FINANCIAL STABILITY REPORT

FISCAL YEAR 2019/20

(Issue No. 12)

Nepal Rastra Bank

Disclaimer

This *Twelfth issue* of the Financial Stability Report is based on the provisional data of Bank and Financial Institutions (BFIs) and other financial institutions as of mid-July 2020. Data used in its analysis may thus differ from the most recent statistics or audited financials published by BFIs. The colors, boundaries, denominations or any other signs and symbols used in the report do not imply any metamorphic judgments. This report, unless or otherwise stated elsewhere, covers the financial performance and phenomena observed during the fiscal year ended mid-July 2020. All the data and information in this report are retrieved from NRB depository, unless stated.

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List of Abbreviation

ADBL	Agriculture Development Bank Limited
AE	Advanced Economies
ANNA	Association of National Numbering Agencies
ASBA	Application Supported by Blocked Amount
ATM	Automated Teller Machine
BAFIA	Bank and Financial Institution Act
BFIs	Bank and Financial Institutions
BoD	Board of Director
CAR	Capital Adequacy Ratio
CB	Commercial Banks
CBS	Central Bureau of Statistics
CCB	Capital Conservation Buffer
CD ratio	Credit to Deposit Ratio
CEO	Chief Executive Officer
CIT	Citizen Investment Trust
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
DBSD	Development Bank Supervision Department
DCGF	Deposit and Credit Guarantee Fund
DoC	Department of Cooperatives
ECB	European Central Bank
FI	Financial Institution
EMDE	Emerging Market and Developing Economies
EMEs	Emerging Market Economies
EPF	Employee Provident Fund
FINGO	Financial Non-government Organization
FEMD	Foreign Exchange Management Department
FSAP	Financial Sector Assessment Program
FSI	Financial Soundness Indicators
GBBs	Grameen Bikash Banks
GDP	Gross Domestic Product
GFSR	Global Financial Stability Review
GoN	Government of Nepal
IMF	International Monetary Fund
INR	Indian Rupees
IPO	Initial Public Offering
IRC	Interest Rate Corridor
ISIN	International Securities Identification Number
LCR	Liquidity Coverage Ratio
LCY	Local Currency
LLP	Loan Loss Provision
LMFF	Liquidity Monitoring and Forecasting Framework
LoLR	Lender of Last Resort
LTV	Loan to Value Ratio
MFIs	Microfinance Financial Institutions
NBA	Non-Banking Assets
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange Limited
NSFR	Net Stable Funding Ratio
NGO	Non-Government Organization
NIDC	Nepal Industrial and Development Corporation
NPA	Non-Performing Assets
NPLs	Non-Performing Loans
Rs.	Nepalese Rupees
NRB	Nepal Rastra Bank
PCA	Prompt Corrective Action
RBBL	Rastriya Banijya Bank Limited
ROA	Return on Assets
ROE	Return on Equity
RSRF	Rural Self Reliance Fund
RWA	Risk Weighted Assets
SOBs	State Owned Banks
SEBON	Security Board of Nepal
SLF	Standing Liquidity Facility
SLR	Statutory Liquidity Ratio
SOL	Single Obligor Limit
SSF	Social Security Fund
US	United States
WEO	World Economic Outlook

FOREWORD

In the face of ongoing COVID-19 situation, Nepal Rastra Bank is in the forefront of the efforts in maintaining financial stability. In this regard, this twelfth issue of the financial stability report undergoes an analytical review of the domestic banking and financial system and the achievements accomplished through the implementation of key regulations/policies throughout the year and outlines key policy interventions to mitigate the impact of COVID-19 on banking system.

I believe that this will prove to be extremely useful in helping understand the trends and developments across the financial sector, it will contribute towards communicating key stances taken by the NRB in terms of policies and efforts for maintaining stability as mandated by the Nepal Rastra Bank Act, 2058.

Lastly, I would appreciate Financial Stability Oversight Committee Chaired by Deputy Governor and also Executive Director of Banks and Financial Institutions Regulation Department for coordinating with all departments and officials for bringing out this invaluable publication.

