



# **Development Bank Supervision Report**

**(FY 2019/2020)**



**Nepal Rastra Bank**  
**Baluwatar, Kathmandu, Nepal**  
**April 2020**

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Development Bank Supervision Department

Nepal Rastra Bank,

Central Office,

Baluwatar, Kathmandu,

Nepal

E-mail: [nrbdbds@nrb.org.np](mailto:nrbdbds@nrb.org.np)

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## Acronyms Used

ADB/N	:	Agricultural Development Bank , Nepal
BAFIA	:	Bank and Financial Institutions Act
BFI	:	Bank and Financial Institution
BFIRD	:	Bank and Financial Institution Regulation Department
BSD	:	Bank Supervision Department
CRR	:	Cash Reserve Ratio
DBs	:	Development Banks
DBSD	:	Development Bank Supervision Department
FINGO	:	Financial Non-governmental Organization
KYC	:	Know Your Customer
NBA	:	Non-Banking Asset
NBL	:	Nepal Bank Limited
NFRS	:	Nepal Financial Reporting Standard
NIDC	:	Nepal Industrial Development Corporation
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
RWA	:	Risk Weighted Asset
SACCO	:	Saving & Credit Cooperative
SLF	:	Statutory Liquidity Facility
SLR	:	Statutory Liquidity Ratio
STR	:	Suspicious Transaction Reporting
SSA	:	Simplified Standardized Approach
CCB	:	Capital Conservation Buffer

## Message from the Executive Director

Dear Esteemed Readers,

It is a matter of great pleasure to share with you all that performance of the development banks has been satisfactory despite Covid-19 pandemic in FY 2019/20. The Capital Fund ratio stands at a healthy 14.37 percent, NPL percentage hovers around at 1.48 percent, liquid asset to total asset ratio is at comfortable 28.75 percent. The average interest rate spread of development banks stands at 4.86 percent which is lower than the set limit for the industry. Deprived sector lending stands at 9.95 percent which is quite higher than the relevant minimum requirements as prescribed by NRB.

Development banks have been doing a commendable job of creating and enhancing access to financial services to the general public through their 1,029 branches spread all over the country. People now have more choices to fulfill their banking needs at their door steps. Development banks have indeed played crucial role to inculcate the banking habits in day to day life of rural people.

Major challenges for the Development Bank Supervision Department include implementing Risk Based Supervision in a more comprehensive manner and ensuring robust performance and stability of the industry. Global pandemic of Covid-19 has impacted financial sector through macro financial linkage and amplification through financial accelerator, which could lead decrease in profitability as well as erosion of capital in the banking sector.

Development Bank Supervision Report, 2020 depicts key performance areas of the development bank industry highlighting both its strengths and areas of improvement. I would like to take this opportunity to thank all of my colleagues in the department. A greater appreciation goes to colleagues at the Policy Planning & Analysis Unit in the department for their commendable job in drafting this report.

Finally, I would again like to thank all my colleagues in the department for their diligent and tireless efforts dedicated towards achieving the organizational objective and thereby contributing towards financial stability in the country. I would like to express my sincere gratitude to the Governor and Deputy Governors for their inspirational instructions, kind guidance and support bestowed to the department.

Pradeep Raj Poudyal  
Executive Director  
Nepal Rastra Bank  
Development Bank Supervision Department



# 1. AN OVERVIEW OF DEVELOPMENT BANKS IN NEPAL

- 1.1 The history of banking in Nepal dates back to the year 1937 AD with the establishment of Nepal Bank Limited as the first commercial. Later in the year 1956, Nepal Rastra Bank was established as the Central Bank of Nepal. Three government-owned financial institutions were later established by the Government of Nepal, namely, Nepal Industrial and Development Corporation (NIDC) in 1959, Rastriya Banijya Bank (RBB) in 1966 and Agriculture Development Bank Nepal (ADB/N) in 1968. By the 1980s, the Nepalese banking system was still limited to government ownership. The history of Development Banks in Nepal is supposed to have commenced with the establishment of NIDC previously also known as Industrial Development Bank.
- 1.2 With the introduction of liberalized economic policies in 1984, the Nepalese financial system witnessed major shifts in the policy measures. Some major changes in policies were the opening of the financial sector to private and foreign investors, interest rate deregulation, indirect monetary control, and convertibility of current account. As a result, the financial sector expanded gradually with the adoption of modern technology and new product/services came into existence. During this period many joint-venture and private banks entered the financial market. Along with commercial banks, NRB allowed entry of development banks, finance companies and financial institutions to increase people's access to financial services. After enactment of the umbrella legislation, the Banks and Financial Institutions Act, for bank and financial institutions, Financial institutions have been categorised in four categories namely, Commercial Banks as 'A-class', Development Banks as 'B-Class', Finance Companies as 'C-Class' and Microfinance Financial Institutions as 'D-Class'. These institutions are regulated, supervised and monitored by Nepal Rastra Bank (NRB) as per Section 5 of Nepal Rastra Bank Act, 2002 (Second Amendment 2017). Bank and Financial Institution Act, 2017 as an umbrella act abolished five other acts enacted for the establishment of Government-owned banks and financial institutions.
- 1.3 Till 1995, there were only a few development banks in the Nepalese banking industry. However, after 1999, there was a surge in the number of development banks along with other financial institutions over a decade. The number of DBs reached the highest in history at 88 in 2012. The establishment of banks and financial institutions however was not sufficient to increase access to the financial services in the country.
- 1.4 NRB suspended the issuance of licenses for establishing new A, B and C category financial institutions in December 2009. This resolution was not applicable for those special financial institutions contributing to national priority sectors such as agriculture,

energy and infrastructure development. Restriction on issuing of a new license for commercial banks, development banks and finance companies contributed towards financial sector consolidation through mergers and acquisitions measures.

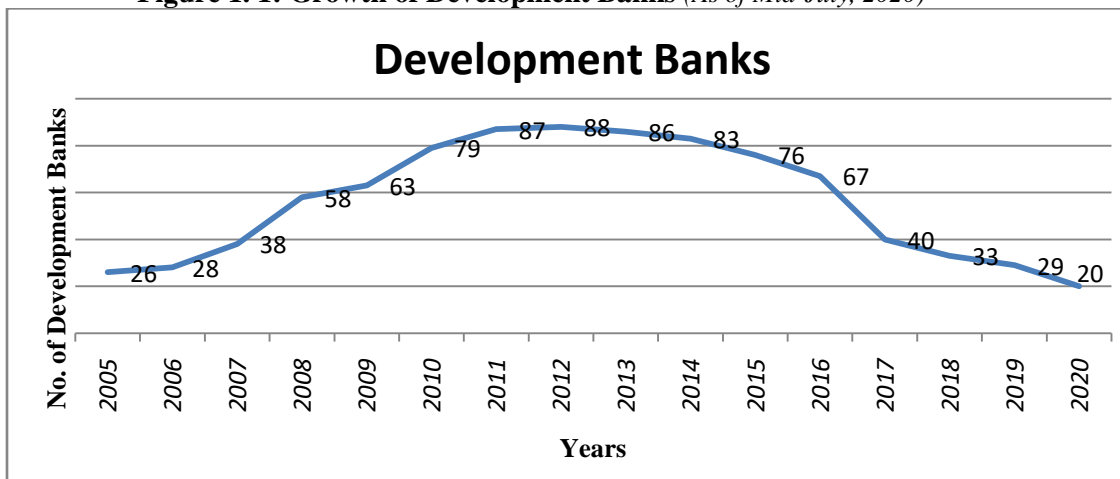
1.5 NRB is focusing on mergers and acquisitions of BFIs for its attempt to promote financial stability. It introduced a merger and acquisition policy by introducing Merger Bylaw 2068 and Acquisition Bylaw in 2070. Both bylaws were modified and unified to form Merger and Acquisition Bylaw, 2073. The objective of merger and acquisition was to downsize the number of BFIs to boost their strength and efficiency through the consolidation of existing BFIs. The number of development banks has decreased dramatically with the introduction of this policy.

1.6 In recent years, the banking system of Nepal is experiencing encouraging restructuring and consolidation, particularly through mergers and acquisitions. As of mid-July 2020, the total number of financial institutions stood at 154 comprising of 27 Commercial Banks, 20 Development Banks, 22 Finance Companies and 85 Microfinance Financial Institutions. The total numbers of BFIs were 171 in mid-July 2019.

1.7 For the last three years, the number of development banks is decreasing due to the merger and acquisition policy adopted by NRB. As of mid-July 2019, there were a total of 29 development banks in Nepal, with 11 'National Level' and 18 'Province/Regional Level' development banks operating within their jurisdictions which was reduced to a total of 20 as of mid-July 2020 comprising of 8 'National Level' and 12 'Province/Regional Level' development banks.

1.8 The figure below shows the trend in the growth of development banks in Nepal.

**Figure 1. 1: Growth of Development Banks (As of Mid-July, 2020)**



1.9 NRB has introduced mandates for 'A', 'B' and 'C' class BFIs to increase the paid-up capital at least by four times by the end of FY 2073/74. Thus, to meet this requirement, merger and acquisition among BFIs have been on the rise in recent years which has helped to reduce the number of BFIs and to develop their robustness. At the end of mid-July 2020, the total number of development banks reduced to 20. NRB has encouraged the merger and acquisition of BFIs to enhance the capability of BFIs and also to promote financial sector stability. Since the beginning of the merger time and up to mid-July 2020, the following development banks were either merged or acquired to form new BFIs.

**Table 1. 1 : List of Merged Development Banks Fy 2019/20**

<b>Merged BFIs</b>	<b>Name after Merger/ acquisition</b>
Shine Resunga Development Bank Ltd. Bhagav Bikas Bank Ltd. Purnima Bikas Bank Ltd.	Shine Resunga Development Bank Ltd.
Tinau Mission Development Bank Ltd. Nepal Community Development Bank Ltd.	Tinau Mission Development Bank Ltd

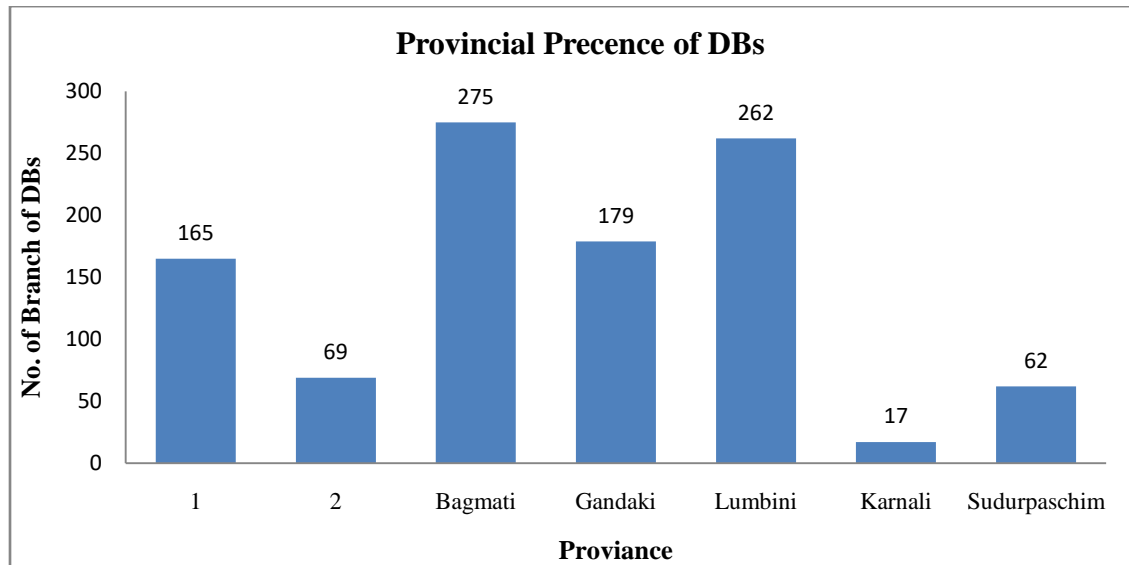
*(As of mid-July, 2020)*

1.10 As of mid-July 2020, 20 development banks are operating in the Nepalese banking industry comprising eight 'National Level' and 12 'Province/Regional Level' working areas. See Annex 3.

### **Access to Banking Services and Branch Network**

1.11 The total number of DB branches stood at 1,029 in mid-July 2020. NRB has been encouraging BFIs to open branches to rural areas to expand financial access inclusively for all the citizens of the nation. While the numbers of development banks (including head office/corporate office, branches and extension counters) are increasing each year, the banking services have been widely expanded in urban areas. There is a wide presence of development banks in Bagmati province (275 Branches) followed by Lumbini province (262 Branches) and nominal in Karnali province where there are only 17 branches of development banks are presented as on mid-July 2020. The major reasons behind the weak presence of development banks in Karnali Province are geographical complexities, poor infrastructure and low level of economic activities.

**Figure 1. 2: Provincial Presence of development banks** (As of Mid July 2020)



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

1.12 Development banks have been serving numerous customers throughout the nation. As of mid-July 2019, the number of depositors of the development banks stood at 4,075,010. Similarly, the number of borrowers stood at 302,441. The development bank-wise details of depositors and borrowers have been presented in Annex 16.

## 2. DEVELOPMENT BANK SUPERVISION

### Supervision Function

- 2.1 With the legal jurisdiction defined by Nepal Rastra Bank Act, 2002 (Second Amendment 2017) and the Bank and Financial Institution Act, 2017, NRB regulates, supervises and monitors licensed BFIs. Inspection and supervision byelaw, manuals, guidelines, directives and circulars are the main basis of supervision that promotes fair banking practice in the country. NRB supervisory system has been conducted through periodic assessments, including quarterly, semi-annually, and annually, compliance and risk-based supervision and forward looking supervision in order to maintain financial stability and the sound banking system for building public trust. The supervision activities focus on financial situation, good governance, compliance with laws and regulations, and risks that may affect the business. Supervision of BFIs promotes prudent banking system by continuous feedback and monitoring of their activities. Regular supervision and monitoring effort provides early warning signals (EWS) and proactive measures to maintain overall financial stability.
- 2.2 The DBSD has been conducting many supervisory activities and initiatives aimed at promoting robust, resilient and inclusive banking system. The DBSD is responsible for executing the supervisory policies and practices over development banks as per governing laws, regulations and policies. These included on-site examinations and off-site monitoring of development banks through the use of a compliance and risk-based supervision approach and off-site supervision system. Compliance based supervision focuses on both qualitative and quantitative aspects of development banks and ensures compliance with the governing laws, regulations and policies. Risk-based supervision is a structured supervisory process designed to identify key risk factors through qualitative and quantitative assessment of an institution's risk profile, assess the adequacy of the risk management policies and practices that are used to mitigate risk; and focus supervisory resources (including examination time) based on the risk characteristics of the institutions.
- 2.3 The DBSD prepares an annual onsite supervision plan before the new calendar year and supervises banks as per the plan approved by the senior management of the bank. The supervisory process includes mainly full-fledged on-site examination once a year, and special inspection, targeted inspection and follow up inspection as per requirement. An onsite inspection is supported by an offsite supervision function which is responsible for continuous monitoring the financial statements of development banks and prepares the indicators related to financial soundness and stability. Offsite supervision section regularly observes the early warning signals and ensures that development banks to comply all regulatory norms and compliance along with managing the overall inherent risks adequately. Furthermore, enforcement system facilitates correction if any and continuously monitors

progress regarding corrective action for the remarks and observations made by onsite inspection. The work division and staff composition of DBSD is detailed in organization structure in Annex 8.

## Supervision Methodology

2.4 The DBSD continues to adopt and implement the core principles for effective banking supervision (core principles) prescribed by the Basel Committee on Banking Supervision (BCBS). Development banks are supervised through onsite inspection and offsite surveillance. Onsite inspection has adopted risk based approach for the national level development banks and compliance based approach for regional level development banks. NRB has implemented BASEL III parallel run for national level development banks, BASEL II for all level development banks and required to calculate their capital fund according to Capital Adequacy Framework, 2007 (updated July, 2008). However, basic elements of Capital Adequacy, Asset Quality, Management Competence, Earning, Liquidity, and Sensitivity to Market Risk (CAMELS) are closely observed to assess compliance, stability, sustainability, governance and overall risk exposure of class “B” institutions.

