14. Similarly, the proportion of liquid assets to total assets of the DBs in 2014/15 was 27.46 percent, which was 28.17 percent in 2013/14. Detailed figures as indicated in figure 3.12 are shown in Annex 9.7.

Figure 3.12
Liquidity Position of the Development Banks

figure in billion



Deprived Sector

3.18 The deprived sector lending average for development banks for the fiscal year 2013/14 is 6.06 percent which increased from 4.68 in fiscal year 2014/15. The deprived sector lending is above the NRB minimum requirement of 4 percent in the review year.

Actions and Penalties

3.19 Following actions are taken to DBs according to the Nepal Rastra Bank Act, 2002 in the review year:

- Then, NDEP Development Bank Limited was imposed PCA as per Prompt Corrective Action By Law, 2007 sub rule 3 'Ka' for not maintaining capital adequacy ratio as per the regulatory requirement.
- Kasthamandap Development Bank Limited was imposed PCA as per Prompt Corrective Action By Law, 2007 sub rule 3 'Ka' for not maintaining capital adequacy ratio as per the regulatory requirement.
- Karnali Development Bank Limited was imposed PCA as per Prompt Corrective Action By Law, 2007 sub rule 3 'Ka' for not maintaining capital adequacy ratio as per the regulatory requirement.
- Corporate Development Bank Limited was declared problematic as per Prompt Corrective Action By Law, 2007 sub rule 3 'Nga' and Nepal Rastra Bank Act, 2002 Section 86'kha'.

IV. NATIONAL INITIATIVES, ISSUES AND CHALLENGES IN SUPERVISION

NATIONAL INITIATIVES AND DEVELOPMENTS

Special Inspection of Financial Institutions

- 4.1 The Special Inspection Program (SIP) has been undertaken as a part of Development Policy Credit initiated by Government of Nepal. NRB, with an expertise of KPMG Portugal and with the joint support from the World Bank, IMF and DFID, aims to conduct SIP on 54 BFIs culminating 22 Class A, 20 Class B, and 12 Class C institutions to have a comprehensive assessment of the Nepalese Financial Sector. It is being carried out in 2 phases where second phase completed with inspection of 27 BFIs including 10 development banks. Also, following the disastrous earthquake on April 25, 2015, a fast diagnostic review was also conducted on the sampled BFIs to assess the impact of physical damage loss on the collateral pledged with BFIs.

Transition to NFRS

- 4.2 In December 2014, NRB issued Nepal Financial Reporting Standard (NFRS) migration guideline to Banks and Financial Institutions with aim to migrate to NFRS by 2017. The Special Inspection of Financial Institutions being conducted by NRB also complements the transition to NFRS as the inspection also aims to identify gaps in the existing Accounting Standards and NFRS and the progress towards implementation of NFRS. For this, NRB has trained 76 officers (including 12 officers from DBSD) to develop their understanding regarding the statements prepared complying NFRS, from regulators' perspectives.

Financial Sector Assessment Program

- 4.3 Following the Financial sector Assessment Program (FSAP) carried out jointly by the IMF and the World Bank in February 2014, an action plan is being prepared for implementing the findings and recommendations of the FSAP. The FSAP has assessed different areas of the financial sector including banking, insurance, cooperatives and the capital market development in Nepal.

Implementation of Supervisory Information System

- 4.4 Nepal Rastra Bank has been working on implementation of supervisory information system in order to empower the offsite supervision function under the technical and financial assistance of the World Bank and DFID. The system is expected to be implemented within the fiscal year 2016/17.

Business Continuity Plan in Banks and Financial Institutions

- 4.5 The disastrous earthquake in April 2015, urged BFI's to implement the business continuity plans if not implemented till then. To foster that, the regulatory guidelines have already been issued to BFIs for the preparation of the same.

ISSUES AND CHALLENGES

Urban concentration:

- 4.6 Most of the development banks are concentrated in urban areas such as Kathmandu, Pokhara, Chitwan and Butwal. The DBs are sharing a piece in a market which is penetrated by commercial banks. For Financial inclusion and reach, development banks need to have their rural presence. However, encouraging DBs to open a branch in rural areas has been a challenge mainly due to sparse opportunities in urban and rural. Karnali, a zone with no branch even of a single development bank stands as a testimony to this fact.

Enhancing Capability of Development Banks:

- 4.7 Another challenge that an NRB as a regulator faces is to increase the Management and control capabilities of development banks. Till date, majority of DBs have promoters and directors who lack leadership and vision to drive the organization with a public interest at large. A public organization is still controlled by handful investors who drive organization towards vested interest. Thus, enhancing capability more towards top management and the board of director's level remains another challenge of NRB.

Strengthening Supervisory Capacity

- 4.8 The financial sector is rapidly changing and with the advent and application of new technologies in banking, there have been lots of innovation in products and services offered by banks. In order to strengthen the supervisory capacity, lot of efforts and resources are been channelled to the capacity enhancement of supervisors through trainings, seminars, knowledge sharing and interaction programs A list of various programs at international level for supervisors during the review period has been listed in Annex 5.