Thank You,
Maha Prasad Adhikari
Governor

Executive Summary

Global Economic Development

1. The world economy faced an unprecedented COVID-19 crisis in 2020 resulting into contraction of economic activities, rising unemployment and heightened financial distress.
2. As per the recent estimates by International Monetary Fund, the world output contracted by 3.5 percent in 2020 compared to an expansion of 2.8 percent in 2019. Advanced economies contracted by 4.9 percent in 2020 whereas the emerging and developing economies contracted by 2.4 percent.
3. The Global Financial Stability Report of International Monetary Fund, October 2020, highlights some bold actions and often times "unconventional measures" has helped to buy some time which has led to continuous flow of credit in the economies around the world during the times of COVID-19. The overall stance of the economies remained accommodative during the pandemic period but some sectors such as airlines, hotels and energy sectors have been hit hard while other sectors which predominantly rely on telecommunication and internet are faring well.

Domestic Outlook

4. Annual average consumer inflation increased to 6.15 percent in 2019/20 compared to an increase of 4.64 percent in the previous year. In spite of the supply shocks created by the COVID-19 pandemic, lower petroleum prices and dampened demand helped contain the inflation around the target of 6.0 percent.
5. According to the preliminary estimates of the Central Bureau of Statistics, growth rate of Nepalese economy stood -1.99 percent in 2019/20 compared to 6.66 percent in 2018/19.
6. Merchandise trade deficit narrowed down by 16.8 percent to Rs.1,099.09 billion in 2019/20. The export-import ratio increased to 8.2 percent in the review year from 6.8 percent in the previous year. Total merchandise trade deficit as percentage of GDP slightly fell from 34.2 percent in 2018/19 to 27.9 percent in the review year.
7. The inflows under capital transfer stood at Rs.14.21 billion and foreign direct investment stood at Rs.19.48 billion in the review year. In the previous year, capital transfer and foreign direct investment inflows stood at Rs.15.46 billion and Rs.13.06 billion respectively.
8. Gross foreign exchange reserves increased by 34.9 percent to Rs.1,401.84 billion in mid-July 2020 from Rs.1,038.92 billion in mid-July 2019.

Financial Institutions

9. As of mid-July 2020, the total number of Banks and Financial Institutions (BFIs) has contracted to 155 comprising of 27 commercial banks, 20 development banks, 22 finance companies, 85 microfinance financial institutions (MFIs) and an infrastructure development bank. Besides, 39 insurance companies, 1 reinsurance company and non-bank financial institutions such as Employees Provident Fund, Citizens Investment Trust, Social Security Fund and a Postal Saving Bank are also in operation.

10. The share of BFIs in total assets and liabilities of the financial system stood at 78.66 percent in the review year compared to 79.06 percent in the previous year. In terms of assets, commercial banks remained the key player in the financial system followed by development banks. In case of contractual saving institutions, Employees Provident Fund is a dominant institution followed by insurance companies.

11. The non-performing loans of BFIs increased to Rs.61.59 billion in the review year compared to Rs.44.18 billion in the previous year.

12. The non-performing loans to total loans of banking industry stood at 1.89 percent, comprising 1.81 percent in commercial banks, 1.52 percent in development banks and 6.18 percent in finance companies.

13. The pace of credit flows from BFIs slowed down to 12.32 percent in 2019/20 compared to a growth of 20.18 percent in 2018/19. Deposits of BFIs increased by 17.27 percent in mid-July 2020 compared to an increase of 18.24 percent in 2018/19.

14. The overall profitability of banking sector has declined by 20.61 percent to Rs.58.92 billion in the review year compared to an increase of 21.01 percent in the previous year.

15. After the introduction of merger bylaws, 196 BFIs have undergone mergers and acquisition, as of mid-July 2020. The licenses of 150 BFIs were revoked, thereby forming 46 BFIs. The total number of BFIs licensed by Nepal Rastra Bank (NRB) decreased to 155 in mid-July 2020 from 171 in mid-July 2019.

16. As of mid-July 2020, the branch network of Commercial banks, Development banks, Finance companies and Micro finance financial institutions reached 4,436; 1,029; 243 and 4,057 respectively.

17. On an average, a branch of BFIs (excluding the branches of MFIs) is serving around 5,255 people. The population served by the BFIs comes down to 3,072 people per branch, if the branches of MFIs are also included. Such population per branch was 5,776 and 3,629 respectively in mid-July 2019.