DBSD collects and compiles information regarding liquidity and monitors liquidity position of development banks on a daily basis. It also reviews and analyzes returns of development banks and then, prepares reports to detect emerging problems and early warning signals. The returns are used to evaluate the exposure to risks and the effect that could have on profits. The statutory returns are the primary source for computing basic ratios (financial soundness indicators) to analyze Capital Adequacy, Assets Quality, Earnings, Liquidity and Sensitivity to Market Risk (CAELS). Beside this, DBSD also reviews and analyzes the audited financial statements of development banks and provides approval for distribution of dividends and publication of audited financial statements. Development Banks are required to make online reporting of transactions through <https://reporting.nrb.org.np> on daily, monthly and quarterly basis. Data received through such online reporting portal have become basis for reviewing and analyzing the financial position of development banks. Development Banks are encouraged to follow Stress Testing Guideline for proper management of assets and liabilities.

## Organization of Development Bank Supervision Department

2.5 Nepal Rastra Bank Inspection and Supervision Bylaw defines organizational structure of the DBSD which is similar with other supervision departments including BSD. Based on NRB Inspection and Supervision Bylaw, 2017, DBSD is organized into Internal Administration Unit, Policy Planning and Analysis Unit, On-site Supervision Unit, Off-site Supervision Unit and Enforcement Unit.

## **Divisions/Units in DBSD and their functions:**

### **On-site Inspection Unit**

2.6 Onsite inspection of development banks is conducted as per the approved annual plan based on the Onsite Inspection Manual. It forms an integral part of the comprehensive supervision process. The objective of onsite inspection is to determine the financial condition of banks as well as adequacy of their risk management systems.

2.7 On-site examination includes the following:

- *Initial examination*, generally conducted within six months of commencement of operation for a newly established institution.
- *Routine full-fledged*, corporate-level inspection, which is the regular examination, generally carried out once a year.
- *Targeted inspection*, which addresses on specific areas of operation or transaction based on the risk profile of development banks.
- *Special inspection*, carried out based on offsite reports, press allegation, legal charges or any information obtained from external sources that appear as a complaint against possible wrong action by development banks, undertaken against general welfare of public interest and any pertinent issue felt by the bank. The special inspection undertaken by the department in the review year is summarized in Annex 5.
- *Follow-up* inspection is carried out to examine on adherence on the enforcement instructions given to institution in a previous inspection. The follow-up inspection undertaken by the department in the review year is summarized in Annex 6.

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

2.9 The major remarks and non-compliance observed during on-site examinations in FY 2019/20 are summarized below:

**2.9.1 Capital Adequacy:**

- ICAAP Policy not properly implemented.
- Errors in calculation of Risk Weighted Asset (RWA).
- Insufficient loan loss provision provided for credit and investment
- Errors on amount of irrevocable loan commitment while calculating RWA.
- Lack of proportionate increase in paid up capital of development banks with one district jurisdiction.
- Lack of long term strategic plan.
- Lapses in deducting fictitious assets, related party lending, lease expenditure, deferred tax assets and investment in related business activities.

**2.9.2 Asset Quality:**

- Lack of robust credit appraisal system and absence of analysis of business plan.
- Lack of adequate documentation in credit files (e.g. credit information report, tax clearance certificate, audited financial statements, stock and project inspection report, frequent revaluation of property, inadequate insurance of collateral and assets, etc.).
- Wrong categorization of credit in sectoral classification and product wise classification.
- Loan not utilized on intended purpose.
- Short term loan provided for capital nature requirement such as land and building or development of real estate and long term loan disbursed for short term requirements. Personal loans are disbursed without proper assessment of the purpose. Disbursements of term loan without identifying needs of borrower.
- Lack of Credit Risk Management Policy.
- Lack of tagging the group exposure of related parties in core banking system and credit files.
- Absence of proactive and robust loan loss provisioning system.
- Weak post disbursement monitoring mechanism for working capital loans.
- Unrealistic presentation of financial projections of institutional borrowers.
- Deviation between Credit Policy Guidelines (CPG) and the NRB directives.
- Non-compliance of the NRB Directives regarding credit information and multiple banking. Credit information were not analyzed properly for renewal or extension of facilities.
- Inadequate monitoring of credit utilization by the customers.
- Unrealistic and mismatch in the financial statements of borrowers.



- Lack of adequate disclosure and transparency regarding fees, interest rate, penalties and other tariffs.
- Lapses in valuation of collateral with respect to rates, ownership pattern and road access.
- Lack of adequate monitoring mechanism and reporting of deprived sector loan.
- Irregularities in Credit Management Practice, lack of proper mechanism to identify, measure, monitor and control or mitigate the risks.
- BOD decisions against policy guidelines and manuals.
- Multiple periodic temporary extension of credit files.

### **2.9.3 Management:**

- Board oversight is inadequate in terms of policy, framework and tolerance limit.
- Corporate governance issues of BOD members and senior management.
- Succession gap and vacant position at top level management.
- Lack of performance appraisal of senior level management.
- Issues on qualification and experiences of board members. Insufficient quorum of BOD. Board spends most of the time in discussion of credit files rather than policy related issues.
- Lack of strategic plans, risk management policies and procedures, succession planning and other policies. Lack of timely review of the existing policies.
- Risk Appetite and Risk Exposure not determined by the management.
- Absence of proper disclosure of Risk Taker as required by Unified Directives.
- Weak and inadequate human resources management practices. Lack of best practices in terms of staff recruitment and selection.
- Lapses in internal control and less effective internal audit as well as weak compliance department. Non-compliance of issues raised in internal audit reports, NRB reports and directives.

### **2.9.4 Earning:**

- Higher interest spread rate.
- Non-compliance of service fees related guidelines.
- Issues on income recognition, lack of diversification in income.
- Absence of analyzing core deposits on timely basis.

### **2.9.5 Liquidity:**

- Lack of liquidity contingency plan.
- Weaknesses in monitoring liquidity profile and gap analysis.
- Huge gap in short term asset and liabilities.
- Concentration on highly volatile nature institutional and call deposits

### **2.9.6 Sensitivity To Market:**

- Weak board oversight regarding the overall inherent risks.
- Incompetency in analyzing external market conditions.
- Investment Policy not formulated/implemented.
- Challenging macroeconomic and global environment.

### **2.9.7 Others**

- Lack of Disaster Recovery & Business Continuity Plan.
- Operation risk due to high staff turnover.
- Weak AML/CFT Compliance.
- Year end/quarter end window dressing of loan, unauthorized movement in client's account by staff.
- Ignorance towards threats from operational risks.

## **Off-Site Supervision Unit**

2.10 The offsite supervision unit carries out off-site surveillance of the development banks. The core objective of this function is to conduct periodic financial reviews of development banks in order to identify potential problems and compliance situation of an organization as per directives issued by the bank and prevailing laws.

2.11 The off-site supervision unit is responsible for supervision of DB operations on the basis of returns submitted, review data and deal with the deviations if any. The unit also monitors key ratios of each bank and prepares quarterly consolidated financial report. Another important function of the offsite supervision unit is providing approval for publication of audited financial statements through annual general meeting. It also monitors whether the proposed dividend is justifiable in accordance with the financial position of the DB. Apart from these, the unit reviews compliance in terms of Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Productive Sector Lending and Deprived Sector Lending and impose fine as per directive in case of non-compliance if any. Table no. 2 shows important directives implemented during the review year.

**Table 2. 1: Important Directives regarding Capital, Credit and Liquidity for Development Banks (Effective for FY 2019/20)**

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

### Cash Reserve Ratio (CRR)

2.12 BFIs are the backbone of the payment system and are the major counterparts of implementation of monetary policy. As an important monetary instrument, NRB applies CRR to control money supply in the economy. The CRR position of BFIs is monitored on fortnightly basis. For development banks, the cash reserve ratio (CRR) in the review period was three percent of total local currency deposits. Banks that fail to maintain such reserves shall be imposed fines as per directives. The penalty rate escalates for repeated violations. All development banks, except eight development banks, were found complying with CRR aforementioned in the review year.

### **Directed Lending (Deprived Sector Lending)**

2.13 Bank and Financial Institutions must allocate certain portion of their total loan portfolio in the deprived sector as directed lending. Development banks have a mandatory requirement to disburse five percent of total loan of last two quarter in this sector. The average deprived sector lending of the development banks stands at 9.95 percent in the review year. Development banks that fail to maintain the minimum requirement in deprived sector lending as per regulatory requirement is entitled to monetary penalty. In the review year, all development banks, except Corporate Development Bank Ltd., have complied the provision.

### **Statutory Liquidity Ratio (SLR)**

2.14 Development banks have a regulatory obligation to maintain statutory liquidity ratio (SLR) of eight percent (including CRR) of their total domestic deposit liabilities. Failure to meet such obligation results in monetary penalties computed on the basis of bank rate as per directives. During the review year, all development banks were found complying with directives regarding SLR.

### **Capital Adequacy Ratio (CAR)**

2.15 Capital adequacy ratio is the measure of the adequacy of a bank's capital resources in relation to its risk-weighted assets. It is based on the concept of weighing the on and off-balance sheet exposures according to the perceived level of risks, and ultimately, measuring the capital base against total risk-weighted assets.

The minimum capital requirements for all level development banks is to be calculated on the basis of Capital Adequacy Framework, 2007 (Updated July 2008). The overall Core Capital Ratio of the development banks in the review year is 13.15 percent and Capital Fund ratio is 14.37 percent.

### **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 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 periodical data of the industry and explores best practices and emerging issues in a global supervision and regulation arena. This unit explores the areas of new initiatives and global practices on supervision and responsible for preparation of quarterly and annual reports of the department as required by the Inspection and Supervision Byelaw. This unit also works as the secretariat of the Policy Direction Implementation Committee and Resolution Committee regarding the issues of development banks.

## **Enforcement Unit**

2.17 Enforcement Unit is responsible for ensuring the compliance of directives issued to BFIs and position of execution of the directions given to the individual banks through on-site reports and implementation of punishment related issues such as imposed fines and penalties. This unit mainly prepares half yearly reports of individual development banks focusing on major financial indicators and the compliance status of the directions given to the concerned financial institution.

## **Internal Administration Unit**

2.18 The Internal Administration Unit performs the functions related to human resources management and internal administration of the department. It includes internal placement, issuance of travel orders, maintaining leave records and also serves 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 and efficiently.

## **Supervision during Covid-19 pandemic**

2.19 Nepal government imposed nationwide lockdown from 24 March 2020 to minimize the adverse effect of Covid-19 pandemic. NRB has paused onsite inspection schedules during the pandemic period. In the mean time, NRB focused on offsite supervision of BFIs through regular reporting. DBSD has also started to prepare separate report of impact of Covid-19 on development banks on monthly basis from March 2020. For this, the department has appointed separate officer for individual development banks for close monitoring purpose.

2.20 Along with some in-house study reports, NRB has published a research study on impact of Covid-19 on Nepalese economy on July 2020. Based on in-house study and other published survey reports, NRB provided regulatory relaxation on income and assets quality recognition, capitalization and CCD ratio, uplifted CCB, deferral payments rescheduled, increased grace period, restructuring and rescheduling as per assessments of BFIs, upfront additional limits and almost paused recovery process. These regulatory responses aimed to provide relief banking sector and maintain financial stability during the pandemic.

### 3. OPERATIONAL PERFORMANCE OF DEVELOPMENT BANKS

#### Performance of Development Banks

- 3.1 Development banks have maintained buffers on regulatory capital and liquidity over current regulatory requirements. They have also remained profitable and also able to withstand various shocks arised from Covid-19 pandemic. There has been significant decrease in deposits and lending during FY 2019/20 basically due to a decrease in the number of development banks. However, there has been significant increment in business volumes of individual development banks that in turn had a positive impact on profit. Even though, development banks have enough capital and liquidity to meet regulatory requirement, there still seems to be a need for greater resilience among development banks to withstand possible liquidity and credit shocks.

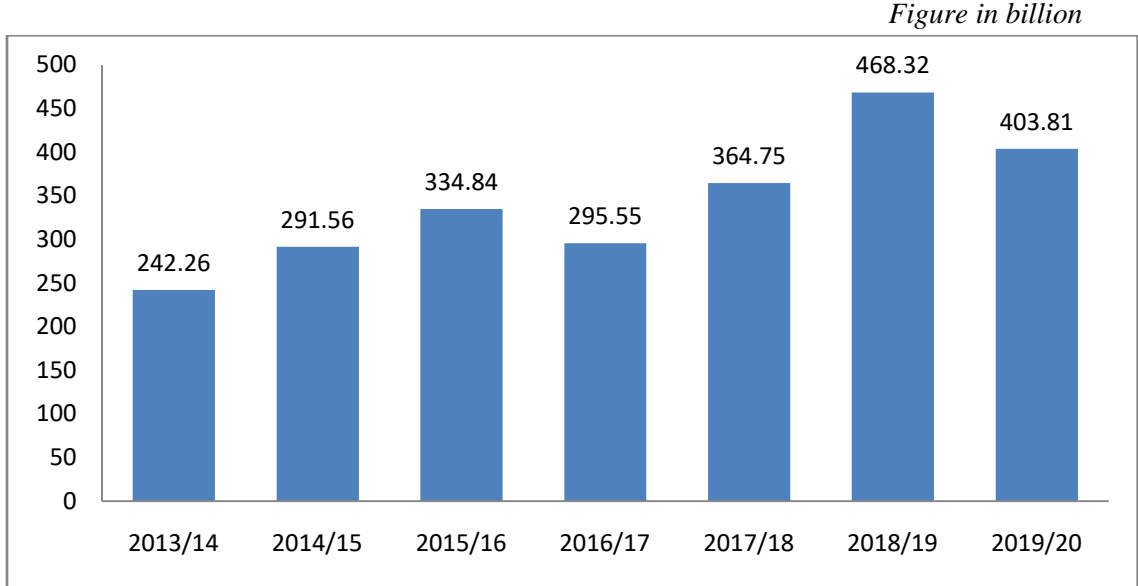
There has been slight decreased in base rate and interest rate spread as compared to the previous fiscal year. Such decline basically owes to the regulatory requirements and the prevailing market conditions. Mergers and acquisitions have continued this year as well such that the number of development banks has decreased to 20 this year (as on mid-July 2020) from 29 as at the end of last FY 2018/19.

#### Assets of Development Banks

- 3.2 Asset quality impacts on many facets of a bank's operation and is a critical factor in the assessment of the financial soundness of development banks. A high asset quality generally reflects in the liquidity, profitability, strong net worth and the overall financial strength of development banks. The development bank sector's total assets decreased by 13.77 percent from Rs. 468.32 billion in mid July 2019 to Rs.403.81 billion in mid July 2020. There has been significant decreased in total assets of development banks due decline in the number development banks through consolidation process.

Assets of overall development banks 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 overall development banks has decreased by 16.82 percent in the review period compared to the previous year. Aggregate figures are shown in Annex 16.1 and 16.9.

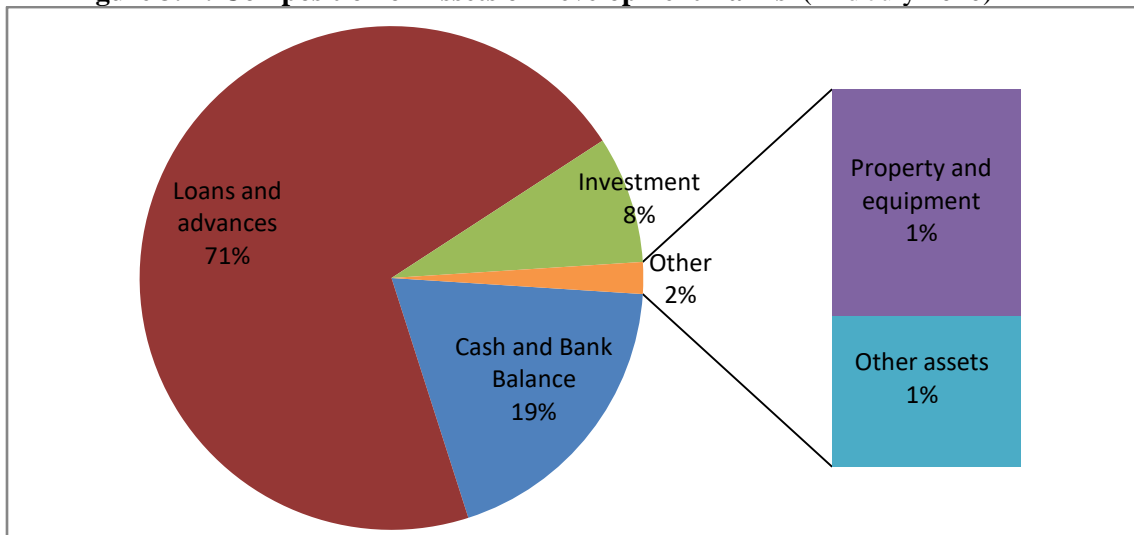
**Figure 3. 1: Total Assets of the Development Banks**  
(Mid July 2020)



### Composition of Assets

3.3 Loans and advances to customers constitute the largest portion of the total assets – 71 percent followed by Cash and bank balance – 19 percent, Investment – 8 percent and Property and equipment – 1 percent and other assets – 1 percent respectively. Similarly, Other – 1 percent which comprises other trading assets, current tax assets, goodwill and intangible assets, deferred tax assets and other assets of Development Banks. Detailed figures are shown in Annex 16.9.