Financial inclusion and rural penetration

- 4.9 Financial access has been increasing with the expansion of network of financial institutions however; the urban concentration mentioned above remains one of the major challenges. In order to increase financial access, BFI's with national presence must open at least 3 branches outside Kathmandu valley such that one must be at least in a specified 14 districts, before they open a

branch in Kathmandu Valley. Further, NRB has a provision of interest free loan up to Rs. 5 million and Rs. 10 million if any commercial or national level development bank wished to open a branch in district head quarter and outside district headquarter of 14 remote districts. This is to encourage financial inclusion and promote rural penetration.

Corporate Governance

4.10 The corporate governance has been considered as a vital factor to maintain institutional discipline and compliance. The subprime crisis of 2009 is vivid example of market failure due to lack of governance. In the DBs context, issues such as formulation and adoption of internal policies, lack of strategic plan and a business plan, lack of independence of audit function, lack of board of directors oversight banks operational activities, lack of successor plan, Inadequate MIS system and unprofessional decisions of Board and Senior management, insider lending and ever greening of loans remain the broad governance issues.

Operational Risks

4.11 The operational risks of DB's include extension of credit beyond approved limits, ever greening of loans to related parties, poor implementation of internal policies and procedures, lack of qualified employees and lack of proper security measures in adopted technology have increased exposure in operational risks. The NRB recommends that banks should initiate processes to adopt the international best practices in corporate governance, risk management, and adoption of self-regulatory controls that go beyond the minimum standard set by NRB.

Multiple Banking

4.12 Multiple banking is prevalent and widespread in the industry. Borrowers enjoy different credit facilities from multiple institutions. Intense competition for clients and the fear of losing market share has motivated DBs to keep a blind eye to the issue of multiple banking. The central bank faces challenges on establishing prudent banking practices and enforcing implementation of directives from NRB.

Consolidation in banking industry

4.13 NRB has been encouraging consolidation in the industry, through merger and acquisition. Industry has already observed the merger/acquisition of 12 development banks till the review period. The enhanced capital requirement has infuriated the merger wave. It is expected that this wave will remain vibrant for couple more years.

Proactive practices on AML/ CFT Guidelines

4.14 BFI's focusing on implementing Anti Money Laundering (AML) and Combat for Financing Terrorism (CFT) remains another issue in banking industry. With national assessment due in 2019, it is challenge for a NRB to implement and direct BFI's towards adhering Assets (Money)

Laundering Prevention Act (ALPA) rules and international requirements as prescribed by IMF and Financial Action Task Force (FATF).

Excess Liquidity

4.15 Liquidity in the banking sector has increased with the expansion of net foreign assets. Though the banking sector has excessive liquidity, it has not been able to utilize it in the productive sector. Thus, due attention is much needed for utilizing such liquidity in order to provide positive impact to the economy through monetary transmission mechanism thereby improving investment environment. In the review year, NRB mopped up the liquidity of Rs. 155.00 billion through deposit auction, Rs. 315.80 billion through reverse repo and Rs. 6.00 billion through outright sale auction on cumulative basis.

Shadow Banking

4.16 Increasing trend of shadow banking practices by some of the larger cooperatives around the urban areas has brought challenges to the financial system. This kind of activities conducted by the cooperatives could also increase risk in the system as their deposit mobilization is rapidly increasing. Lack of stringent regulatory and supervisory mechanism for various types of micro finance institutions established and operated under different acts is also the matter of concerns.

Adoption of NFRS

4.17 Institute of Chartered Accountants of Nepal (ICAN) has announced a roadmap to gradually adopt Nepal Financial Reporting Standard (NFRS). The Monetary Policy of F.Y. 2014/15 also requires BFIs to adopt NFRS by 2017. For this NRB has already issued a migration guideline for the BFIs. NRB has said that its prudential regulations will remain in force until further notice and requires them to reconcile the differences in NFRS complied statements and regulatory standards. Thus, industry is in the process of adopting the NFRS. Impairment of assets and recognition of income are being taken as the main issue regarding the adoption of NFRS.

Development of Proactive Banking Industry

4.18 Banking industry in Nepal is still focused on compliance of regulatory minimum standards. They are emphasizing more on the compliance of the directives and circulars issued by Nepal Rastra Bank and confining their prudent practices to those things only, being just reactive to those norms. However, NRB expects them to adopt international best practices and take proactive measures for the prudent banking. NRB has been endeavouring to make them proactive by issuing different guidelines at different times. Additionally, many banks are operating with their short term plans, mostly annual budgets, though few of them have developed strategic plans.