18. In the review year, Nepal Infrastructure Bank Limited collected fixed deposit of Rs.250 million and approved loans of Rs.6 billion. Net profit was Rs.847.10 million while the Bank's total assets stood at Rs.13.97 billion.

Non-Bank Financial Institutions

19. As of mid-July 2020, deposits of cooperatives amounted Rs.477.96 billion while their total credit stood at Rs.426.26 billion.

20. In 2019/20, total assets/liabilities of insurance companies rose by 25.97 percent to Rs.437.32 billion from that of Rs.347.15 billion in 2018/19.

21. The total assets/liabilities of Employee Provident Fund had increased by 12.13 percent to Rs.388.71 billion in 2019/20. Likewise, the funds collected in 2019/20 grew by 14.38 percent to Rs.354.41 billion.

22. Similarly, net fund collections of Citizen Investment Trust stood at Rs.180.71 billion in 2019/20 with a growth rate of 20.11 percent over the previous year.

23. The sources of Social Security Fund stood at Rs. 28.96 billion in mid-July 2020.

Financial Market

24. In 2019/20, Nepalese Rupees depreciated by 10.07 percent against US dollar compared to a depreciation of 0.76 percent in the previous year.

25. The exchange rate of one US dollar was Rs.120.37 in mid-July 2020 compared to Rs.113.48 in mid-July 2019.

26. NEPSE Index plunged by 8.2 percent to 1,362.35 points. Float index which was 92.43 points in the 2018/19, increased by 3.3 percent to 95.47 points in 2019/20.

Payments Systems

27. As of mid-July-2020, all commercial banks (27), 12 development banks, and 7 finance companies are operating as Payment Service Providers.

28. As of mid-July 2020, 23 institutions were licensed by NRB as payment institutions. Among them, 9 are Payment Service Operators and 14 are Payment Service Providers.

CHAPTER - I
MACROECONOMIC DEVELOPMENT

1.1 Global Macroeconomic Situation

The world economy faced an unprecedented COVID-19 crisis in 2020 resulting into contraction of economic activities, rising unemployment and heightened financial distress. The crisis affected trade, capital flows, migration, and remittances. The fiscal responses of the governments around the world led to an increase in budget deficit and escalated level of public debt. However, recent developments show that the world economy is returning to its normalcy though the recovery path is still uncertain.

1.1.1 Economic Growth

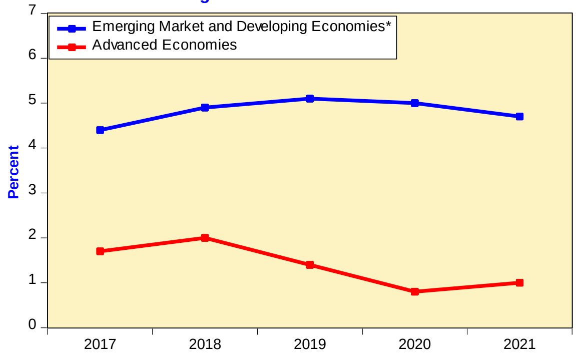
As per the world economic outlook's (October,2020) estimates of International Monetary Fund (IMF), the world output contracted by 3.5 percent in 2020 compared to an expansion of 2.8 percent in 2019. Advanced economies contracted by 4.9 percent in 2020 whereas the emerging and developing economies contracted by 2.4 percent.

Recent developments in COVID-19 vaccine as well as the policy efforts undertaken by almost all economies around the world have shown that the world economy is returning to normalcy. According to the IMF, the world output is projected to expand by 5.5 percent in 2021. Advanced economies are projected to expand by 4.3 percent and the emerging and developing economies are projected to expand by 6.3 percent. However, the speed of such recovery will depend on the impact of the second wave of COVID-19 and the effectiveness of the policy initiatives taken by the governments.

India and China have also been affected by the COVID-19 crisis but the impact has been somewhat less severe than previously expected. Chinese economy grew by 2.3 percent in 2020 compared to a growth of 6.0 percent in 2019. The Indian economy, however, contracted by 8.0 percent in 2020 compared to the growth of 4.2 percent in 2019. China and India are projected to grow by 8.1 percent and 11.5 percent respectively in 2021.