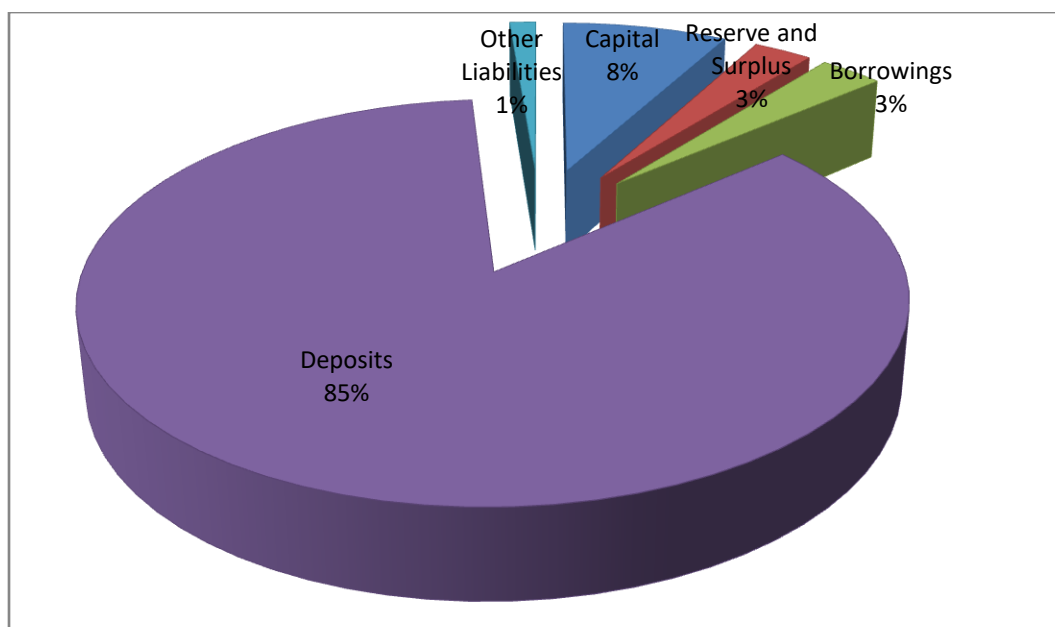
**Figure 3. 2: Composition of Assets of Development Banks** (Mid July 2020)



## Composition of Liabilities

3.4 As on mid July 2020, the total equities and liabilities of the development bank sector amounted to Rs. 403.812 billion, a significant decrease of 13.77 percent compared to the Rs. 468.32 billion in mid July 2019. Major sources of funding for development banks' liabilities continue to be customer deposits. Other sources of funds comprised reserve and surplus, and other liabilities. Detail composition of liabilities is shown below.

**Figure 3. 3: Composition of Equities and Liabilities of Development Banks (Mid July 2020)**



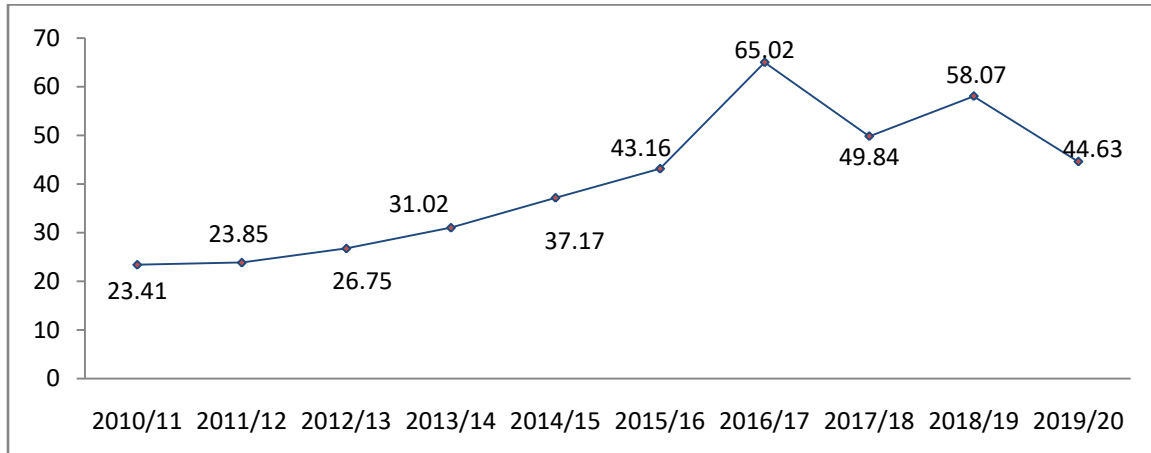
## Capital

3.5 Total Capital Fund of the development banks has decreased to Rs.44.63 billion on mid July 2020 from Rs. 58.07 billion as of mid July 2019. This decrement is mainly due to acquisition of nine development banks by commercial. Individual development banks have increased their capital as required by NRB Directives through issuance of right shares, bonus shares and retained earnings during the review period. Still some regional level development banks need to increase paid up capital as per regulatory requirement. Year 2017 experienced the year with the highest capital due to capital increment as required by the central bank. Detailed figures are presented in Annex 16.2.



**Figure 3. 4: Capital Fund of the Development Banks (Mid July 2020)**

*Billion Rs.*



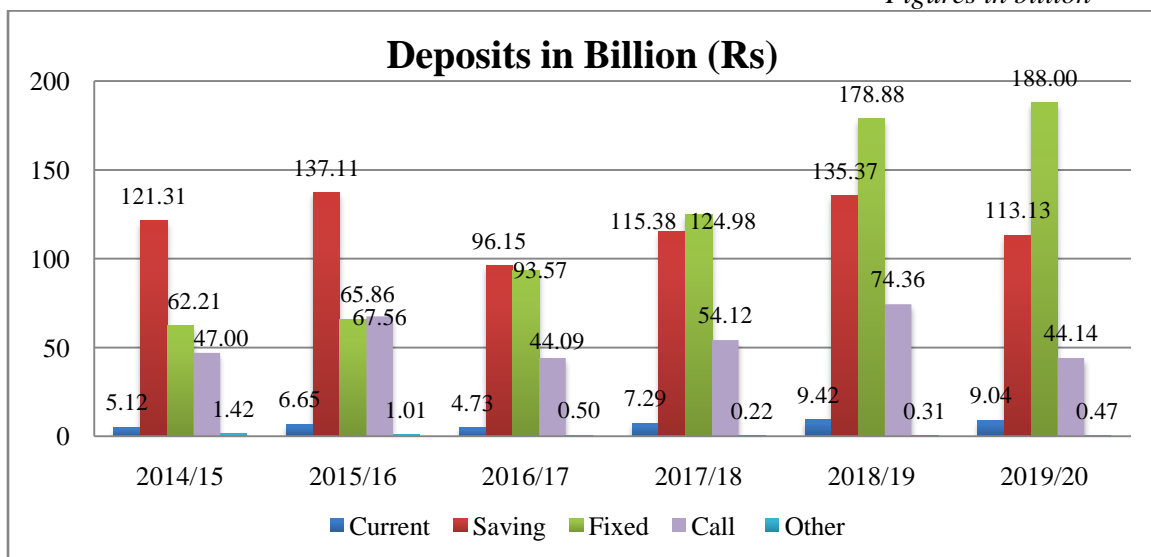
## Deposit

3.6 Total deposits have decreased by 10.93 percent to Rs. 354.79 billion from Rs. 398.34 billion during FY 2019/20. However, these figures have to be understood in the context of decline in the number of development banks. On another hand, individual development bank's deposit has increased with expansion in branch networks, financial access and inclusion, and remittance inflows during the review year.

3.7 Out of total deposits, fixed deposit comprises the highest portion of Rs.188 billion, followed by saving deposits of Rs. 113.13 billion as at mid July 2020. Previous three years data including review year reflect excess of fixed deposit over saving deposits. Deposit figures are shown in Annex 16.3.

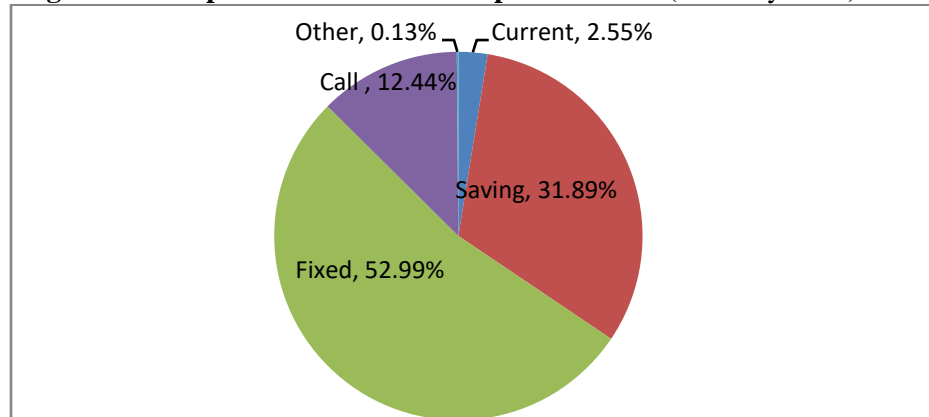
**Figure 3. 5: Deposit of the Development Banks (Mid July 2020)**

*Figures in billion*



While looking into the deposit composition of the industry, fixed, saving, call and current deposit comprises 52.99 percent, 31.89 percent, 12.44 percent and 2.55 percent respectively. Other deposits consists of nominal amount of total deposits. Detailed figures are shown in Annex 16.3.

**Figure 3. 6: Deposit Mix of the Development Banks (Mid July 2020)**

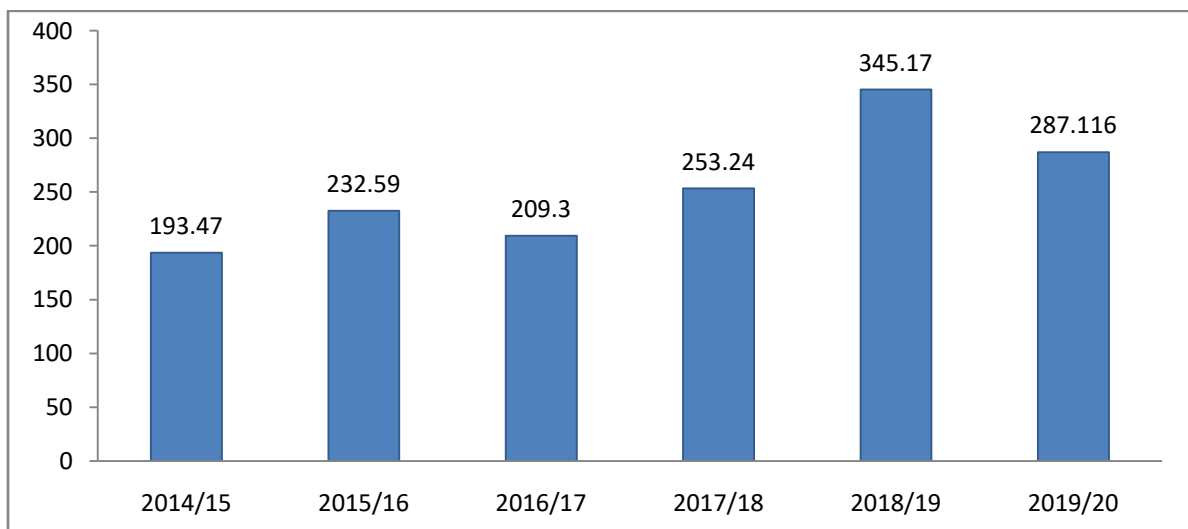


### Loan and Advances

3.8 Loan and advances of the development banks declined by 16.28 percent from Rs.345.17 billion in FY 2018/19 to Rs. 287.11 billion in FY 2019/20. There was significant decrease in total loan and advance due to decline of number of development banks in the review year. However, individual bank's such figure has been increased compared to corresponding previous year. Performing loan constitutes 98.52 percent which amounts to Rs. 282.86 billion and Non-performing loan constitutes 1.48 percent which amounts to Rs. 4.25 billion. Detailed figures are shown in Annex 16.1 and 16.4.

**Figure 3. 7: Loan and Advances of the Development Banks (Mid July 2019)**

*Rs.in billion*



## Sector-wise Loan and Advances

3.9 Sectoral distribution of loans and advances reflects different sectors where development banks have invested their loanable funds. Development banks are also exposed to sectoral credit concentration, which shows exposure of banks to specific sectors of the economy. In FY 2019/20, wholesale and retail account for 16.31 percent, Construction sector 14.79 percent, Finance, insurance and real estate sector 7.59 percent, Agriculture forest 6.45 percent, Transport, Warehousing and Communication 6.10 percent, Consumable Loans 5.46 percent of industry's loans and advances respectively. Other sectors continue to account for the largest share of the industry's loans and advances, which was 25.47 percent as at mid-July 2020. Table 3.1 shows Sector-wise loan and advances of the Development Banks.

**Table 3. 1: Sector-wise loan and advances of Development Banks (Mid July 2020)**

*Figures in percentage of total loan*

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

## Security-wise Loan and Advance

3.10 Majority of loans and advances of development banks are secured by real estate properties. In the review year, proportion of loan and advances back-up by property is 89.61 percent of the total loan disbursed. Proportion of loans against guarantee has been gradually increasing since 2014/15 and covers around 6.07 percent in the review year. All other forms of collateral come below 2 percent. Table 3.2 shows security wise loan and advance position of development banks.

**Table 3. 2: Securities against Loans and Advances (Mid July 2020)**

*Figures in percentage of total loan*

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

## Product-wise Loan and Advance

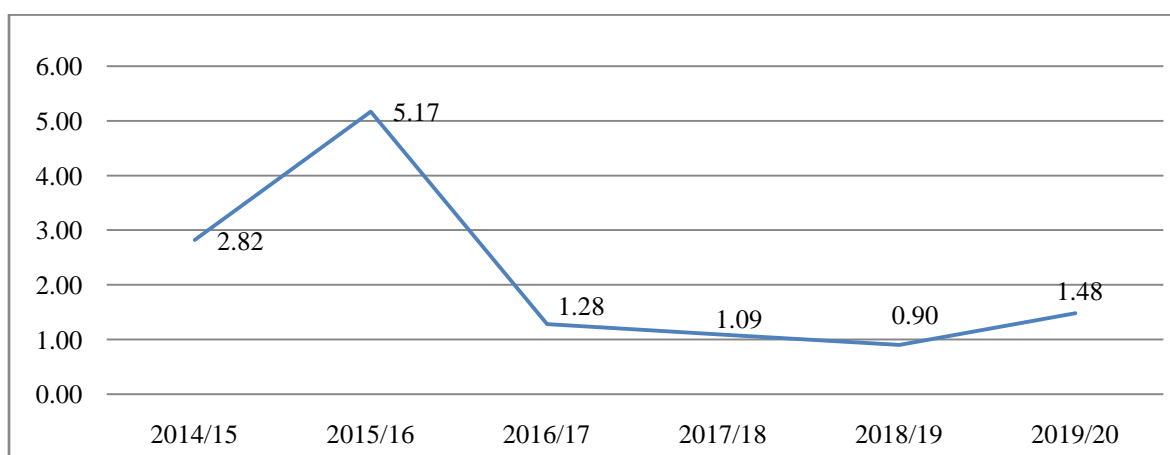
3.11 Development banks have classified their loan products as per NRB directives. Previous five years data reflect excess of overdraft facilities over term loan. However, in the review year, term loan has exceeded the overdraft facilities. The highest portion (28.13 percent) of the loans and advances is covered by term loan facilities. Similarly, overdraft facilities comprise 21.06 percent, Personal Residential Home Loan comprises around 12.22 percent, and Hire Purchase Loan comprises 8.09 percent respectively. There is a gradual rise of deprived sector loans through previous years owing to regulatory requirements. There has been a steady rise in case of term loans in last five years but the portion of demand and other working capital loans has been in decreasing trend in recent years. Real estate loan has declined significantly in review year. Table 3.3 shows the composition of product wise loan and advances of development banks in previous six fiscal years.