Annexes

Annex 1: Details of Development Banks List of National Level Development Banks

S.N.	Name of the Development Bank	Date of Establishment	Head Office	Areas of operation
1	NIDC Development Bank Ltd.	1959/6/15	Durbar Marg, Kathmandu	National Level
2	Siddhartha Development Bank Ltd.	2000/6/26	Tinkune, Kathmandu	National Level
3	Gorkha Development Bank (Nepal) Ltd.	2004/12/5	Putalisadak, Kathmandu	National Level
4	Clean Energy Development Bank Ltd.	2006/9/7	Sitapaila, Kathmandu	National Level
5	Muktinath Bikas Bank Ltd.	2007/1/3	Pokhara, Kaski	National Level
6	Ace Development Bank Ltd.	2007/8/15	Narayanchaur, Kathmandu	National Level
7	Jyoti Bikas Bank Ltd.	2008/7/24	Kamalpokhari, Kathmandu	National Level
8	International Development Bank Ltd.	2009/9/4	Teku, Kathmandu	National Level
9	Tourism Development Bank Ltd.	2010/3/18	New Baneshwor, Kathmandu	National Level
10	Society Development Bank Ltd.	2011/6/15*	Kamaladi, Kathmandu	National Level
11	Business Universal Development Bank Ltd.	2012/4/4*	Anamnagar, Kathmandu	National Level
12	Kasthamandap Development Bank Ltd.	2012/4/13*	New Road, Kathmandu	National Level
13	Kailsh Bikash Bank Ltd.	2012/4/24	Putalisadak, Kathmandu	National Level
14	Infrastructure Development Bank Ltd.	2012/7/10*	Ghantaghar, Kathmandu	National Level
15	Supreme Development Bank Ltd.	2012/7/13*	Tinkune, Kathmandu	National Level
16	Vibor Bikas Bank Ltd.	2012/9/2*	Tripureshwor, Kathmandu	National Level
17	Yeti Development Bank Ltd.	2013/7/15*	Durbar Marga Kathmandu	National Level
18	Apex Development Bank Ltd.	2013/7/15*	Durbar Marg, Kathmandu	National Level
19	Reliable Development Bank Ltd.	2014/4/16*	Sundhara, Kathmandu	National Level
20	Sangrila Development Bank Ltd.	2014/7/13*	Baluwatar, Kathmandu	National Level
21	Triveni Bikas Bank Ltd.	2015/6/1*	Bharatpur, Chitwan	National Level
22	Deva Bikash Bank Ltd.	2015/7/10*	Laldurbarmarga, Kathmandu	National Level
23	Fewa Bikas Bank Ltd.	2015/7/13*	Pokhara, Kaski	National Level
24	Garima Bikas Bank Ltd.	2015/7/14*	Pokhara, Kaski	National Level

List of Development Banks Operating in Ten Districts

S.N.	Name of the Development Bank	Date of Establishment	Head Office	Areas of operation
1	Malika Bikash Bank Ltd.	1999/11/11	Dhangadhi, Kailali	Achham, Doti, Dadeldhura, Kanchanpur, Kailali, Bardiya, Banke, Dang, Kapilbastu, Rupandehi
2	Paschimanchal Development Bank Ltd.	2003/04/03	Mitrapark, Rupandehi	Rupandehi, Nawalparasi, Palpa, Kapilbastu, Dang, Banke, Syanja, Kaski, Chitwan
3	Bhrikuti Bikas Bank Ltd.	2004/09/03	Butwal, Rupandehi	Rupandehi, Nawalparasi, Kapilbastu, Chitwan, Syanja, Palpa, Arghakhachi, Gulmi, Dang, Rolpa
4	Gandaki Bikas Bank Ltd.	2005/01/25	Pokhara, Kaski	Chitwan, Syanja, Kaski, Lamjung, Parbat, Tanahu, Gorkha, Rupandehi, Nawalparasi, Baglung
5	Sewa Bikas Bank Ltd.	2007/02/25	Butwal, Rupandehi	Rupandehi, Nawalparasi, Kapilbastu, Palpa, Syangha, Chitawan, Gulmi, Arghakhachi, Dang, Bake
6	Country Development Bank Ltd.	2007/10/04	Banepa, Kavre	Kavrepalanchowk, Sindhupalchowk, Sindhuli, Bara, Parsa, Makawanpur, Chitwan, Nawalparasi, Rupandehi, Kapilbastu
7	City Development Bank Ltd.	2007/10/19	Pokhara, Kaski	Kaski, Tanahu, Lamjung, Syanja, Myagdi, Parbat, Baglung, Manang, Gorkha, Chitwan
8	Kamana Bikas Bank Ltd.	2007/10/29	Pokhara, Kaski	Kaski, Tanahu, Lamjung, Dhading, Nawalparasi, Rupandehi, Makawanpur, Parsa, Syanja, Chitwan
9	Ekata Bikash Bank Ltd.	2011/10/24	Butwal, Rupandehi	Rupandehi, Kapilvastu, Dang, Rukum, Pyuthan, Rolpa, Surkehet, Kailali, Salyan, Banke
10	Shine Resunga Development Bank Ltd.	2009/02/22	Tamghas, Gulmi	Rupandehi, Nawalparasi, Arghakhachi, Gulmi, Palpa, Dang, Pyuthan, Kapilvastu, Baglung, Chitwan
11	Professional Diyalo Bikas Bank Ltd.	2013/6/30	Banepa, Kavre	Kavrepalanchowk, Sindhupalchowk, Dolkha, Sinduli, Makwanpur, Nawalparasi, Chitwan, Rupandehi, Tanahu, Kaski
12	Araniko Development Bank Ltd.	2013/7/14*	Dhulikhel, Kavre	Kavrepalanchowk, Sindhuli, Dhanusa, Dolkha, Mahottari, Udayapur, Sunsari, Morang, Makwanpur, Parsa
13	Biratlaxmi Bikas Bank Ltd.	2014/5/7*	Biratnagar, Morang	Morang, Sunsari, Jhapa, Sankhuwasabha, Dhankuta, Terhathum, Bhojpur, Ilam, Taplejung and Panchthar