1.1. 2 Inflation

Figure 1.1: Consumer Inflation



*Excludes Venezuela

Source: World Economic Outlook Update, January 2021.

In 2020, almost all economies experienced moderate level of inflation. It was partly due to the lower oil prices and partly due to depressed consumer demand brought by the contraction in economic activities. Advanced economies experienced an inflation of 0.7 percent in 2020 compared to 1.4 percent in 2019 whereas the emerging and developing economies experienced an inflation of 5.0 percent in 2020 compared to 5.1 percent in 2019 (WEO, Jan 2021, IMF).

Inflation is projected to remain subdued in 2021. In advanced economies, consumer inflation is projected to remain at 1.3 percent and inflation in emerging and developing economies is projected to remain at 4.2 percent.

1.1.3 Trade

Word trade volume contracted by 9.6 percent in 2020 compared to a growth of 1 percent in 2019. In 2020, the advanced economies experienced a contraction in trade volume by 10.1 percent and emerging and developing economies experienced a contraction of 8.9 percent.

Global trade activities are projected to recover in 2021. Trade volume in advanced economies is expected to expand by 7.5 percent and trade volume in emerging and developing economies is projected to expand by 9.2 percent.

1.1.4 Crude Oil

Average price of crude oil dropped by 10.2 percent in 2019 and further dropped by 32.7 percent in 2020. Such price is projected to increase by 21.2 percent in 2021.

1.1.5 Fiscal Balance and Public Debt

Overall fiscal balance deteriorated significantly in 2020 as a consequence of the fiscal responses of the governments. The stress on revenue mobilization originated from the contraction in economic activities has resulted in larger overall deficit and historical public debt levels. The governments have spent 14 trillion US dollar globally as a part of their fiscal relief program. As a result of this, overall fiscal balance is estimated to reach -13.3 percent in advanced economies, -10.3 percent in emerging and middle income economies and -5.7 percent in low income economies. Likewise, public debt as percent of GDP reached 98 percent in 2020 compared to 84 percent a year ago (Fiscal Monitor, Jan 2021, IMF).

Table 1.1: Overall Fiscal Balance and Gross Debt (% of GDP)

Economies	Overall Fiscal Balance			Gross Debt		
	2019	2020	2021	2019	2020	2021
Advanced Economies	-3.3	-13.3	-8.8	104.8	122.7	124.9
Advanced G20: Euro Area	-0.6	-8.4	-5.9	84	98.1	99
Emerging G20: Asia	-6	-11.1	-10.3	56.7	65.8	69.4
Emerging G20: Europe	-0.9	-6.6	-4.4	28.7	38.4	38.5
Low-Income Developing Countries	-4	-5.7	-5	43.3	48.5	48.5
World Economy	**-3.8**	**-11.8**	**-8.5**	**83.5**	**97.6**	**99.5**

Source: Fiscal Monitor, Jan 2021, IMF

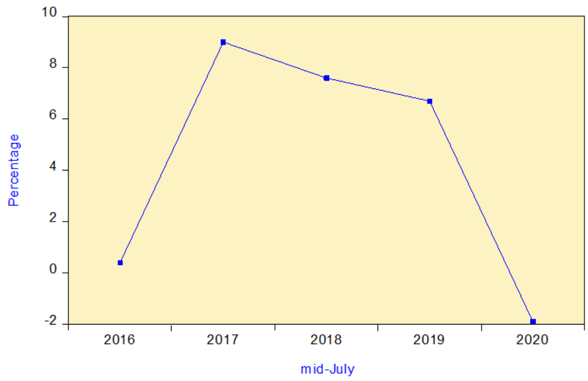
1.2 Domestic Macroeconomic Development

The growth of Nepalese economy was affected significantly in 2019/20 due to the restrictive measures taken to contain the spread of COVID-19 pandemic. Inflation remained subdued and external sector remained resilient even during the pandemic supported by remittances, lower imports and external resource mobilization by the government of Nepal.