**Table 3. 3: Product-wise Loan and Advances (Mid July 2020)***Figures in percentage of total loan*

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

### Non- Performing Loans

3.12 The ratio of NPLs to Gross loans and advances has been increased by 0.58 percentage point and stood at 1.48 percent in mid July 2020 compared to 0.90 percent in mid July 2019 due to adverse impact of Covid-19.

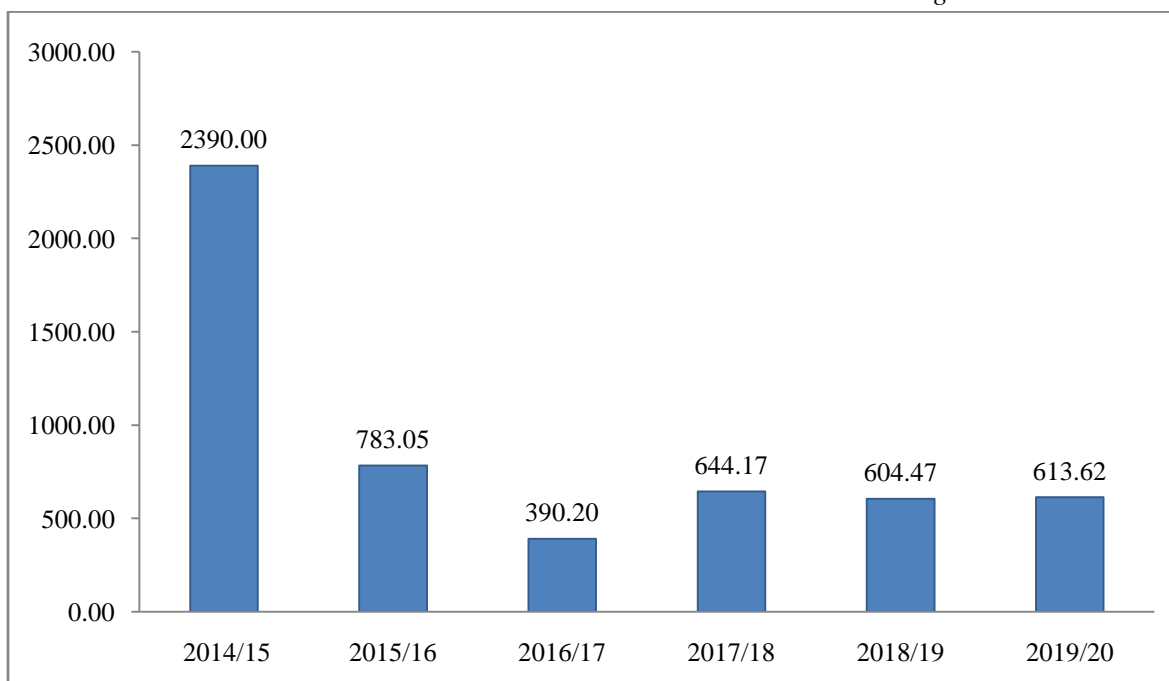
**Figure 3. 8: Non-performing loans of the Development Banks(Mid July 2020)***Figures in percentage of total loan*

## Non-Banking Assets

3.13 The total amount of non-banking assets of development banks as on mid-July 2020, stood at Rs. 613.62 million. The total amount of non-banking assets (NBA) of development banks for previous year stood at Rs. 604.47 million. The level and structure of NBA during the previous five years is presented in the figure 3.9. Details on NBA for various years are shown in Annex 16.5.

**Figure 3. 9: Non-banking Assets of the Development Banks (Mid-July 2020)**

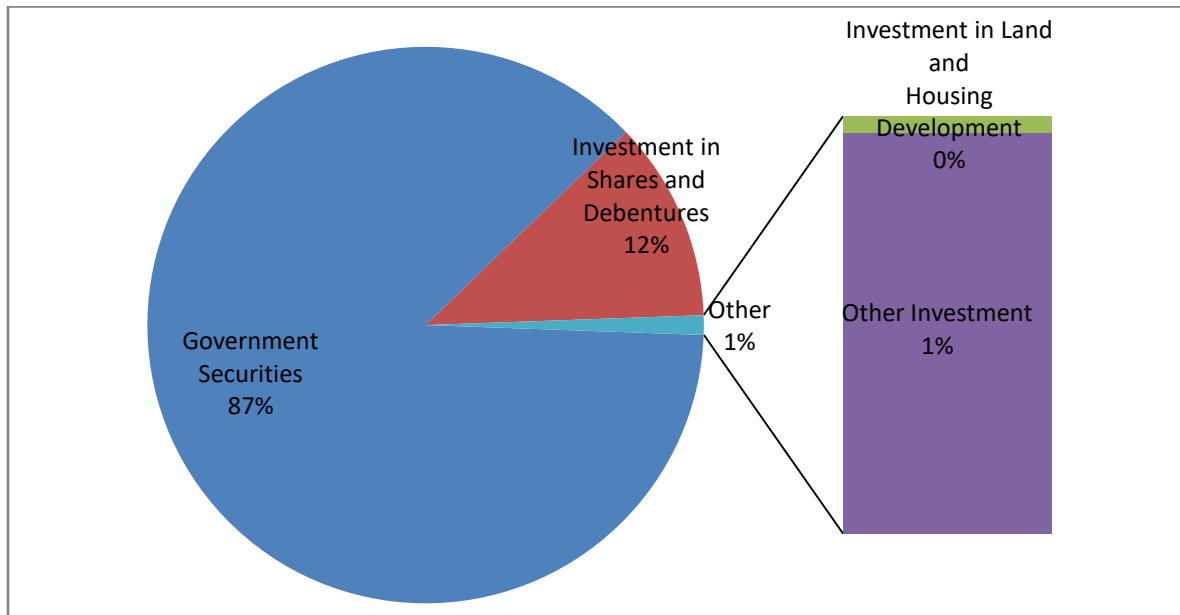
*Figures in million*



## Investment

3.14 The largest portion of investment made by development banks was in government securities. This category accounted 87 percent of total investment of development banks in the review year. Investment in shares and debentures and other investment amounted to 12 percent, 1 percent respectively of total investment. Investment in land and housing development is minimal. The total investment of development banks has increased by 61.37 percent and has reached Rs. 32,356 million as at mid-July 2020 from Rs. 20,050 million as at mid-July 2019. There is significant increase in investment because of increase in liquidity along with contraction of credit disbursement due to the pandemic during review year. Details of investment of development banks are shown in Annex 16.6.

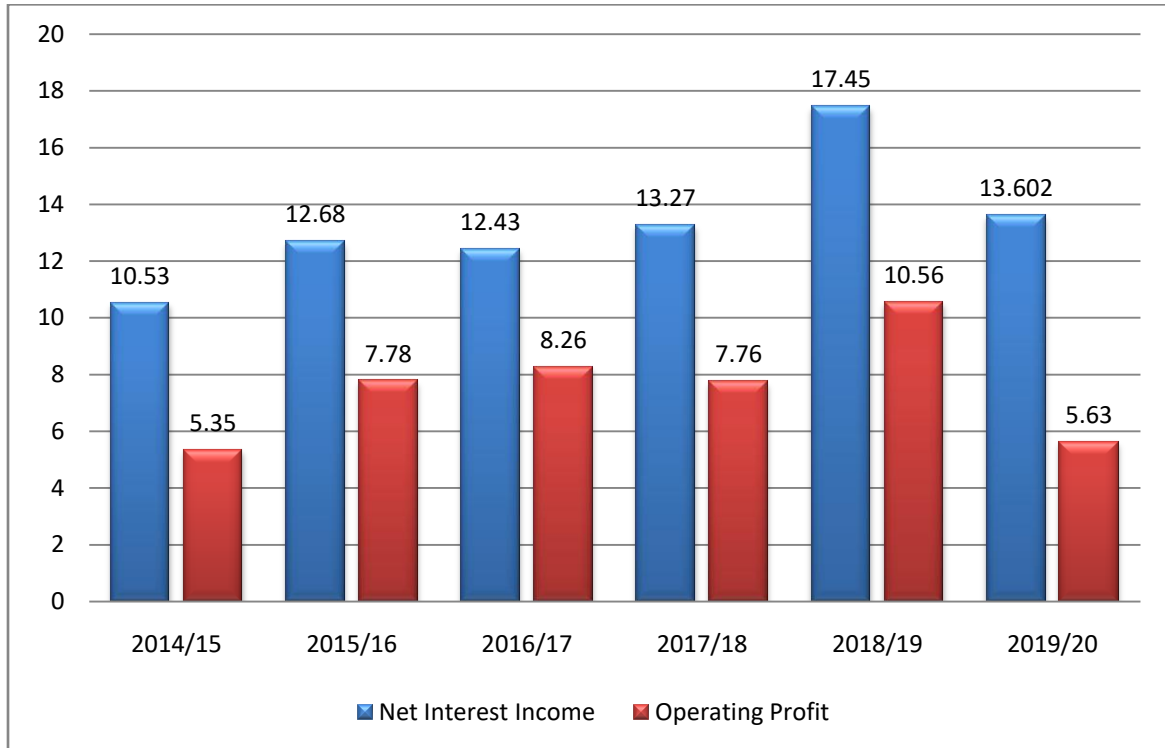
**Figure 3. 10: Investment Portfolio of the Development Banks (Mid July 2019)**



### Profitability

- 3.15 Consolidated profitability of overall development banks during FY 2019/20 amounted to Rs. 3,956.30 million. It amounted to Rs. 7,410.80 million during FY 2018/19. The aggregate net profit of development banks has been decreased by 46.61 percent during the review period. The reason behind significant decrease in aggregate profit of development banks are decline in the number of development banks and increment in loan loss provision due to adverse impact of the pandemic on economic activities
- 3.16 The interest spread of overall development banks has been declined to 4.86 percent as at mid-July 2020 from 5.08 percent as of mid-July 2020. Decline in interest spread rate has caused adverse impact on profitability of overall development banks.
- 3.17 Interest income of all development banks accounted to Rs. 38,913.09 million in the review period which has been decreased by 18.46 percent compared to previous year. Similarly, interest expenses accounted to Rs. 25,310.59 million in the review period which has been decreased by 10.48 percent compared to previous year. Net interest income has also been decreased by 22.04 percent to Rs. 13,602.50 million in the review period from Rs. 17,448.81 million compared to previous year.
- 3.18 In the review period operating profit of development banks has been decreased by 46.68 percent from Rs. 10.56 to Rs. 5.63 billion compared to previous year. Net interest income and operating profit of development banks of previous six years are shown in the Annex 16.8.

**Figure 3. 11: Operating Efficiency of the Development Banks (Mid July-2020)**  
*Rs in billion.*



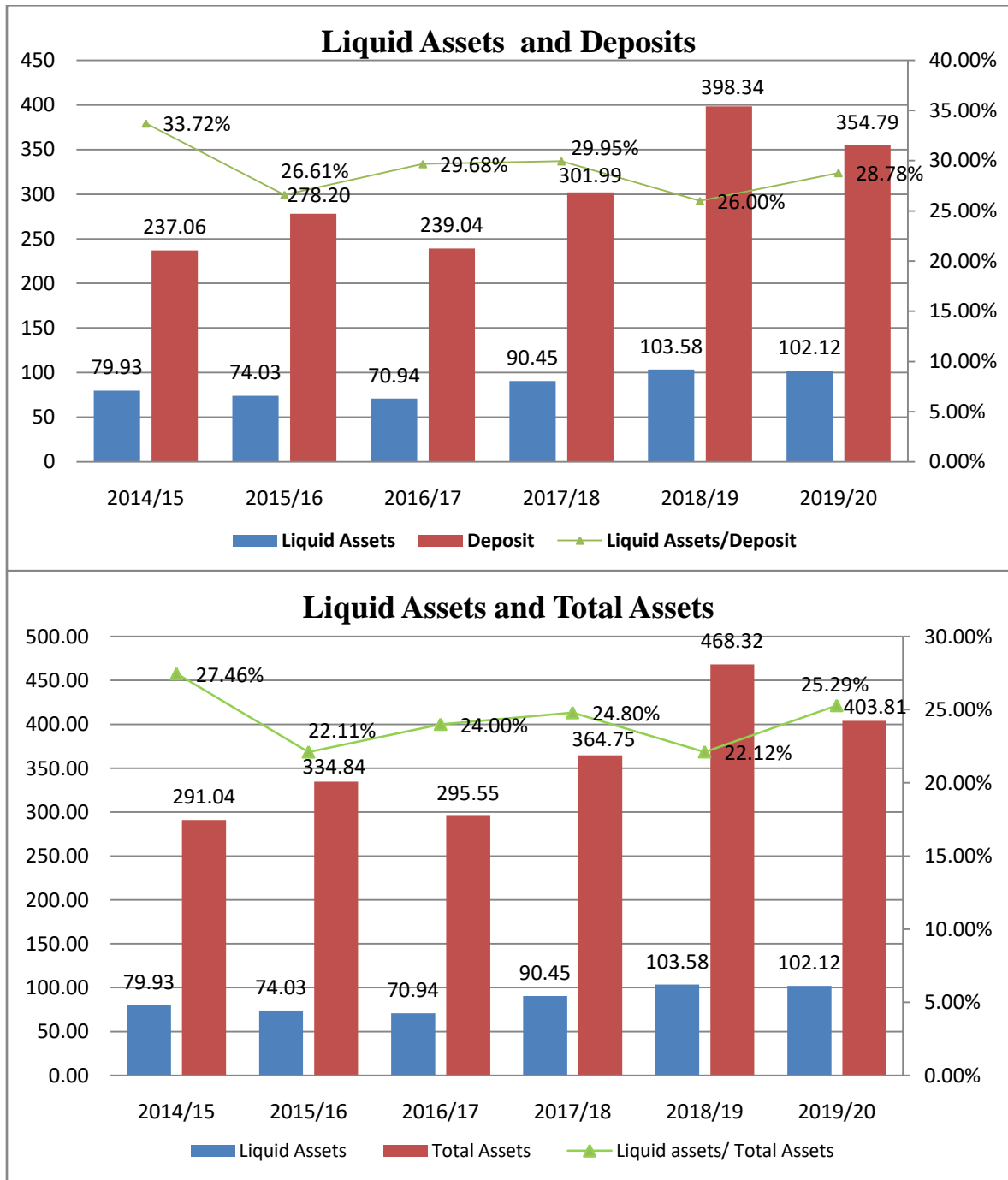
## Liquidity

3.19 Total liquidity comprises of cash balance, bank balances with NRB and other BFIs, money at call and investment in treasury bills. Liquid assets of development banks have been decreased by 1.41 percent from Rs. 103.58 billion as on mid-July 2019 to Rs. 102.12 billion as on mid-July 2020. The share of these liquid assets to total deposits increased by 2.78 percentage point from 26 percent at mid-July 2019 to 28.78 percent at mid-July 2020. Similarly, the share of these liquid assets to total assets increased by 3.17 percentage point from 22.12 percent at mid-July 2019 to 25.29 percent at mid-July 2020. There was significant increase in liquidity ratio because of contraction in credit disbursement due to the pandemic situation in the review period. Detailed figures as indicated in figure 3.12 are shown in Annex 16.7.



**Figure 3. 12: Liquidity Position of the Development Banks (Mid July – 2020)**

*Figures in billion*



### Deprived Sector Lending

3.20 The overall position of deprived sector lending of development banks in FY 2019/20 was 9.95 percent.

## Base Rates and Spread Rates

- 3.21 Base rate of all development banks was 9.91 percent as on mid-July 2020 whereas it was 11.22 percent in mid-July 2019. The overall base rate of national level development banks stood at 9.89 percent in mid-July 2020, whereas it was 11.25 percent in mid-July 2019.
- 3.22 Interest spread of overall development banks stood at 4.86 percent as at mid July 2020 whereas it was 5.08 percent in mid-July 2019. Interest spread of national and regional level development banks were 4.71 percent and 5.74 percent respectively in the review year. Base rate and interest spread is being regularly monitored by Off-site Unit. Necessary instructions are timely given to the institutions if errors/noncompliance are identified.