List of Development Banks Operating in Three Districts

S.N.	Name of the Development Bank	Date of Establishment	Head Office	Areas of operation
1	Narayani Development Bank Ltd.	2001/10/17	Ratna Nagar, Chitawan	Nawalparasi, Chitwan, Makawanpur
2	Sahayogi Bikas Bank Ltd.	2003/10/23	Janakpurdham, Dhanusha	Dhanusa, Mahottari, Sindhuli
3	Karnali Bikash Bank Ltd.	2004/02/18	Nepalgunj, Banke	Banke, Bardiya, Dang
4	Shubhechchha Bikas Bank Ltd.	2004/09/26	Narayangadh, Chitawan	Makawanpur, Chitwan, Nawalparasi
5	Excel Development Bank Ltd.	2005/07/21	Birtamod, Jhapa	Ilam, Jhapa, Morang
6	Western Development Bank Ltd.	2005/09/15	Ghorahi, Dang	Dang, Banke, Kapilbastu
7	Miteri Development Bank Ltd.	2006/10/13	Dharan, Sunsari	Jhapa, Morang, Sunsari
8	Tinau Bikas Bank Ltd.	2006/11/01	Butwal, Rupandehi	Rupandehi, Nawalparasi, Chitwan
9	Kankai Bikas Bank Ltd.	2007/05/03	Damak, Jhapa	Jhapa, Ilam, Morang
10	Mahakali Bikas Bank Ltd.	2007/08/18	Mahendranagar, Kanchanpur	Kanchanpur, Kailali, Dadeldhura
11	Bhargav Bikas Bank Ltd.	2007/08/30	Nepalgunj, Banke	Kavre, Dang, Bardiya
12	Alpine Development Bank Ltd.	2007/10/05	Hetauda, Makawanpur	Makawanpur, Chitwan, Kavre
13	Corporate Development Bank Ltd.	2007/11/07	Birgunj, Parsa	Parsa, Makawanpur, Kavrepalanchowk
14	Pathibhara Bikas Bank Ltd.	2007/11/21	Urlabari, Morang	Jhapa, Morang, Sunsari
15	Purnima Bikas Bank Ltd.	2008/05/20	Siddharthanagar, Rupandehi	Rupandehi, Nawalparasi, Chitwan
16	Kanchan Development Bank Ltd.	2009/09/19	Mahendranagar, Kanchanpur	Kailali, Kanchanpur, Dadeldhura
17	Innovative Development Bank Ltd.	2009/11/13	Siddharthanagar, Rupandehi	Rupandehi, Nawalparasi, Chitwan
18	Metro Development Bank Ltd.	2009/12/16	Pokhara, Kaski	Kaski, Myagdi, Lamjung
19	Raptibheri Bikas Bank Ltd.	2010/01/15	Nepalgunj, Banke	Banke, Bardiya, Dang
20	Mission Development Bank Ltd.	2010/06/15	Butwal, Rupandehi	Rupandehi, Nawalparasi, Kapilbastu
21	Sindhu Bikas Bank Ltd.	2010/09/09	Barhabise, Sindhupalchowk	Sindhupalchowk, Kavre, Dolkha
22	Nepal Community Development Bank Ltd.	2010/11/03	Butwal, Rupandehi	Rupandehi, Nawalparasi, Chitwan
23	Manasalu Bikash Bank Ltd.	2010/12/14	Buspark, Gorkha	Gorkha, Tanahu, Chitwan
24	Kalinchowk Development Bank Ltd.	2011/11/21	Charikot, Dolkha	Dolkha, Ramechhap, Sindhuli
25	Saptakoshi Development Bank Ltd.	2012/10/02	Tankisunuwari, Morang	Morang, Ilam, Panchthar
26	Sajha Bikash Bank Ltd.	2013/04/30	Dhangadi, Kailali	Kailali, Kanchanpur, Bardiya
27	Green Development Bank Ltd.	2013/08/25	Baglung Bazar	Baglung, Myagdi, Kaski