1.2.1 Economic Growth

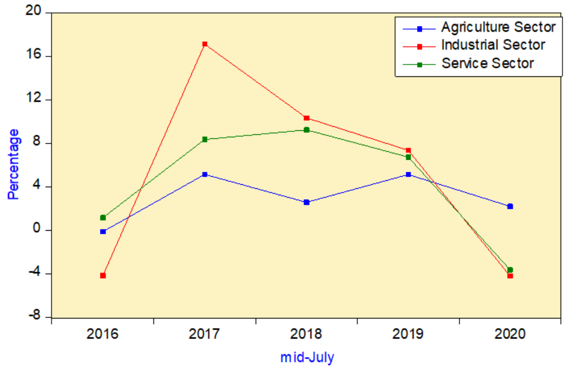
According to the preliminary estimates of the Central Bureau of Statistics (CBS), growth rate of Nepalese economy stood -1.99 percent in 2019/20 compared to 6.66 percent in 2018/19.

Figure 1.2: GDP Growth Rate at Basic Prices



In the review year, the agriculture sector expanded by 2.23 percent compared to a growth of 5.16 percent in 2018/19. On the other hand, non-agricultural sector contracted by 3.73 percent compared to a growth of 6.90 percent in 2018/19.

Figure 1.3: Sectoral GDP Growth



Source: Central Bureau of Statistics(CBS)

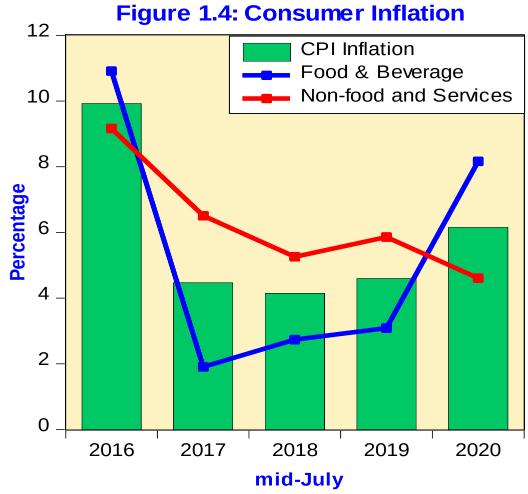
Under non-agriculture sector, industry sector contracted by 4.17 percent and services sector contracted by 3.60 percent. Such growth rates were 7.37 percent and 6.76 percent respectively in 2018/19. Services sector growth remained low as trade, restaurant and real estate activities were severely affected by the COVID-19.

1.2.2 Inflation

Annual average consumer inflation increased to 6.15 percent in 2019/20 from 4.64 percent in the previous year.

Average food inflation increased to 8.16 percent in 2019/20 from 3.09 percent a year ago, the nonfood inflation decreased to 4.61 percent in the review year from 5.86 percent a year ago.

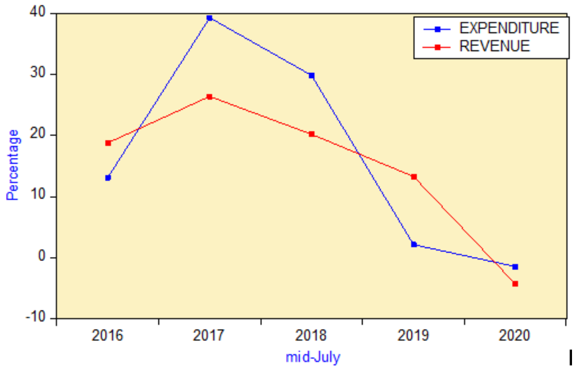
Figure 1.4: Consumer Inflation



1.2.3 Government Finance

In 2019/20, government revenue declined by 4.3 percent to Rs. 793.78 billion, compared to a growth of 13.3 percent in 2018/19. Revenue-to-GDP ratio in 2019/20 is estimated to fall to 20.1 percent compared to 21.5 percent in 2018/19. Of the total revenue, the share of tax revenue and non-tax revenue stood at 88.2 percent and 11.8 percent, respectively in the review year. In the previous year, the shares of tax and nontax revenue in the total revenue were 87.9 percent and 12.1 percent, respectively.