## Electronic Banking

- 3.23 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. Only one development bank had provided branchless banking service during FY 2018/19 which was merged with commercial bank during review period. 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 2019/20, number of internet banking customers and ATM are has decreased than previous year due to decline in the number of development banks in review year.

**Table 3. 4: Use of Electronic Banking** (Mid July 2020)

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

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

## Stress Testing of Development Banks

- 3.24 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. It is to be understood that this stress testing was done on development banks' data of mid July 2020 during the pandemic scenario. Stress test results indicate that development banks have adequate regulatory capital and also needs buffer capital to absorb various shocks as detailed below:

## Credit Shock

- 3.25 Standard credit shock test results indicate that all except eight development banks (out of total 20) would be able to withstand nine standard credit shocks to which they were subjected in stress testing scenario. Four development banks would not comply with the minimum capital adequacy ratio requirement if 15 percent of performing loans deteriorated to substandard. Eight development banks would not comply with the minimum capital adequacy ratio requirement if 5 percent of performing loans deteriorated to loss loans.

## Liquidity Shock

- 3.26 Standard liquidity shock test results suggest that some development banks would fall below mandatory liquidity ratio in stress scenarios. Five 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. Similarly, one development bank would have its net liquid assets to deposit ratio fall below the minimum requirement of 20% if there were a withdrawal of deposits by 5% and 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 2 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

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

**Table 3. 5: Summary Result on Stress Testing of Development Banks As on Mid July 2020**

Events		Number of Banks with CAR		
		< 0%	0% - <10%	>=10%
<b>Pre Shock</b>		<b>0</b>	<b>0</b>	<b>19</b>
<b>A. After Credit Shock</b>		Post Shocks		
		< 0%	0% - <10%	>=10%
C1	15 Percent of Performing loans deteriorated to substandard	0	4	15
	15 Percent of Substandard loans deteriorated to doubtful loans	0	0	19
	25 Percent of Doubtful loans deteriorated to loss loans	0	0	19

	5 Percent of Performing loans deteriorated to loss loans	0	8	11
C2	All NPLs under substandard category downgraded to doubtful.	0	0	19
	All NPLs under doubtful category downgraded to loss.	0	0	19
C3	25 Percent of performing loan of Real Estate & Housing sector loan directly downgraded to substandard category of NPLs.	0	0	19
C4	25 Percent of performing loan of Real Estate & Housing sector loan directly downgraded to Loss category of NPLs.	1	0	19
C5	Top 2 Large exposures down graded: Performing to Substandard	0	0	19
<b><u>B. After Market Shocks</u></b>				
<b>(a) Interest Rate Shocks</b>		<b>&lt; 0%</b>	<b>0% - &lt;10%</b>	<b>&gt;=10%</b>
IR-1a	Deposits interest rate changed by 1.0 percent point on an average.	0	0	19
IR-1b	Deposits interest rate changed by 1.5 percent point on an average.	0	0	19
IR-1c	Deposits interest rate changed by 2.0 percent point on an average.	0	0	19
IR-2a	Loan interest rate changed by -1.0 percent point on an average.	0	0	19
IR-2b	Loan interest rate changed by -1.5 percent point on an average.	0	0	19
IR-2c	Loan interest rate changed by -2.0 percent point on an average.	0	0	19
IR-3	Combine Shocks (IR-1a & IR-2a)	0	0	19
<b>(b) Exchange Rate Shocks</b>				
ER-1a	Depreciation of currency exchange rate by 20%	0	0	19
ER-1b	Appreciation of currency exchange rate by 25%	0	0	19
<b>(c) Equity Price Shocks</b>				
EQ-1	Fall in the equity prices by 50%	0	0	19
<b><u>C. After Liquidity Shocks</u></b>				
<b>Events</b>				
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%	5		
<b>Number of Banks with Liquid Assets to Deposit Ratio</b>		<b>&lt; 0%</b>	<b>0% - &lt;20%</b>	<b>&gt;=20%</b>

<b>Pre-shocks</b>		<b>0</b>	<b>0</b>	<b>19</b>
		<b>After Shocks</b>		
L-2a	Withdrawal of deposits by 5%	0	1	18
L-2b	Withdrawal of deposits by 10%	0	5	14
L-2c	Withdrawal of deposits by 15%	0	9	10
L-2d	Withdrawal of deposits by 20%	0	12	7
L-3a	Withdrawal of deposits by top 1 institutional depositors.	0	0	19
L-3b	Withdrawal of deposits by top 2 institutional depositors.	0	2	17
L-3c	Withdrawal of deposits by top 3 institutional depositors.	0	3	16
L-3d	Withdrawal of deposits by top 4 institutional depositors.	0	3	16
L-3e	Withdrawal of deposits by top 5 institutional depositors.	0	3	16
L-4a	Withdrawal of deposits by top 1 individual depositors.	0	0	19
L-4b	Withdrawal of deposits by top 2 individual depositors.	0	0	19
L-4c	Withdrawal of deposits by top 3 individual depositors.	0	0	19
L-4d	Withdrawal of deposits by top 4 individual depositors.	0	0	19
L-4e	Withdrawal of deposits by top 5 individual depositors.	0	0	19

## **Actions and Penalties**

3.28 Following actions were taken against development banks according to existing legal and regulatory provision in the review year.

- Eight development banks were penalized for nine times during the period of such failure due to non compliance of maintaining compulsory reserve requirement as per Nepal Rastra Bank Act, 2002 Section 47 and provision of Unified Directive no. 13/076.
- Two development banks were penalized for non compliance of provision of deprived sector lending as required by NRB Unified Directives no. 17/076.
- One development bank was made aware for non compliance of legal and regulatory provision.

### 3.29 **Impact of COVID-19 Outbreak on Development Banks**

Second half of the fiscal year 2019/20 saw the outbreak of Corona Virus Disease (COVID-19) which gradually hit most of the world. In response to the outbreak, Nepal Government declared a countrywide lockdown starting from 24th of March, 2020. This lockdown remained in place for nearly four months until 21st of July although social and economic life remained highly affected and constrained by COVID-19 for many months more.

NRB's response to the outbreak included relaxation of prudential requirements for BFIs, declaration of various relief measures for bank borrowers as well as for depositors, formation of various committees so as to keep abreast of the epidemic's impact on the economy and banking sector as well as to dynamically respond with necessary regulations, and so on.

A brief summary of the impact of NRB's various regulatory responses to COVID-19 outbreak is given below:

- 207,267 borrowers benefitted by interest rate discount of up to 2 percentage points for 4th quarter of FY 2019/20. This amounts to Rs. 96 crores 50 lakhs.
- 5,131 borrowers benefitted by time extension facility for repayment of working capital loans. This amounts to Rs. 23 billion 62 crores and 78 lakhs.
- 2,822 borrowers benefitted by additional 10-20% term or working capital loans used to mainly continue business operation and pay worker salaries. This amounts to Rs. 1 billion 81 crores and 77 lakhs.

## 4. ISSUES AND CHALLENGES

This section outlines major issues observed regarding development banks as well as overall banking industry and the challenges posed to the regulator and supervisor.

### 4.1 **Impact of the pandemic on financial sector**

Global pandemic of COVID 19 has impacted business operation, leverage and net worth and collateral/asset price of stakeholders of the banking sector. This has also impacted the financial sector through macro financial linkages. All financial sector including development banks has suffered from increased interest suspense and non performing loans which adversely impacts sectoral profitability and capital of the development banks. Furthermore, COVID 19 has exposed the financial sector to possible shocks resulting from borrower defaults, fall in earnings, decline in public confidence, adverse movement in exchange rates, etc. This has created challenges for the regulator and supervisors to maintain stability in financial sector.

However, the Nepalese banking sector has also witnessed a positive impact as the pandemic has proactively encouraged digital banking.

### 4.2 **Capital plan, Merger and acquisition**

NRB had introduced mandates for development banks to increase their paid up capital by the end of FY 2016/17 in order to enhance the capability of BFIs and also to promote financial sector stability. NRB has also been encouraging merger and acquisition to increase capital base of BFIs. In this regard, all national level development banks have already met their capital requirement. However, some regional development banks, which are required to increase the paid up capital up to Rs. 1200 million, need further capital to meet this regulatory requirement. Additionally, with effective consolidation process, the NRB has been successful in decreasing the number of development banks.

### 4.3 **Digital Financial Services**

Digital financial services have helped expand the consumer base for financial services. However, increasing digital financial services may also pose challenges to their users, especially to clients with low level of financial literacy. Hence, the need to further enhance the level of financial literacy in today's age of digital financial services has emerged as an important issue. NRB has adopted the policy of balancing the need for risk management without stifling innovation and growth in this area. It is important to maintain trust in the financial system while allowing fintech services to play a positive role in financial access and efficiency.

### 4.4 **Evergreening of Risk Assets**

A major chunk of the total risk assets of Nepalese banking industry is of revolving nature. This increases challenges for bank supervisors to conduct effective asset quality review of BFIs so as to identify and prohibit ever greening of risk assets.

#### 4.5 **Overall Risk Management in Development Banks**

It is crucial to establish an effective risk management mechanism in the banking system. In this regard, DBSD has fully implemented Risk-Based Supervision for national level development banks. The risk profiles of banks are being prepared and updated.

Onsite inspection reports reveal that banks often fall short of adopting recommendations outlined in the Risk Management Guidelines issued by the NRB. While most banks have now formulated risk-related policies, the implementation is still weak because of poor risk management culture. Moreover, board and senior management's oversight over risk management has often been weak and initiatives to develop and promote risk management culture in banks are still inadequate.

#### 4.6 **Quality of Human Resource**

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 that BFIs adequately train and develop their employees. Additionally, Nepalese banking industry also has issues of high employee turnover.

#### 4.7 **Limits and Indicators**

Limits and indicators play a crucial role in monitoring and controlling of risks. The responsible officials need to act timely in response to these indicators to minimize losses from risks. Risk limits are important because they help management keep bank's risk levels within the risk appetite set by the board. While regulatory limits act as safety valves so that breach of such limits may invite penalties, limits set by the banks act as cushions that keep banks within their risk tolerance level.

#### 4.8 **Implementation of SIS and goAML**

NRB has developed a Supervisory Information System (SIS) to enhance the effectiveness of supervisory process through prompt data management. Its pilot testing for certain input forms has already gone live for development banks. NRB has also developed goAML software for AML/CFT related reporting by BFIs. DBSD aims to fully implement both these system by the FY 2020/21. However, effective implementation remains a challenge due to presence of heterogeneous institutions within the industry in terms of size of business and technological investment capabilities.

#### 4.9 **Specified Sector Lending**

As financial intermediaries, BFIs provide funds for entrepreneurs and other needy individuals and firms, thereby contributing to the country's economic growth. In order to contain ever increasing bank exposure to less prioritized sectors such as real estate and trading business, specified sector lending paves the way for productive lending by BFIs.



While the directed lending policy introduced by the NRB has led to some increase in funding in productive sectors such as agriculture, tourism, energy, etc, it has been a challenge to significantly reorient loan portfolio of BFIs because banks are often more attracted towards other sectors which offer quicker and higher returns. Thus, activating demand to drive productive sector investment remains a challenge.

#### 4.10 **Governance and Compliance**

Good governance and effective compliance of regulatory standard are key to the success of any organization. In order to address the issue of governance and risk management, efforts have been made to improve legislation and regulations related to corporate governance in BFIs. Although issues such as composition and qualification of board members as well as term of the chief executive have been addressed through amendments in BAFIA, key issues such as separating bankers and business-people and board oversight on senior management are yet to be effectively implemented.

#### 4.11 **IT Risk supervision**

Nepalese banks have been extensively using IT in the areas of core banking system, payment system and data management. As such, banks need to ensure that these IT systems are adequately secure and robust because IT related losses can turn out to be huge and may even endanger stability of the whole financial system. Moreover, increased use of IT in banking industry has posed a challenge for NRB's supervision of fintech.

#### 4.12 **Coordination with other Regulators**

Supervisory effectiveness can be further enhanced through proper coordination among various regulators and concerned authorities such as the Ministry of Finance (Government), Securities Board of Nepal (SEBON), Insurance Board, 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 greater coordination among regulators and policymakers is becoming a must.

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**Development Bank Supervision Report  
(FY- 2019/20)**

**Annexure**

## Annex 1: Number of Banks and Financial Institutions

Types of Financial Institutions	Mid July											
	1985	1990	1995	2000	2005	2010	2015	2016	2017	2018	2019	2020
Commercial Banks	3	5	10	13	17	27	30	28	28	28	28	27
Development Banks	2	2	3	7	26	79	76	67	40	33	29	20
Finance Companies			21	45	60	79	48	42	28	25	23	22
Micro finance Financial Institutions			4	7	11	18	38	42	53	65	90	85
Infrastructure Development Bank											1	1
<b>Total</b>	<b>5</b>	<b>7</b>	<b>38</b>	<b>72</b>	<b>114</b>	<b>203</b>	<b>192</b>	<b>179</b>	<b>149</b>	<b>151</b>	<b>171</b>	<b>155</b>

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

## Annex 2: Asset Size of Banks and Financial Institutions

(Mid July 2020)

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

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

### Annex 3: List of Development Banks

(as of Mid July, 2020)

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

## Annex 4: Full-Scope Onsite Inspection of Development Banks

FY 2019/20

FY 2019/20				
SN	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
1	Jyoti Bikas Bank Ltd.	Kanchan Dev. Bank Ltd.	Exel Dev. Bank Ltd.	
2	Sangrila Dev. Bank Ltd.	Kamana Sewa Bikas Bank Ltd.	Lumbini Bikas Bank Ltd.	
3	Karnali Dev. Bank Ltd.	Miteri Dev. Bank Ltd.		
4	Shine Reshunga Dev. Bank Ltd.	Green Dev. Bank Ltd.		
5	Saptakoshi Dev. Bank Ltd.	Salapa Bikas Bank Ltd.		
6	Corporate Dev. Bank Ltd.			

## Annex 5: Special Inspection of Development Banks

FY 2019/20

S.No.	Name	No. of Inspection	Working Area
1	Mahalaxmi Bikas Bank Ltd.	1	National
2	Jyoti Bikas Bank Ltd.	2	National
3	Muktinath Bikas Bank Ltd.	1	National
5	Kailash Bikas Bank Ltd.	1	Regional
6	Sindhu Bikas Bank Ltd.	1	Regional
7	Narayani Development Bank Ltd.	1	Regional
8	Deva Bikas Bank Ltd.	1	National

## Annex 6: Follow up Inspection of Development Banks

FY 2019/20

S.No.	Name	No. of Inspection	Working Area
1	Mukinath Bikas Bank Ltd.	1	National
2	Jyoti Bikas Bank Ltd.	1	National
3	Narayani Development Bank Ltd.	1	Regional
4	Garima Bikas Bank Ltd.	1	National
5	Deva Bikas Bank Ltd.	1	National