List of Development Banks Operating in One District

S.N.	Name of the Development Bank	Date of Establishment	Head Office	Area of operation
1	Kabeli Bikas Bank Ltd.	2007/12/16	Hulaktole, Dhankuta	Dhankuta
2	Bagmati Development Bank Ltd.	2009/03/23	Hariwon, Sarlahi	Sarlahi
3	Hamro Bikas Bank Ltd.	2009/04/19	Battar, Nuwakot	Nuwakot
4	Kakre Bihar Bikas Bank Ltd.	2009/05/15	Birendranagar, Surkhet	Surkhet
5	Pacific Development Bank Ltd.	2009/07/26	Beshishahar, Lamjung	Lamjung
6	Matribhumi Bikas Bank Ltd.	2009/10/09	Sindhulimadi, Sindhuli	Sindhuli
7	Jhimruk Bikas Bank Ltd.	2009/12/14	Bagdula, Pyuthan	Pyuthan
8	Gaumukhee Bikas Bank Ltd.	2010/01/25	Bijuwar, Pyuthan	Pyuthan
9	Mount Makalu Development Bank Ltd.	2010/07/21	Basantapur, Terhathum	Terhathum
10	Sahara Bikas Bank Ltd.	2010/10/27	Malangawa, Sarlahi	Sarlahi
11	Cosmos Development Bank Ltd.	2010/11/17	Shaktichowk, Gorkha	Gorkha
12	Salpa Bikash Bank Ltd.	2012/07/16	Diktel, Khotang	Khotang

**Joint operation date after Merger*

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

Annex 2
Inspection of Development Banks (FY 2014/15)

S. N.	NATIONAL LEVEL			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1	Reliable Development Bank Ltd.	Supreme Development Bank Ltd.	Kailash Bikas Bank Ltd.	Business Universal Development Bank Ltd.
2		Vibor Bikas Bank Ltd.	Shangrila Development Bank Ltd.	NDEP Development Bank Ltd.
3		NIDC Development Bank Ltd.	Yeti Development Bank Ltd.	Kasthamandap Development Bank Ltd.
4		Siddhartha Development Bank	International Development Bank Ltd.	Apex Development Bank Ltd.
5			Jyoti Bikas Bank Ltd.	Ace Development Bank Ltd.
6			Tourism Development Bank Ltd.	Society Development Bank Ltd.
7			Infrastructure Development Bank Ltd.	
8			Clean Energy Development Bank Ltd.	
	1	4	8	6

S. N.	10 DISTRICTS LEVEL			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1	Bishwa Bikash Bank Ltd.	Araniko Development Bank Ltd.	Malika Vikas Bank Ltd.	City Development Bank Ltd.
2	Sewa Bikas Bank Ltd.	Kamana Bikash Bank Ltd.		Garima Bikas Bank Ltd.
3	Gandaki Bikas Bank Ltd.	Muktinath Bikas Bank Ltd.		
4	Professional Diyalo Bikas Bank Ltd.			
5	Biratlxaxmi Bikas Bank Ltd.			
	5	3	1	2

S.N.	3 DISTRICTS LEVEL			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1	Saptakoshi Development Bank Ltd.	Karnali Bikas Bank Ltd.	Tinau Development Bank Ltd.	Alpine Development Bank Ltd.
2	Manaslu Bikas Bank Ltd.	Shubhechha Bikash Bank Ltd.	Mission Development Bank Ltd.	Excel Development Bank Ltd.
3	Sahayogi Bikas Bank Ltd.	Kanchan Development Bank Ltd.	Nepal Community Development Bank Ltd.	
4	Pathibhara Bikas Bank Ltd.		Kankai Bikas Bank Ltd.	
5	Miteri Development Bank Ltd.		Ekata Bikas Bank Ltd.	
6	Green Development Bank Ltd.		Sajha Bikas Bank Ltd.	
6		3	6	2

S.N.	ONE DISTRICT LEVEL			
	1st Term	2nd Term	3rd Term	4th Term
1	Civic Development Bank Ltd.	Bagmati Development Bank Ltd.		
2	Cosmos Development Bank Ltd.	Pacific Development Bank Ltd.		
3	Nilgiri Bikas Bank Ltd.	Mahakali Bikas Bank Ltd.		
4	Gaumukhi Bikas Bank Ltd.			
5	Jhimruk Bikas Bank Ltd.			
6	Sahara Bikas Bank Ltd.			
6		3	0	0

Annex 3

Targeted Inspection of Development Banks (FY 2014/15)

S.N.	Name	Working Area	Inspected Quarter
1	Shangrila Development Bank Ltd.	National	1 st
2	Cosmos Development Bank Ltd.	1 District	1 st
3	Western Development Bank Ltd.	3 Districts	2 nd

Annex 4

Special Inspection of Development Banks (FY 2014/15)