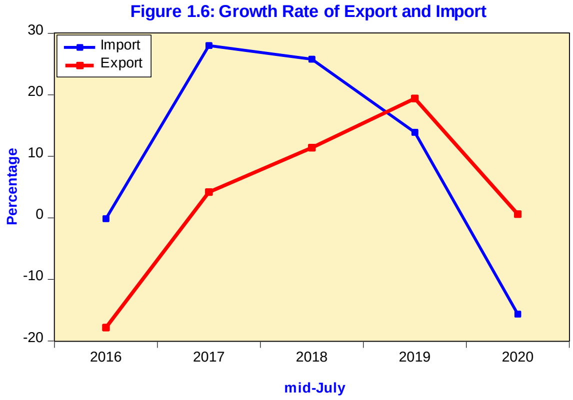
Figure 1.5: Growth Rate of Government Expenditure and Revenue



Government expenditure declined by 1.5 percent to Rs.1,094.34 billion in 2019/20. In 2018/19, such expenditure had risen marginally by 2.1 percent. During the review year, recurrent expenditure increased by 9.8 percent to Rs. 786.53 billion compared to a growth of 2.8 percent in the preceding year. Such expenditure stood at 82.2 percent of the initial estimate. The capital expenditure in 2019/20 decreased by 20.6 percent to Rs.191.77 billion which had contracted by 10.8 percent in the previous year. The capital expenditure in the review year accounted for 47.0 of its allocation. Expenditure under 'Financial' category decreased by 23.9 percent to Rs.116.04 billion, which had increased by 27.4 percent in the previous year. Such expenditure amounted to 69.1 percent of its allocated budget (MoF, 2020).

1.2.5 External Sector

Figure 1.6: Growth Rate of Export and Import



Imports as well as exports were affected by the COVID-19 pandemic in 2019/20. Merchandise exports grew marginally by 0.6 percent to Rs.97.71 billion compared to growth of 19.4 percent in the previous year. In the review year, while exports to India increased by 11.8 percent, exports to China and other countries decreased substantially by 43.5 percent and 18.2 percent respectively. Total merchandise exports as percentage of GDP remained at 2.5 percent in the review year.

Merchandise imports decreased by 15.6 percent to Rs.1,196.8 billion, in the review year as against the growth of 13.9 percent in the previous year. In the review year, imports from India, China and Other countries decreased by 19.9 percent, 11.5

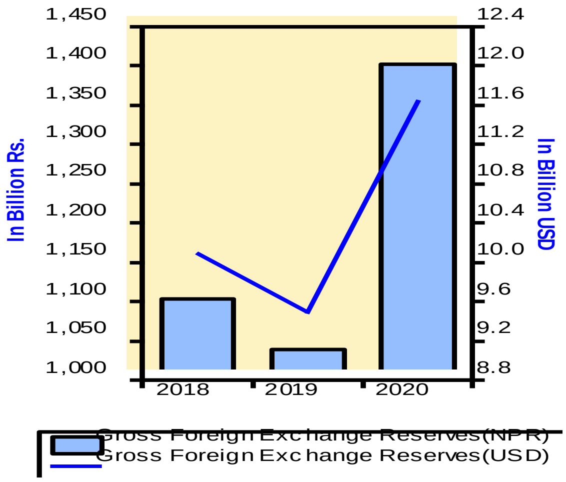
percent and 5.3 percent, respectively. Total import-to-GDP ratio decreased to 30.3 percent in the review year from 36.8 percent of the previous year.

Merchandise trade deficit narrowed down by 16.8 percent to Rs.1,099.09 billion in 2019/20. The export-import ratio increased to 8.2 percent in the review year from 6.8 percent in the previous year. Total merchandise trade deficit as percentage of GDP slightly fell from 34.2 percent in 2018/19 to 27.9 percent in the review year.

In the review year, total services receipts and expenses decreased by 16.1 percent and 23 percent respectively. As a result, net services account remained at surplus by Rs.1.22 billion compared to a deficit Rs.15.23 billion in the previous year.

Workers' remittances fell slightly by 0.5 percent to Rs.875.03 billion, compared to a growth of 16.5 percent in the previous year. The ratio of workers' remittances to GDP decreased to 22.2 percent in 2019/20 from 22.8 percent in 2018/19. Net transfer receipts declined by 1.3 percent to Rs.982.22 billion in 2019/20 compared to a growth of 15 percent in the previous year.