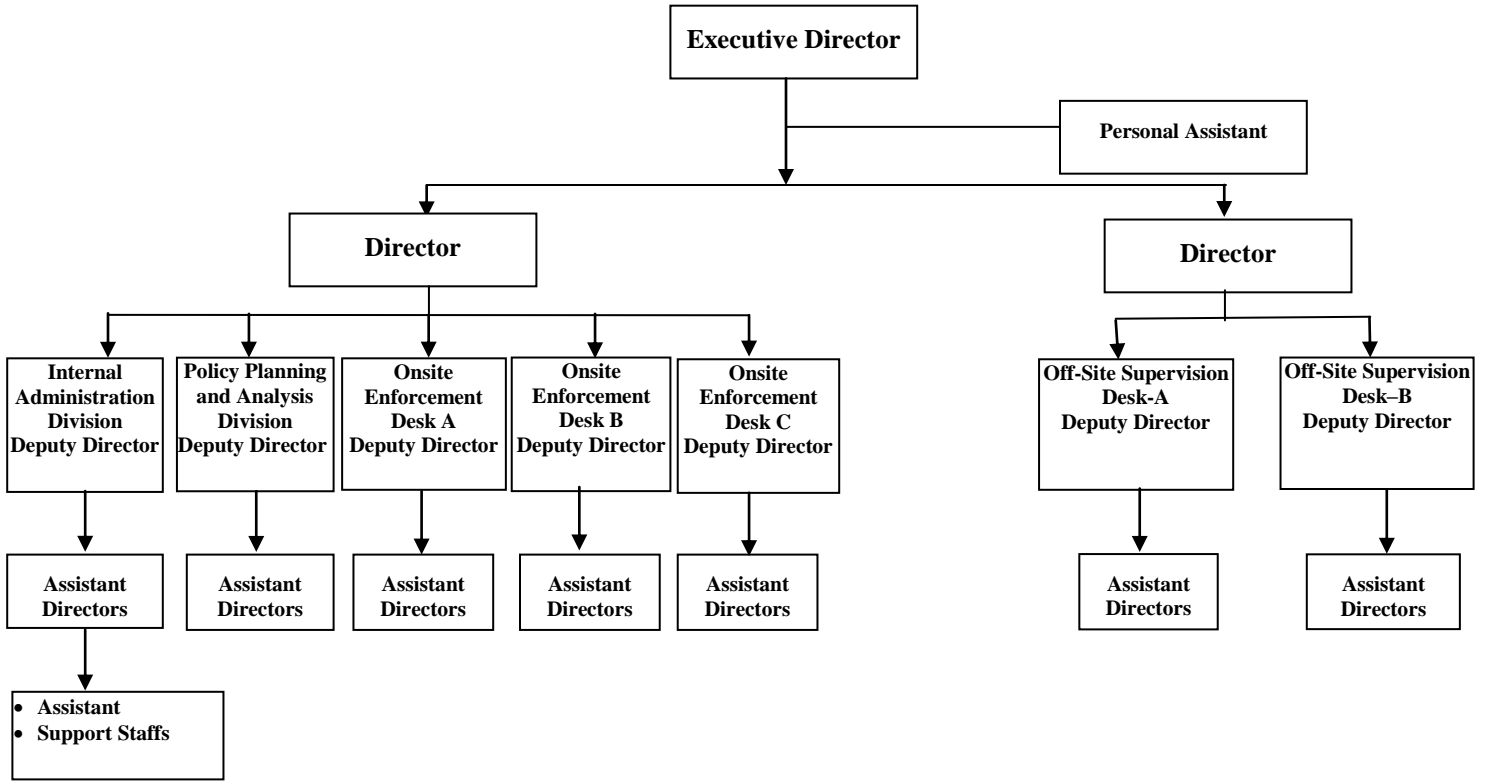
**Annex 7: International Training and Seminar Participation from DBSD  
FY 2019/20**

S. No.	Title	Organizer	Country	No. of days	No. of Participants
1.	Controlling at Central Banks	Deutsche Bundesbank	Germany	14	1
2.	SEACEN course on financial cycles and crises.	SEACEN	Mangolia	14	1
3.	Seminar on "Anti Money Laundering for Nepal."	Yunnan Intl center for Eco	China	11	1
4.	Monetary Policy strategies and monetary operations	SEACEN	Combodia	11	1
5.	Financial Sector Policies	IMF-SARTTAC	India	7	2
6.	SEACEN course on off-site monitoring	SEACEN	Taiwan	13	3

**Annex 8: Programme organized by the Department during  
FY 2019/20**

S. No.	Name of the Programme	Date and Venue
1	One day Interaction Programme on Nepal Financial Reporting Standards (NFRS) among officials of DBSD	2076/5/22; Hotel Crowne Imperial, kathmandu
2	One day Interaction Programme on Nepal Financial Reporting Standards NFRS for officials of development banks	2076/6/29; Hotel Crowne Imperial, kathmandu
3	One-day Interaction Programme among the Officials of DBSD on Capital Adequacy Framework	2076/9/17; NCDB Hall, Lalitpur

## Annex 9 : Organization Chart



## Annex 10: Consolidated Statement of Financial Position of DBs

(As of Mid July 2020)

	Rs in '000						
Development Banks	Corporate	Excel	Garima	Green	Jyoti	Kamana	Kanchan
<b>Assets</b>	<b>Mid July 2020</b>						
Cash and cash equivalent	300,866.09	2,748,720.04	6,930,070.55	484,043.81	6,055,698.60	1,710,904.13	2,085,307.13
Due from Nepal Rastra Bank	20,374.27	320,938.72	1,798,069.12	85,163.06	1,883,982.36	1,074,761.47	308,368.60
Placement with Bank and Financial Institutions		-	-	-	-	-	-
Derivative financial instruments		-	-	-	-	-	-
Other trading assets		-	-	-	-	-	-
Loan and advances to B/FIs		-	282,149.60	69,870.41	1,190,831.40	976,661.21	240,800.63
Loans and advances to customers	309,394.88	7,809,149.05	34,861,896.43	1,135,668.65	29,719,030.37	25,926,018.01	4,989,360.70
Investment securities		183,263.33	5,749,373.57	55,000.00	2,858,027.11	5,759,416.10	44,696.74
Current tax assets	9,399.98	21,392.09	26,306.04	2,954.49	33,835.33	87,202.51	4,330.62
Investment in subsidiaries		-	-	-	-	-	-
Investment in associates		-	3,525.49	-	-	-	-
Investment property	195,965.73	-	32,114.80	-	10,598.87	9,610.00	14,914.64
Property and equipment	40,841.11	235,547.66	391,237.36	26,260.20	402,311.86	651,717.69	121,610.42
Goodwill and Intangible assets	363.65	1,365.60	7,340.90	2,143.76	15,712.35	10,393.23	5,944.76
Deferred tax assets	57,449.77	4,811.59	13,576.56	602.53	36,626.46	36,562.10	3,500.17
Other assets	4,865.86	108,850.43	197,987.45	8,530.99	154,446.91	378,465.41	34,240.71
<b>TOTAL ASSETS</b>	<b>939,521.34</b>	<b>11,434,038.51</b>	<b>50,293,647.87</b>	<b>1,870,237.90</b>	<b>42,361,101.62</b>	<b>36,621,711.87</b>	<b>7,853,075.12</b>



Development Banks	Corporate	Excel	Garima	Green	Jyoti	Kamana	Kanchan
<b>EQUITY AND LIABILITIES</b>	<b>Mid July 2020</b>						
<b>Liabilities</b>	<b>321,309.57</b>	<b>10,287,926.55</b>	<b>45,947,045.55</b>	<b>1,336,586.45</b>	<b>37,857,093.38</b>	<b>33,417,655.18</b>	<b>7,113,247.55</b>
Due to Bank and Financial Institutions		-	2,755,650.88	3,519.63	1,169,848.10	1,061,544.50	70,019.96
Due to Nepal Rastra Bank		-	134,573.51	-	-	-	-
Derivative financial instruments		-	-	-	-	-	-
Deposits from customers	296,420.94	10,141,174.20	42,433,022.22	1,316,850.25	36,313,630.53	31,905,976.62	6,980,738.85
Borrowing		-	-	-	-	-	-
Current Tax Liabilities		-	-	-	-	-	-
Provisions		20,636.14	-	302.15	-	23,030.66	-
Deferred tax liabilities		-	-	-	-	-	-
Other liabilities	24,888.63	126,116.21	623,798.94	15,914.42	373,614.75	427,103.40	62,488.73
Debt securities issued		-	-	-	-	-	-
Subordinated Liabilities		-	-	-	-	-	-
<b>Equity</b>	<b>618,211.77</b>	<b>1,146,111.96</b>	<b>4,346,602.33</b>	<b>533,651.45</b>	<b>4,504,008.24</b>	<b>3,204,056.69</b>	<b>739,827.57</b>
Share capital	410,000.00	811,121.22	3,238,689.43	500,000.00	3,495,293.44	2,540,195.35	584,430.00
Share premium		4,890.59	97.07	5,001.81	-	-	-
Retained earnings	(76,470.87)	100,059.99	470,305.37	15,137.83	353,375.54	119,709.09	30,082.38
Reserves	284,682.64	230,040.15	637,510.46	13,511.81	655,339.26	544,152.25	125,315.20
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>939,521.34</b>	<b>11,434,038.51</b>	<b>50,293,647.87</b>	<b>1,870,237.90</b>	<b>42,361,101.62</b>	<b>36,621,711.87</b>	<b>7,853,075.12</b>
Contingent Liabilities and Commitments		598,635.99	1,767,053.46	35,837.00	1,094,164.38	1,137,769.55	306,968.89

Development Banks	Karnali	LumbiniDB	MahalaxmiDB	Miteri	Muktinath	Narayani	Sahara
<b>Assets</b>	<b>Mid July 2020</b>						
Cash and cash equivalent	1,736,268.31	4,811,555.31	6,484,175.50	2,020,805.57	8,199,382.57	104,101.25	26,179.20
Due from Nepal Rastra Bank	146,528.30	1,300,360.40	2,042,218.73	155,449.16	2,019,027.02	4,459.55	39,946.80
Placement with Bank and Financial Institutions	-	-	-	-	-	-	319,842.58
Derivative financial instruments	-	-	-	-	-	-	-
Other trading assets	-	-	444,892.95	-	-	-	-
Loan and advances to B/FIs	-	1,008,801.72	829,370.58	17,898.52	603,900.00	-	-
Loans and advances to customers	2,521,033.27	24,320,524.31	29,438,118.61	4,020,555.99	47,660,904.61	2,993.67	725,162.88
Investment securities	-	1,936,473.84	3,013,307.40	301,544.82	6,592,808.54	270.66	-
Current tax assets	14,601.15	148,003.56	60,921.91	4,206.44	69,150.97	9,632.06	-
Investment in subsidiaries	-	-	-	-	117,500.00	-	-
Investment in associates	-	483,295.91	4,733.90	-	54,728.01	-	-
Investment property	-	54,197.78	317,859.71	-	-	7,982.76	-
Property and equipment	119,542.44	314,659.96	351,308.31	36,895.91	764,783.15	751.66	6,146.68
Goodwill and Intangible assets	690.77	3,328.74	3,006.89	765.27	9,771.74	-	731.26
Deferred tax assets	9,649.17	-	43,392.11	8,516.16	45,300.64	-	-
Other assets	19,665.94	115,382.38	107,063.96	13,568.67	210,835.45	4,062.44	35,612.00
<b>TOTAL ASSETS</b>	<b>4,567,979.34</b>	<b>34,496,583.89</b>	<b>43,140,370.58</b>	<b>6,580,206.52</b>	<b>66,348,092.71</b>	<b>134,254.04</b>	<b>1,153,621.40</b>

Development Banks	Karnali	LumbiniDB	MahalaxmiDB	Miteri	Muktinath	Narayani	Sahara
<b>EQUITY AND LIABILITIES</b>	<b>Mid July 2020</b>						
<b>Liabilities</b>	4,034,956.24	30,052,608.30	38,352,515.08	5,565,222.67	60,529,634.02	93,680.32	906,089.65
Due to Bank and Financial Institutions	-	1,176,764.47	688,966.34	78,012.63	2,322,270.75	-	-
Due to Nepal Rastra Bank	-	469,929.41	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Deposits from customers	3,987,441.86	28,058,819.72	36,977,169.03	5,351,659.41	57,310,862.70	25,848.75	853,876.33
Borrowing	-	-	-	-	-	-	-
Current Tax Liabilities	-	-	-	-	-	-	863.49
Provisions	-	-	53,015.33	-	3,732.07	40,750.14	38,230.03
Deferred tax liabilities	-	40,595.65	-	-	-	1,947.68	133.79
Other liabilities	47,514.38	306,499.04	633,364.39	135,550.63	892,768.50	25,133.75	12,986.01
Debt securities issued	-	-	-	-	-	-	-
Subordinated Liabilities	-	-	-	-	-	-	-
<b>Equity</b>	533,023.10	4,443,975.59	4,787,855.50	1,014,983.85	5,818,458.69	40,573.72	247,531.75
Share capital	502,830.00	2,716,311.73	3,072,061.33	693,371.25	4,324,989.49	65,616.90	163,366.93
Share premium	2,300.97	76.31	-	-	64,012.14	-	8,737.57
Retained earnings	5,549.31	293,536.40	288,352.26	140,121.18	613,779.16	(207,504.18)	12,587.34
Reserves	22,342.81	1,434,051.15	1,427,441.91	181,491.42	815,677.90	182,461.00	62,839.91
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,567,979.34</b>	<b>34,496,583.89</b>	<b>43,140,370.58</b>	<b>6,580,206.52</b>	<b>66,348,092.71</b>	<b>134,254.04</b>	<b>1,153,621.40</b>
Contingent Liabilities and Commitments	-	1,877,715.14	1,517,685.68	56,334.36	2,428,948.85	-	-

<b>Development Banks</b>	<b>Salpa</b>	<b>Saptakoshi</b>	<b>Shangrila</b>	<b>Shine</b>	<b>Sindhu</b>	<b>Tinau</b>	<b>Grand Total</b>
<b>Assets</b>	<b>Mid July 2020</b>						
Cash and cash equivalent	208,385.41	1,513,538.25	3,828,595.11	6,198,322.30	1,004,970.36	4,616,087.66	61,067,977.15
Due from Nepal Rastra Bank	20,500.00	231,696.04	1,426,597.70	1,855,214.14	135,992.05	643,591.25	15,513,238.74
Placement with Bank and Financial Institutions	-	-	5,610.01	-	-	-	325,452.59
Derivative financial instruments	-	-	-	-	-	-	-
Other trading assets	-	-	-	-	-	-	444,892.95
Loan and advances to B/FIs	53,478.29	16,365.22	931,095.86	531,164.22	412,296.47	235,201.83	7,399,885.97
Loans and advances to customers	364,598.30	2,803,077.06	22,934,397.57	24,340,545.49	2,124,506.09	12,319,286.85	278,326,222.81
Investment securities	-	4,671.95	3,178,715.29	1,638,698.84	25,066.83	291,327.57	31,632,662.60
Current tax assets	5,435.08	31,783.33	29,816.42	17,485.33	9,148.21	20,568.58	606,174.10
Investment in subsidiaries	-	-	-	-	-	-	117,500.00
Investment in associates	-	-	-	-	-	-	546,283.30
Investment property	-	2,487.16	-	-	27,112.40	-	672,843.84
Property and equipment	17,009.30	74,647.44	412,896.13	448,790.95	198,167.44	332,661.25	4,947,786.90
Goodwill and Intangible assets	589.86	2,877.75	5,172.41	131,518.85	2,994.89	8,544.93	213,257.62
Deferred tax assets	497.34	6,062.61	28,432.73	-	2,725.92	9,632.52	307,338.38
Other assets	4,116.31	10,322.88	117,004.85	107,693.93	36,509.85	21,519.78	1,690,746.21
<b>TOTAL ASSETS</b>	<b>674,609.87</b>	<b>4,697,529.69</b>	<b>32,898,334.09</b>	<b>35,269,434.06</b>	<b>3,979,490.51</b>	<b>18,498,422.22</b>	<b>403,812,263.17</b>

Development Banks	Salpa	Saptakoshi	Shangrila	Shine	Sindhu	Tinau	Grand Total
<b>EQUITY AND LIABILITIES</b>	<b>Mid July 2020</b>						
<b>Liabilities</b>	<b>586,000.31</b>	<b>3,753,540.48</b>	<b>29,592,297.76</b>	<b>31,018,037.15</b>	<b>3,369,530.27</b>	<b>16,309,137.55</b>	<b>360,444,114.02</b>
Due to Bank and Financial Instituions	10,063.77	262,367.27	1,120,730.59	423,310.16	-	425,555.16	11,568,624.21
Due to Nepal Rastra Bank	-	-	1,327.84	-	-	-	605,830.77
Derivative financial instruments	-	-	-	-	-	-	-
Deposits from customers	563,269.82	3,402,282.33	28,132,696.85	30,209,159.25	3,327,813.37	15,630,186.58	343,218,899.61
Borrowing	-	-	-	-	-	-	-
Current Tax Liabilities	-	-	-	-	4,475.25	-	5,338.75
Provisions	-	-	-	-	-	-	179,696.52
Deferred tax liabilities	-	-	-	31,653.73	-	-	74,330.85
Other liabilities	12,666.72	88,890.88	337,542.47	353,914.01	37,241.65	253,395.81	4,791,393.32
Debt securities issued	-	-	-	-	-	-	-
Subordinated Liabilities	-	-	-	-	-	-	-
<b>Equity</b>	<b>88,609.57</b>	<b>943,989.21</b>	<b>3,306,036.33</b>	<b>4,251,396.91</b>	<b>609,960.24</b>	<b>2,189,284.68</b>	<b>43,368,149.15</b>
Share capital	92,717.10	834,338.43	2,606,640.40	3,016,339.74	557,456.07	1,813,127.20	32,038,896.01
Share premium	-	-	-	2,465.45	-	-	87,581.92
Retained earnings	(12,740.61)	30,006.38	153,493.26	396,428.54	13,898.25	117,396.34	2,857,102.94
Reserves	8,633.08	79,644.40	545,902.67	836,163.18	38,605.92	258,761.14	8,384,568.28
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>674,609.87</b>	<b>4,697,529.69</b>	<b>32,898,334.09</b>	<b>35,269,434.06</b>	<b>3,979,490.51</b>	<b>18,498,422.22</b>	<b>403,812,263.17</b>
Contingent Liabilities and Commitments		62276.1692	1547625.305	1358589.482	57372.39799		13846976.65