S.N.	Name	Working Area	Inspected Quarter
1	Vibor Bikas Bank Ltd.	National	1 st
2	Yeti Development Bank Ltd.	National	1 st
3	Mission Development Bank Ltd.	3 Districts	1 st
4	Shangrila Development Bank Ltd.	National	1 st
5	Shine Resunga Development Bank Ltd.	10 Districts	1 st
6	Triveni Development Bank Ltd.	10 Districts	1 st
7	International Development Bank Ltd.	National	1 st
8	Siddhartha Development Bank Ltd.	National	1 st
9	Supreme Development Bank Ltd.	National	1 st
10	Hamro Bikas Bank Ltd.	1 District	1 st
11	Infrastructure Development Bank Ltd.	National	1 st
12	Nepal Community Development Bank Ltd.	3 Districts	2 nd
13	Rising Development Bank Ltd.	3 Districts	2 nd
14	Narayani Development Bank Ltd.	3 Districts	2 nd
15	Country Development Bank Ltd.	10 Districts	2 nd
16	NIDC Development Bank Ltd.	National	2 nd
17	Corporate Development Bank Ltd.	3 Districts	3 rd
18	Yeti Development Bank Ltd.	3 Districts	3 rd

Annex 5

Follow up Inspection of Development Banks (FY 2014/15)

S.N.	Name	Working Area	Inspected Quarter
1	Kailash Development Bank Ltd.	National	1 st
2	Corporate Development Bank Ltd.	3 Districts	1 st
3	Bright Development Bank Ltd.	3 Districts	1 st
4	Triveni Development Bank Ltd.	10 Districts	2 nd

Annex 6

International Training and Seminar Participation from DBSD (FY 2014/15)

S.N	Name of Subject	Organizer	Country	Days	Participants
1	SEACEN CGFS Workshop	SEACEN Centre	Singapore	7	1
2	Basel III	FSI-BIS	Switzerland	9	1
3	Financial Stability, Financial Surveillance and Macro Prudential Policy	Bank Nagara Malaysia	Malaysia	9	1
4	Risk Management Market, Liquidity and Operational Risk	Financial Stability Institute	Switzerland	8	1
5	Promoting Financial Stability Through Enhanced Bank Transparency	The SEACEN Centre	Malaysia	6	1
6	Capital Adequacy and Basel III	Bank of Int'l Settlements	Phillipines	8	1
7	Operation Risk Management etc.	Deutsche Bundesbank	Germany	8	1
8	Portfolio at Risk and Bank Failures	Central Bank of Sri Lanka	Srilanka	7	2
9	MAS Banking Supervisors Training Programme	MAS	Singapore	8	1
10	Regulation & Supervision of Banks & Non Bank Financial Institutions	Central Bank of Sri Lanka	Srilanka	9	5
11	International Central Banking Course	NIBAF	Pakistan	30	1
12	Stress Testing in Supervision and Management.	Bank for int'l Settlements	Thailand	7	1
13	Liquidity Risk Management and Supervision.	Bank for int'l Settlements	China	7	2
14	Stress Testing: Supervision Techniques and Bank Practices.	Bank for int'l Settlements	Hong Kong	7	1
15	Effective Credit Appraisal and Credit Risk Management.	Central Bank of Srilanka	Srilanka	7	1