## Annex 11: Consolidated Statement of Profit & Loss A/C of DBs

( FY 2019/20)

Rs. in '000

Development Banks	Corporate	Excel	Garima	Green	Jyoti	Kamana	Kanchan
Interest Income	65,926.35	1,065,696.53	4,734,067.34	184,438.93	4,073,148.76	3,530,982.78	733,948.57
Interest Expenses	23,387.09	594,859.29	3,111,740.40	105,114.57	2,674,198.99	2,383,849.80	471,973.31
Net Interest Income	42,539.26	470,837.24	1,622,326.93	79,324.36	1,398,949.76	1,147,132.98	261,975.26
Fee and commission income	121.31	86,998.41	294,052.20	6,806.36	270,760.94	222,223.20	41,915.79
Fee and commission expense		6,227.71	9,701.71	112.93	3,948.33	1,733.02	498.25
Net Fee and commission income	121.31	80,770.70	284,350.49	6,693.43	266,812.61	220,490.18	41,417.54
Net Interest, Fee and commission income	42,660.57	551,607.94	1,906,677.43	86,017.79	1,665,762.37	1,367,623.16	303,392.80
Net trading income		-	(788.96)	-	22,529.15	51.79	-
Other operating income	1,674.06	4,986.98	11,023.73	1,069.24	57,505.04	8,761.06	1,686.78
Total operating income	44,334.63	556,594.92	1,916,912.20	87,087.03	1,745,796.56	1,376,436.01	305,079.58
Impairment charge/(reversal) for loans and other losses	(93,020.44)	150,825.20	235,642.20	5,732.63	160,338.72	315,711.47	57,106.14
Net operating income	137,355.07	405,769.72	1,681,270.00	81,354.40	1,585,457.84	1,060,724.53	247,973.43
Personnel expenses	24,793.59	166,168.95	491,033.14	32,694.43	483,466.95	489,363.22	98,493.25
Other operating expenses	11,339.60	72,301.74	296,556.52	23,542.67	318,418.24	316,262.28	57,293.81
Depreciation & Amortisation	1,277.66	18,029.83	80,929.37	7,235.63	80,651.07	89,368.49	11,025.78
Operating Profit	99,944.22	149,269.20	812,750.98	17,881.67	702,921.58	165,730.54	81,160.59
Non operating income	1.12	-	8,965.01	-	-	-	-
Non operating expense		-	-	-	5.94	1,623.48	-
Profit before income tax	99,945.35	149,269.20	821,715.99	17,881.67	702,915.64	164,107.06	81,160.59
Income Tax Expense							
Current Tax	2,286.05	45,684.19	237,181.88	5,554.04	218,473.60	53,377.55	26,850.48
Deferred Tax	(29,123.67)	(81.59)	7,278.35	(174.74)	(4,014.16)	(8,989.82)	(774.45)
<b>Profit/Loss for the period</b>	<b>126,782.97</b>	<b>103,666.60</b>	<b>577,255.77</b>	<b>12,502.37</b>	<b>488,456.21</b>	<b>119,719.33</b>	<b>55,084.56</b>

<b>Development Banks</b>	<b>Karnali</b>	<b>LumbiniDB</b>	<b>MahalaxmiDB</b>	<b>Miteri</b>	<b>Muktinath</b>	<b>Narayani</b>	<b>Sahara</b>
Interest Income	386,041.53	3,441,514.53	4,425,219.21	706,623.87	6,592,493.36	2,378.25	116,241.15
Interest Expenses	317,957.30	2,291,760.76	2,918,648.88	444,577.97	4,333,109.11	495.35	67,964.74
Net Interest Income	68,084.23	1,149,753.77	1,506,570.33	262,045.90	2,259,384.25	1,882.91	48,276.40
Fee and commission income	29,089.21	119,787.79	200,075.45	48,181.68	509,630.09	-	1,353.00
Fee and commission expense	-	3,363.47	4,800.49	1,729.18	22,762.96	-	-
Net Fee and commission income	29,089.21	116,424.32	195,274.95	46,452.50	486,867.13	-	1,353.00
Net Interest, Fee and commission income	97,173.44	1,266,178.10	1,701,845.28	308,498.39	2,746,251.38	1,882.91	49,629.40
Net trading income	-	13.48	-	-	6,259.45	-	-
Other operating income	-	28,153.30	35,645.58	78,142.74	35,656.55	641.36	11,600.81
Total operating income	97,173.44	1,294,344.88	1,737,490.86	386,641.13	2,788,167.39	2,524.26	61,230.21
Impairment charge/(reversal) for loans and other losses	(1,817.61)	178,040.67	294,747.78	5,381.85	316,856.63	(1,737.29)	10,069.40
Net operating income	98,991.05	1,116,304.21	1,442,743.09	381,259.28	2,471,310.76	4,261.55	51,160.81
Personnel expenses	50,918.10	324,049.73	528,475.40	84,220.95	895,799.38	2,285.44	18,565.22
Other operating expenses	40,630.74	212,721.01	272,171.82	32,329.38	434,835.80	3,831.39	12,626.86
Depreciation & Amortisation	6,532.54	53,482.74	60,756.04	9,215.04	131,834.41	727.80	1,787.39
Operating Profit	909.66	526,050.74	581,339.83	255,493.90	1,008,841.18	(2,583.08)	18,181.34
Non operating income	-	13,700.69	4,024.74	-	173.13	-	-
Non operating expense	-	1,298.14	11.95	-	-	-	1,818.00
Profit before income tax	909.66	538,453.28	585,352.62	255,493.90	1,009,014.30	(2,583.08)	16,363.34
Income Tax Expense	-	-	-	-	-	-	-
Current Tax	-	154,529.27	277,247.63	77,751.78	316,961.51	-	3,776.00
Deferred Tax	-	5,363.18	(95,463.56)	(1,399.32)	(15,352.33)	(1,445.91)	-
<b>Profit/Loss for the period</b>	<b>909.66</b>	<b>378,560.82</b>	<b>403,568.55</b>	<b>179,141.45</b>	<b>707,405.12</b>	<b>(1,137.16)</b>	<b>12,587.34</b>

<b>Development Banks</b>	<b>Salpa</b>	<b>Saptakoshi</b>	<b>Shangrila</b>	<b>Shine</b>	<b>Sindhu</b>	<b>Tinau</b>	<b>Grand Total</b>
Interest Income	20,177.94	447,616.76	3,135,051.47	3,227,876.48	359,007.92	1,664,646.59	38,913,098.32
Interest Expenses	9,655.86	225,547.97	2,084,752.75	1,965,643.73	211,760.68	1,073,592.96	25,310,591.52
Net Interest Income	10,522.08	222,068.79	1,050,298.72	1,262,232.76	147,247.24	591,053.63	13,602,506.80
Fee and commission income	583.44	25,785.69	166,786.01	130,427.05	21,912.43	101,747.72	2,278,237.78
Fee and commission expense	-	-	3,562.70	9,505.42	85.21	-	68,031.38
Net Fee and commission income	583.44	25,785.69	163,223.32	120,921.64	21,827.22	101,747.72	2,210,206.40
Net Interest, Fee and commission income	11,105.52	247,854.48	1,213,522.03	1,383,154.39	169,074.45	692,801.35	15,812,713.20
Net trading income	-	-	-	-	-	-	28,064.92
Other operating income	228.39	1,504.28	7,530.73	5,310.39	94.40	4,109.17	295,324.59
Total operating income	11,333.91	249,358.76	1,221,052.77	1,388,464.79	169,168.86	696,910.51	16,136,102.71
Impairment charge/(reversal) for loans and other losses	12,991.33	50,714.43	259,481.13	159,131.78	28,711.73	42,260.78	2,187,168.54
Net operating income	(1,657.42)	198,644.33	961,571.64	1,229,333.01	140,457.12	654,649.74	13,948,934.17
Personnel expenses	(7,663.32)	84,495.56	366,789.24	337,187.95	71,992.04	248,949.66	4,792,078.89
Other operating expenses	(3,454.91)	55,859.79	249,720.58	174,965.46	40,773.67	135,216.18	2,757,942.62
Depreciation & Amortisation	(1,877.20)	16,577.39	77,337.18	47,464.67	13,074.70	37,019.87	742,450.40
Operating Profit	(14,652.84)	41,711.59	267,724.64	669,714.92	14,616.72	233,464.03	5,630,471.41
Non operating income	-	-	1,882.71	3,676.47	-	-	32,423.87
Non operating expense	-	-	1,297.72	932.90	-	-	6,988.14
Profit before income tax	(14,652.84)	41,711.59	268,309.63	672,458.49	14,616.72	233,464.03	5,655,907.14
Income Tax Expense							-
Current Tax	-	13,577.30	79,636.05	186,198.01	4,475.25	80,845.19	1,784,405.77
Deferred Tax	-	(2,104.09)	(2,424.23)	59,513.43	(1,333.66)	5,721.54	(84,805.02)
<b>Profit/Loss for the period</b>	<b>(14,652.84)</b>	<b>30,238.38</b>	<b>191,097.81</b>	<b>426,747.04</b>	<b>11,475.12</b>	<b>146,897.30</b>	<b>3,956,306.39</b>



## Annex 12: Loan & Advances of Development Banks

(As of Mid July 2020)

Rs. in' 000

Development Banks	Good (1%)	Good (5%)	Watch List (5%)	Rescheduled / Restructured (12.5%)	Substandard (25%)	Doubtful (50%)	Bad (100%)	Additional Provision	Total Loan	Total Non - Performing Loan (NPL)
Corporate	303,765.95	-	3,536.89	-	-	-	15,985.52	-	323,288.37	15,985.52
Excel	6,959,635.75	-	722,719.49	-	79,572.36	98,618.18	39,571.76	-	7,900,117.56	217,762.31
Garima	34,935,461.68	-	138,450.19	-	122,233.30	135,312.95	19,917.74	-	35,351,375.87	277,463.99
Green	1,018,234.62	-	170,711.02	-	11,576.07	10,086.69	12,610.55	-	1,223,218.95	34,273.31
Jyoti	28,546,357.44	-	1,877,429.20	9,620.93	14,749.85	174,222.06	83,412.38	-	30,705,791.85	282,005.21
Kamana	25,056,399.19	1,464,587.61	9,696.13	-	140,757.13	108,735.89	235,307.83	-	27,015,483.78	484,800.84
Kanchan	5,100,153.75	-	69,100.90	-	1,760.65	56,045.52	32,815.73	-	5,259,876.54	90,621.90
Karnali	2,416,402.16	-	-	-	-	13,000.65	8,050.26	-	2,437,453.07	21,050.91
LumbiniDB	23,978,824.68	685,327.46	357,534.46	-	152,800.44	233,929.42	304,421.19	-	25,712,837.66	691,151.05
MahalaxmiDB	27,044,866.21	1,365,884.00	1,272,093.85	33,792.39	170,633.82	397,793.41	382,930.76	-	30,667,994.43	985,150.37
Miteri	3,921,186.67	51,377.15	39,589.76	4,566.64	456.78	3,103.16	-	-	4,020,280.16	8,126.58
Muktinath	44,618,440.00	3,416,602.17	62,876.32	-	65,760.28	151,109.70	7,767.13	-	48,322,555.61	224,637.11
Narayani	2,721.89	-	-	-	-	-	8,702.80	-	11,424.69	8,702.80
Sahara	661,929.55	-	14,723.84	-	21,200.00	11,221.00	688.47	-	709,762.85	33,109.47
Salpa	346,229.37	-	18,724.84	-	50,006.53	11,390.17	5,958.82	-	432,309.73	67,355.51
Saptakoshi	2,098,912.10	397,435.08	249,583.20	-	40,655.63	56,363.58	14,905.78	-	2,857,855.37	111,924.99
Shangrila	19,346,861.50	2,535,530.37	1,773,658.34	-	118,875.41	109,980.91	41,363.06	-	23,926,269.58	270,219.38
Shine	21,979,158.00	1,427,300.20	1,347,543.22	59,218.76	75,601.51	117,191.83	22,185.00	-	25,028,198.52	274,197.10
Sindhu	2,118,656.31	198,496.52	201,256.40	-	37.71	27,659.45	22,729.66	-	2,568,836.06	50,426.82
Tinau	11,110,703.56	-	1,418,919.44	-	38,229.40	11,147.45	61,359.14	1,694.88	12,642,053.87	112,430.87
<b>Grand Total</b>	<b>261,564,900.40</b>	<b>11,542,540.55</b>	<b>9,748,147.50</b>	<b>107,198.71</b>	<b>1,104,906.87</b>	<b>1,726,912.02</b>	<b>1,320,683.58</b>	<b>1,694.88</b>	<b>287,116,984.51</b>	<b>4,261,396.05</b>

## Annex 13: Sector-wise Statement of Loan of Development Banks

(As of Mid July 2020)

Rs. in '000

Development Banks	Agricultural and Forest Related	Fishery Related	Mining Related	Agriculture, Forestry & Beverage Production Related	Non-food Production Related	Construction	Power, Gas and Water	Metal Products, Machinery & Electronic Equipment & Assemblage	Transport, Communication and Public Utilities	Wholesaler & Retailer	Finance, Insurance and Real Estate	Hotel or Restaurant	Other Services	Consumption Loans	Local Government	Others	TOTAL
Narayani	799.00	-	-	-	-	-	-	-	3,939.00	-	-	-	-	-	2,722.00	3,965.00	11,425.00
Karnali	255,805.00	-	-	349,849.00	-	100,867.00	-	-	236,465.00	699,937.00	-	-	756,880.00	37,650.00	-	-	2,437,453.00
Shangrila	667,479.44	11,362.49	20,612.38	571,032.36	858,369.26	3,676,693.71	370,281.15	168,388.39	1,326,769.85	3,433,316.77	2,158,055.21	1,205,403.01	1,272,868.91	984,320.22	3,337.51	7,197,978.92	23,926,269.58
Excel	394,345.14	14,536.72	-	571,108.32	501,621.95	1,416,119.54	26,788.78	110,842.45	159,488.74	1,977,490.51	852,923.31	185,140.61	481,567.38	180,386.98	-	1,027,756.85	7,900,117.27
Miteri	337,029.88	5,362.20	-	202,384.08	121,206.00	1,093,863.46	-	38,356.46	176,979.46	485,354.44	154,837.37	66,798.71	54,219.77	96,588.72	1,500.00	1,185,799.61	4,020,280.16
Tinau	1,651,290.90	96,778.55	-	439,207.73	800,521.75	1,024,925.22	-	89,247.43	1,062,274.77	2,634,342.32	822,669.79	786,765.29	982,302.97	342,173.86	-	1,909,553.34	12,642,053.93
Muktinath	4,582,520.75	56,227.98	-	436,654.01	1,224,767.65	11,472,784.05	227,949.06	148,076.64	4,044,412.03	8,245,710.49	2,650,108.74	1,598,940.37	620,806.50	2,389,510.58	-	10,624,086.76	48,322,555.61
Garima	1,752,418.33	81,973.28	48,149.06	906,341.13	877,149.84	5,345,638.83	127,473.48	299,820.09	3,067,708.91	3,475,596.95	894,437.08	1,293,878.52	612,351.95	2,140,418.96	33.80	14,427,985.44	35,351,375.66
Kamana	992,662.02	69,063.64	44,798.32	698,369.06	759,571.56	2,251,882.50	90,000.00	422,908.41	1,948,453.80	5,154,519.34	2,293,432.45	848,563.86	669,447.44	1,470,833.78	-	9,300,978.08	27,015,484.26
Corporate	5,494.86	6,703.39	-	15,834.62	15,433.25	111,302.85	-	5,125.48	35,333.63	30,679.14	6,971.01	1,534.76	2,150.44	32,794.39	-	53,930.54	323,288.37
Jyoti	1,897,229.24	41,287.49	17,522.76	930,161.68	1,603,024.88	4,825,158.66	775,986.65	548,363.06	496,945.25	3,494,421.03	3,013,053.85	884,579.31	738,215.82	2,986,022.73	3,399.36	8,450,419.79	30,705,791.57
Shine	1,946,526.12	143,794.86	-	1,712,948.87	2,259,749.98	2,296,307.13	-	14,495.87	1,318,376.36	5,713,772.60	1,020,814.63	2,409,050.49	1,571,115.96	627,689.79	-	3,993,555.36	25,028,198.04
Kanchan	222,355.21	12,747.45	2,514.69	394,920.36	297,014.68	381,182.54	3,602.43	48,037.15	280,754.10	2,036,692.41	258,300.39	125,316.70	334,492.51	53,466.25	-	808,479.67	5,259,876.54
Lumbini	944,943.87	59,748.27	-	741,072.94	785,349.15	3,666,324.00	2,587,131.37	75,596.13	926,001.12	3,115,338.53	3,462,727.48	700,703.81	2,098,063.57	1,138,123.60	-	5,411,713.81	25,712,837.66
Sahara	128,316.21	18,750.00	-	22,374.00	48,080.00	11,515.00	-	9,626.17	899.00	147,984.89	4,356.69	7,050.00	48,180.13	3,800.00	-	258,830.79	709,762.88
Salpa	191,497.26	3,969.01	-	26,359.66	1,331.40	5,949.30	-	2,352.55	525.66	47,665.69	-	52,267.75	1,600.00	11,470.90	-	87,320.08	432,309.26
Saptakoshi	727,097.35	6,124.84	-	45,695.34	65,161.90	257,897.41	1,563.93	-	61,075.41	744,418.91	121,132.84	71,384.87	42,446.34	106,047.37	-	607,808.87	2,857,855.37
Green	138,244.00	4,654.00	4,659.00	48,240.00	25,111.00	60,968.00	5,093.00	6,007.00	112,306.00	108,003.00	83,308.00	19,419.00	11,869.00	85,498.00	-	509,840.00	1,223,219.00
Mahalaxmi	1,654,687.51	44,011.93	40,000.00	569,740.33	1,322,630.76	3,865,869.44	674,868.46	160,805.02	2,045,399.43	5,016,401.32	3,525,800.54	1,377,040.32	905,130.93	2,833,909.63	-	6,631,698.34	30,667,993.95
Sindhu	26,823.77	-	-	56,275.13	19,852.15	607,236.21	-	2,448.17	211,779.72	264,679.60	478,768.69	100,022.21	15,066.27	143,539.96	-	642,344.19	2,568,836.06
<b>Grand Total</b>	<b>18,517,565.85</b>	<b>677,096.11</b>	<b>178,256.22</b>	<b>8,738,568.60</b>	<b>11,585,947.18</b>	<b>42,472,484.86</b>	<b>4,890,738.30</b>	<b>2,150,496.48</b>	<b>17,515,887.24</b>	<b>46,826,324.93</b>	<b>21,801,698.08</b>	<b>11,733,859.57</b>	<b>11,218,775.89</b>	<b>15,664,245.74</b>	<b>10,992.67</b>	<b>73,134,045.44</b>	<b>287,116,983.16</b>