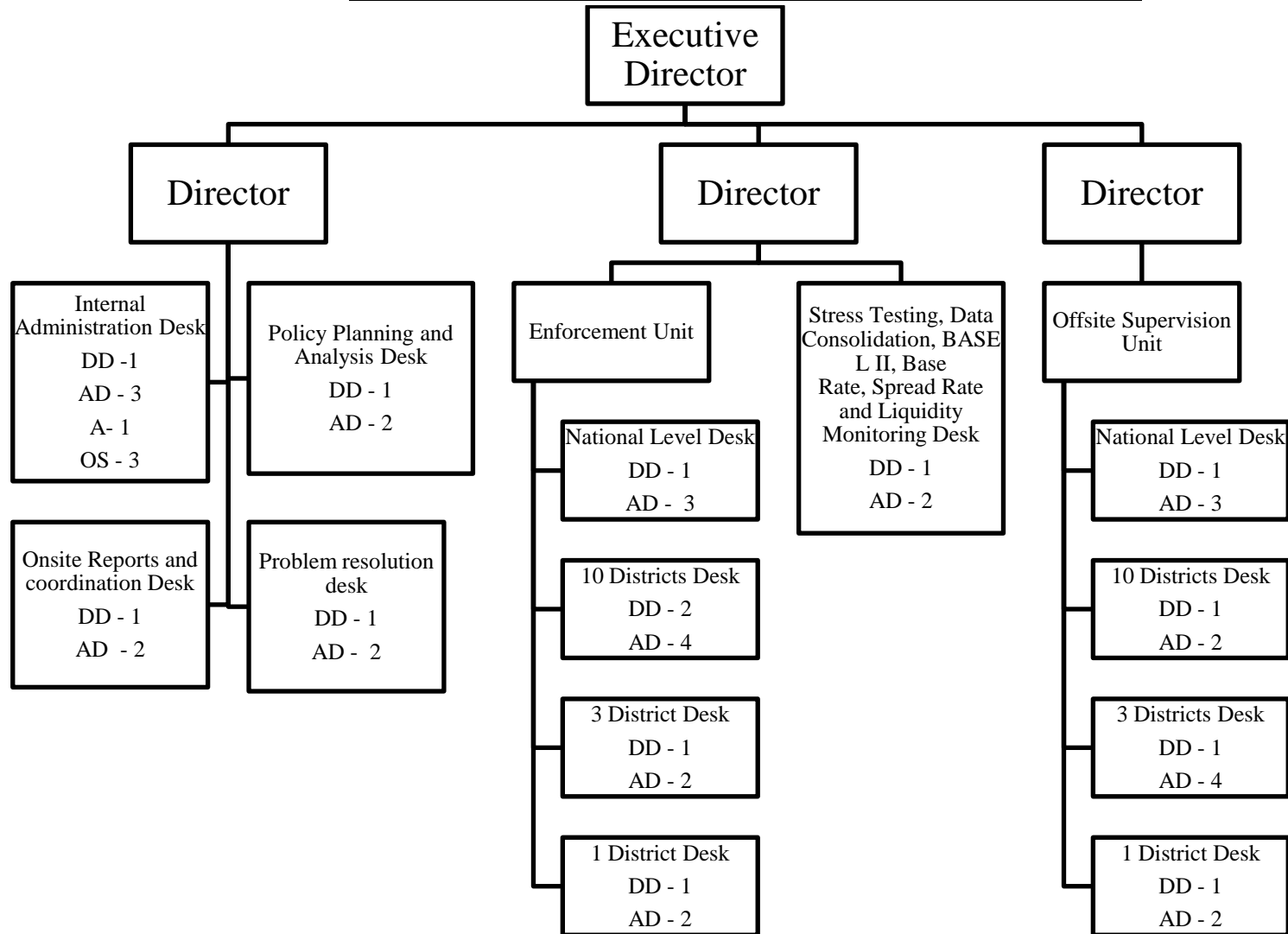
Annex 7

Main Circulars issued to Bank and Financial Institutions (FY 2014/15)

S.N.	Name and Link to the Circular Issued to A, B & C Class Financial Institutions
1	Circular 01- Cash Reserve Ratio
2	Circular 02-Ammendments on ECC
3	Circular 03-General Refinance
4	Circular 04-Paid up capital & Deprive se
5	Circular 05- Redemption Reserve, Deprived Sector & Limit for held for trading investment
6	Circular 06-Guarantee related loan
7	Circular 07-Promoter Group
8	Circular 08-Cash Dividend for tax purpose & CRR for Dashain Holiday
9	Circular 09-Amendment on Good for Payment
10	Circular 10-Yuva Krishi Karja Karyabidhi
10.1	Circular 10-Attachement Yuva Krishi Karja Karyabidhi
11	Circular 11-Addition in Promoter's Share Foreign Investment
12	Circular 12-Dematerialization of shares as security
13	Circular 13-Provision regarding Consumer Protection & Financial Literacy
14	Circular 14- regarding Blacklisting& Branch Expansion
15	Circular 15-Productive Sector Credit with attachment form no.17.1
16	Circular 16-Tenure, Credit to Managerial Level & Equity Related
17	Circular 17-Loan classification, amendment to consumer protection and other
18	Circular 18-Amendment in Yuba krishi karja karyabidhi
19	Circular 19-Deprived sector lending & simplified KYC form
20	Circular 20- Revised watch list
21	Circular 21-Non MICR Cheque Related
22	Circular 22-Regarding Uninterrupted Services
23	Circular 23-Prime Minister Disaster Relief Fund Related
24	Circular 24-Prime Minister Disaster Relief Fund Related
25	Circular 25-CRR Related
26	Circular 26-Earthquake Relief Refinance Procedure 2072
27	Circular 27-Branch Opening & KYC in Earthquake affected areas
28	Circular 28-Prime Minister Disaster Relief Fund Related
29	Circular 29-CRR Related
30	Circular 30-Post Earthquake Facilities
31	Circular 31-Non MICR Related

Note: This annex contains hyperlink that will directly lead you to NRB's website

Annex 8
Organization Chart of Development Bank Supervision Department



- DD – Deputy Director; AD – Assistant Director; A – Assistant ; OS – Office subordinates.
- Numbers in parentheses include number of staff.

Annex 9
Industry Statistics

All the data used for FY 2013/14 and 2014/15 are audited figures as far as possible. For FY 2014/15, six development banks namely Gorkha Development Bank Ltd, Apex Development Bank Ltd, Reliable Development Bank Ltd, Narayani Development Bank, Corporate Development Bank and Sajha Bikas Bank could not submit the audited data till 2072 Poush End. Thus, unaudited data has been used for these Development Banks.

Annex 9.1
DB's Operations: (Mid July 2014)

Particulars	Rs In billion					Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
Total Assets									
Industry	138.45	169.69	209.88	242.26	291.56	22.56	23.68	15.43	20.35
Deposits									
Industry	96.90	127.32	160.25	196.87	237.06	31.39	25.87	22.85	20.41
Loans and Advances									
Industry	88.97	100.62	132.73	159.55	193.47	13.09	31.91	20.21	21.26

Annex 9.2
Capital Fund

Particulars	Rs. In Billion					Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
Industry	23.41	23.85	26.75	31.02	37.17	1.88	12.16	15.96	19.83

Annex 9.3
Deposit Mix

Particulars	In Billion					Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
Current	2	3	3	4	5	42.82	10.73	35.23	28.68
Saving	43	61	83	104	121	41.79	36.58	25.58	16.09
Fixed	31	37	45	53	62	20.19	20.50	18.27	16.54
Other	21	26	29	35	48	25.68	10.20	20.90	38.28
Total	97	127	160	197	237	31.39	25.87	22.85	20.41

Annex 9.4
Non Performing Loan

Particulars	Non Performing loan to total loans and advances					Percentage change			
	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
Industry	4.92	4.65	4.15	3.37	2.82	-5.49	-10.75	-18.80	-18.80

Annex 9.5
Non Banking Assets

Particulars	Rs in Million					Percentage change			
	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
Industry	12.7	276.0	940.3	848.3	2390.0	2069.46	240.70	-9.78	181.74

Annex 9.6
Investment

Particulars	Amount in Million					Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
Industry	5,863.20	5,354.20	5,107.20	4,846.82	5,420.26	-0.10	-0.05	-0.05	0.11

Annex 9.7
Liquid assets to Deposits & Liquid assets to total assets

Rs. In billion

Year	2010/11	2011/12	2012/13	2013/14	2014/15
Liquid Assets	29.41	47.39	52.28	68.25	79.93
Deposit	96.89	127.30	160.24	200	237.06
Liquid Assets/Deposit	30.36%	37.22%	32.63%	34.14%	33.72%

Rs. In billion

Year	2010/11	2011/12	2012/13	2013/14	2014/15
Liquid Assets	29.41	47.39	52.28	68.25	79.93
Total Assets	138.45	169.69	209.88	242.26	291.04
Liquid assets/ Total Assets	21.24%	27.93%	24.91%	28.17%	28.17%

Annex 9.8
Operation efficiency of Development Banks

Particulars	Amount in Billion			Percentage Change	
	2012/13	2013/14	2014/15	2013/14	2014/15
Interest Income	19.98	21.58	22.68	8.04	5.09
Net Interest Income	7.58	8.97	10.85	18.36	20.94
Net Income	1.64	3.17	5.42	93.27	71.04

Annex 9.9
Consolidated financial figures of Development Banks

Figures on Million

SN	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14*	2014-15*
1	Capital and Liabilities	108,252.2	138,447.5	169,691.9	209,883.8	242,260.0	291,561.0
2	Capital	14,756.4	21,006.8	21,500.2	23,731.0	26,977.7	27,674.0
3	Reserves and Surplus	2,532.5	2,400.5	2,347.5	3,022.4	4,039.3	4,933.0
4	Borrowings	4,442.8	4,700.0	1,193.0	2,753.6	2,408.5	2,454.0
5	Deposits	76,950.8	96,886.7	127,300.1	160,244.4	196,870.4	237,063.0
6	Bills Payable	6.0	17.8	18.9	8.4	200.2	49.0
	Proposed Bonus Share	N/A	N/A	N/A	N/A	N/A	3,202.0
7	Other Liabilities	9,563.7	13,435.7	17,332.2	20,124.1	11,764.0	16,186.0
	Total Liabilities	90,963.3	115,040.2	145,844.2	183,130.4	211,243.0	263,880.0
8	Cash Balance	1,932.3	2,465.0	3,646.2	4,833.1	6,125.2	6,978.0
9	Balance With NRB	2,698.2	3,511.9	5,968.6	7,458.0	8,942.6	14,006.0
	Balance with other Banks and financial institutions	10,492.3	9,718.0	14,348.1	12,061.3	23,783.9	22,821.0
11	Money At call	10,913.5	13,716.4	23,424.5	27,931.3	29,401.4	36,120.0
12	Investment	6,801.8	5,863.2	5,354.2	5,107.2	4,845.8	5,420.0
13	Loan and Advances	65,838.1	88,969.0	100,621.8	132,729.4	159,547.0	193,471.0
14	Fixed Assets	2,774.8	3,828.1	3,904.5	4,742.9	4,159.5	4,162.0
15	Non- Banking Assets	24.3	12.7	276.0	940.3	848.3	2,390.0
16	Other Assets	6,776.9	10,363.1	12,148.0	14,080.2	4,606.2	6,193.0
	Total Assets	108,252.2	138,447.5	169,691.9	209,883.8	242,260.0	291,561.0

* Audited figures