## Annex 14: Product-wise Statement of Loan of Development Banks

(As of Mid July 2020)

Rs. in '000

Development Banks	Term Loan	Overdraft	Trust Receipt Loan / Import Loan	Demand & Other Working Capital Loan	Residential Personal Home Loan (Up to Rs. 10 million)	Real Estate Loan	Margin Nature Loan	Hire Purchase Loan	Deprived Sector Loan	Bills Purchased	Other Product	Total
Narayani	-	2,719.00	-	-	-	-	-	3,939.00	799.00	-	3,968.00	11,425.00
Karnali	503,575.00	945,261.00	-	-	100,867.00	-	-	236,465.00	133,592.00	-	517,693.00	2,437,453.00
Shangrila	8,635,840.98	5,547,686.34	-	416,283.74	3,283,623.90	1,185,614.39	401,932.63	2,172,417.30	1,783,708.37	-	499,161.93	23,926,269.58
Excel	2,257,499.76	1,009,029.42	-	1,853,534.72	1,210,696.46	681,344.50	90,924.75	202,777.08	395,335.89	-	198,974.70	7,900,117.27
Miteri	52,234.95	419,615.48	-	-	790,641.41	110,044.15	-	283,694.40	216,681.36	-	2,147,368.42	4,020,280.16
Tinau	1,984,303.75	4,309,148.36	-	-	827,059.40	523,954.31	10,003.81	812,000.85	1,207,692.22	-	2,967,891.23	12,642,053.93
Muktinath	11,714,356.88	7,406,705.39	-	317,999.31	10,099,855.29	1,810,063.36	1,418,484.89	4,469,155.63	9,876,466.44	-	1,209,468.41	48,322,555.61
Garima	12,512,742.73	8,380,278.58	8,454.18	206,560.26	4,076,338.14	1,153,635.27	303,641.47	4,384,262.17	1,992,408.80	-	2,333,054.05	35,351,375.66
Kamana	12,328,492.72	5,729,264.05	-	806,328.17	1,987,780.55	604,633.40	262,469.15	2,563,080.51	2,056,732.05	-	676,703.65	27,015,484.26
Corporate	31,555.42	125,959.81	-	4,700.67	77,425.10	17,571.36	-	44,800.66	15,924.95	-	5,350.40	323,288.37
Jyoti	8,238,562.51	8,673,175.47	-	19,206.61	3,780,978.79	1,922,520.61	1,202,460.89	1,991,935.87	2,076,549.08	-	2,800,401.73	30,705,791.57
Shine	5,473,979.57	1,404,789.26	-	6,473,460.96	1,921,741.07	1,395,380.70	29,486.05	1,775,551.88	1,653,078.19	-	4,900,730.36	25,028,198.04
Kanchan	670,898.72	2,320,147.74	-	41,547.41	394,821.06	46,473.02	32,226.53	336,722.32	305,370.89	-	1,111,668.86	5,259,876.54
Lumbini	5,132,246.57	4,736,743.07	-	979,755.83	2,712,046.52	2,227,494.40	1,187,031.42	1,482,815.39	2,442,052.57	-	4,812,651.88	25,712,837.66
Sahara	12,091.31	20,995.60	-	606,163.69	-	-	-	-	37,265.50	-	33,246.79	709,762.88
Salpa	185,440.68	91,539.09	-	-	-	-	-	9,508.71	74,221.75	-	71,599.03	432,309.26
Saptakoshi	1,395,564.39	562,233.83	-	146,986.00	136,477.44	129,341.78	-	51,127.59	240,928.95	-	195,195.40	2,857,855.37
Green	469,198.00	301,987.00	-	-	122,793.00	10,750.00	19,617.00	157,448.00	91,138.00	-	50,287.00	1,223,218.00
Mahalaxmi	8,428,676.41	8,118,288.66	-	-	3,047,300.85	2,749,116.36	1,481,204.82	2,001,734.74	1,816,278.55	-	3,025,394.55	30,667,994.95
Sindhu	745,069.79	351,806.89	-	116,719.30	502,483.97	60,179.09	6,076.12	235,978.20	435,235.33	-	115,287.38	2,568,836.06
<b>Grand Total</b>	<b>80,772,330.12</b>	<b>60,457,374.05</b>	<b>8,454.18</b>	<b>11,989,246.67</b>	<b>35,072,929.97</b>	<b>14,628,116.70</b>	<b>6,445,559.54</b>	<b>23,215,415.31</b>	<b>26,851,459.86</b>	<b>-</b>	<b>27,676,096.78</b>	<b>287,116,983.17</b>

## Annex 15: Investment Details of Development Banks

(As of Mid July 2020)

Rs. in '000

Development Banks	Government Securities	NRB Bond	Deposit Auction	Shares and Debentures	Land and Housing Development	Other	Total Investment
Corporate	-	-	-	-	-	-	-
Excel	-	-	-	153,643.35	-	-	153,643.35
Garima	5,453,928.44	-	-	242,410.22	-	-	5,696,338.66
Green	50,000.00	-	-	5,000.00	-	-	55,000.00
Jyoti	2,161,005.80	-	-	740,725.74	-	-	2,901,731.54
Kamana	5,064,811.99	-	-	681,647.98	-	-	5,746,459.97
Kanchan	-	-	-	42,742.19	-	-	42,742.19
Karnali	-	-	-	-	-	-	-
LumbiniDB	1,347,075.00	-	-	518,069.08	14,126.51	-	1,879,270.59
MahalaxmiDB	2,931,875.00	-	-	138,163.52	-	351,664.01	3,421,702.53
Miteri	284,597.45	-	-	17,099.89	-	-	301,697.34
Muktinath	6,596,253.06	-	-	467,856.78	-	-	7,064,109.84
Narayani	-	-	-	55.00	59.00	-	114.00
Sahara	-	-	-	-	-	-	-
Salpa	-	-	-	-	-	-	-
Saptakoshi	-	-	-	5,005.00	-	-	5,005.00
Shangrila	2,706,182.40	-	-	456,525.18	-	61.29	3,162,768.88
Shine	1,444,725.00	-	-	174,295.57	-	-	1,619,020.57
Sindhu	10,000.00	-	-	17,351.54	-	-	27,351.54
Tinau	175,000.00	-	-	104,992.51	-	-	279,992.51
<b>Grand Total</b>	<b>28,225,454.14</b>	<b>-</b>	<b>-</b>	<b>3,765,583.56</b>	<b>14,185.51</b>	<b>351,725.30</b>	<b>32,356,948.51</b>

## Annex 16: Industry Statistics

### Annex 16.1: DB's Operations

Particulars	Rs. in Billion					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total Assets	291.56	334.84	295.55	364.75	468.32	403.81
Percentage Change	20.35	14.84	(14.84)	23.41	28.39	(13.77)
Total Deposits	237.06	278.20	239.04	301.99	398.34	354.79
Percentage Change	20.41	17.35	(14.09)	26.33	31.90	(10.93)
Total Loans and Advances	193.47	232.59	209.30	253.24	345.17	287.11
Percentage Change	21.26	20.22	(10.01)	20.99	36.30	(16.82)

### Annex 16.2: Capital Fund

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

### Annex 16.3: Deposit Mix

Rs.in Billion

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

### Annex 16.4: Non Performing Loan

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

### Annex 16.5: Non Banking Assets

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

### Annex 16.6: Investment

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

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

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

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

### Annex 16.8: Operation Efficiency of Development Banks

Particulars	Rs. in Billion					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Net Interest Income	10.53	12.68	12.43	13.27	17.45	13.60
Operating Profit	5.35	7.78	8.26	7.76	10.56	5.63
Percentage Change		31.23	5.81	-6.44	26.52	(87.57)

## Annex 16.9: Consolidated Statement of Financial Position of Development Banks

(Mid July 2020)

Rs.in '000

ASSETS	Year		
	2017/18	2018/19	2019/20
Cash and cash equivalent	73,354,748.89	80,073,536.02	61,067,977.15
Due from Nepal Rastra Bank	13,520,751.70	15,351,839.32	15,513,238.74
Placement with Bank and Financial Institutions	-	2,515.28	325,452.59
Derivative financial instruments	-	1,711,668.29	-
Other trading assets	331,793.24	340,835.21	444,892.95
Loan and advances to B/FIs	4,560,667.49	9,087,607.53	7,399,885.97
Loans and advances to customers	237,564,745.88	333,445,520.06	278,326,222.81
Investment securities	10,785,966.73	18,437,675.45	31,632,662.60
Current tax assets	232,548.30	380,679.88	606,174.10
Investment in subsidiaries	40,000.00	117,500.00	117,500.00
Investment in associates	324,179.13	647,089.15	546,283.30
Investment in property	736,394.65	690,595.68	672,843.84
Property and equipment	3,935,878.47	5,645,199.67	4,947,786.90
Goodwill and Intangible assets	90,040.88	126,186.81	213,257.62
Deferred tax assets	185,706.33	410,478.09	307,338.38
Other assets	1,783,719.06	1,848,778.20	1,690,746.21
<b>TOTAL ASSETS</b>	<b>347,447,140.75</b>	<b>468,317,704.63</b>	<b>403,812,263.17</b>
<b>EQUITY AND LIABILITIES</b>	-	-	-
Liabilities	298,560,519.62	411,945,549.02	360,444,114.02
Due to Bank and Financial Institutions	22,358,987.24	33,401,764.99	11,568,624.21
Due to Nepal Rastra Bank	221,000.00	1,406,378.15	605,830.77
Derivative financial instruments	-	1,783,300.00	-
Deposits from customers	270,555,237.34	368,366,498.70	343,218,899.61
Borrowing	-	684,825.00	-
Current Tax Liabilities	56,255.99	133,910.20	5,338.75
Provisions	60,440.48	86,683.39	179,696.52
Deferred tax liabilities	149,435.71	56,691.12	74,330.85
Other liabilities	5,159,162.88	6,025,497.47	4,791,393.32
Debt securities issued	-	-	-
Subordinated Liabilities	-	-	-
Equity	48,886,621.13	56,372,155.61	43,368,149.15
Share capital	36,335,261.24	40,070,421.92	32,038,896.01
Share premium	261,738.95	107,649.74	87,581.92
Retained earnings	5,209,263.01	5,870,788.41	2,857,102.94
Reserves	7,080,357.93	10,323,295.54	8,384,568.28
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>347,447,140.75</b>	<b>468,317,704.63</b>	<b>403,812,263.17</b>

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

## Annex 17: Number of Branches, Depositors and Borrowers

S.No.	Particulars	Total No. of Branches	Total No. of Depositors	Total No. of Borrowers
1	Corporate Development Bank Ltd.	4	12,895	217
2	Excel Development Bank Ltd	38	124019	4409
3	Garima Bikas Bank Ltd.	92	386109	33046
4	Green Development Bank Ltd	14	14117	1280
5	Jyoti Bikas Bank Ltd.	105	308,851	22,746
6	Kamana Sewa Bikas Bank Ltd.	125	301782	22070
7	Kanchan Development Bank Ltd.	21	147,513	4,708
8	Karnali Bikas Bank Ltd.	17	85606	2183
9	Lumbini Bikas Bank Ltd.	69	236822	11465
10	Mahalaxmi Bikas Bank Ltd.	103	480,769	17,907
11	Miteri Bikas Bank Ltd.	18	50061	5703
12	Muktinath Bikas Bank Ltd.	138	825775	121142
13	Narayani Development Bank Ltd	3	11202	31
14	Sahara Bikas Bank Ltd.	5	24,111	1,031
15	Salapa Bikas Bank Ltd.	5	16319	578
16	Saptakoshi Development Bank Ltd	32	83632	4913
17	Shangrila Development Bank Ltd	91	310295	15782
18	Shine Resunga Development Bank Ltd.	70	393472	13012
19	Sindhu Bikas Bank Ltd.	25	88,158	2,302
20	Tinau Mission Development Bank Ltd	54	173802	17916
	<b>Total</b>	<b>1,029<sup>#</sup></b>	<b>4,075,310</b>	<b>302,441</b>

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

<sup>#</sup> included the extension counters



## Annex 18: Circulars issued to Bank and Financial Institutions

(FY 2019/20)

S. No.	Name with Link of the Circulars issued to A, B and C Class Financial Institution
1	<a href="#">Circular 01-Interest Income Recognition Related-new</a>
2	<a href="#">Circular 02-Monetary Policy &amp; BOD, CEO Age Related-new</a>
3	<a href="#">Circular 03- Attachment Amendment to Unified Directive, 2075-new</a>
4	<a href="#">Circular 04- Amendment to Unified Directive, 2075-new</a>
5	<a href="#">Circular 05- Unified Directive, 2076-new</a>
6	<a href="#">Circular 06-AMLCFT Merger and Retained Earning Related-new</a>
7	<a href="#">Circular 07-Amendment in Interest Subsidy-new</a>
8	<a href="#">Circular 08-Interest Subsidy-new</a>
9	<a href="#">Circular 09-DTI, Deprived Sector,&amp; AML related</a>
10	<a href="#">Circular 10-NRB Refinance Procedure related</a>
11	<a href="#">Circular 11-DTI CCD related</a>
12	<a href="#">Circular 12-Gold Deposit related</a>
13	<a href="#">Circular 13-Monetary Policy Mid Term Review Related</a>
14	<a href="#">Circular 14 – Circular for “ABC” Class BFis</a>
15	<a href="#">Circular 15 – Circular for “ABC” Class BFis</a>

## Annex 19: Existing Acts, Bylaws and Guidelines

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

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