Figure 1.7: Foreign Exchange Reserve Situation



The inflows under capital transfer stood at Rs.14.21 billion and foreign direct investment (FDI) stood at Rs.19.48 billion in the review year. In the previous year, capital transfer and FDI inflows stood at Rs.15.46 billion and Rs.13.06 billion respectively.

Gross foreign exchange reserves increased by 34.9 percent to Rs.1,401.84 billion in mid-July 2020 from Rs.1,038.92 billion in mid-July 2019. Such reserve is sufficient for financing the import of goods and services of 12.7 months. In US dollar terms, foreign exchange reserves stood at 11.65 billion dollar in mid-July 2020 compared to 9.50 billion dollar in mid-July 2019.

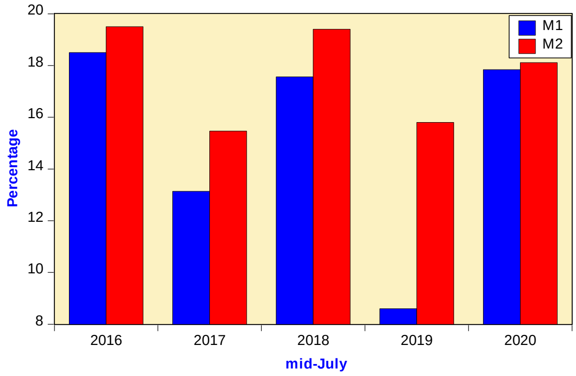
Foreign assets and liabilities of the country stood at Rs.1,467.79 billion and Rs.1,195.83 billion respectively in mid-July 2020. Accordingly, the net

International Investment Position remained in surplus of Rs.271.96 billion in mid-July 2020. Such surplus was Rs.188.86 billion in mid-July 2019.

1.2.4 Monetary Sector

Monetary aggregates remained in line with the projection in 2019/20. While the demand for credit was dampened due to the COVID-19, growth in foreign reserve and consequent growth in deposit mobilization of the Banks and Financial Institutions (BFIs) largely supported the growth of monetary aggregates.

Figure 1.8: Growth Rate of Money Supply



Broad money (M2) increased by 18.1 percent in 2019/20 compared to 15.8 percent growth in the previous year. Likewise, narrow money (M1) increased by 17.8 percent in the review year compared to 8.6 percent in the previous year.

In 2019/20, Net Foreign Assets (NFA) increased by 28.7 percent supported by favorable balance of payment in contrast to a decline by 6.4 percent in the previous year. Growth of foreign assets supported the growth of reserve money, which increased by 26.7 percent in 2019/20 compared to a decline of 1.5 percent in the previous year.

In the review year, Rs.219.16 billion liquidity was injected through open market operations. Similarly, Rs.78 billion was mopped-up through open market operations. The BFIs used Rs.103.28 billion standing liquidity facility (SLF) in 2019/20. Likewise, NRB injected net liquidity of Rs.492.24 billion through net purchase of USD 4.21 billion from foreign exchange market and purchased Indian Currency (INR) equivalent to Rs.442.13 billion through the sale of 3.82 billion USD.

CHAPTER - II
FINANCIAL SYSTEM PERFORMANCE AND STABILITY

2.1 Global Financial Stability Overview

Timely policy responses to COVID-19 helped to contain risks as well as to maintain continued flow of credit. However the IMF warns the rising vulnerabilities in different segments of the economy as business has taken credit, often excessive, for their operational and cash need. Hence the IMF suggests various strategies under different stages of the pandemic scenarios that need to be kept in mind while formulating policy action.

The IMF termed the current world economic affairs as that of "deep recession" as a result of pandemic. But some bold actions and often times "unconventional measures" has helped to buy some time which led to continuous flow of credit in the economy. The overall stance of the economies remained accommodative during the pandemic period but some sectors such as airlines, hotels and energy have been hit hard while other sectors which predominantly rely on telecommunication and internet are faring well.

The IMF report also states that while the financial vulnerabilities were already rising in the pre pandemic times, such financial vulnerabilities have since elevated and states that any trigger such as another round of lockdown measures, policy missteps or entirely different kind of shocks can interact with existing vulnerabilities, which can have adverse effect on the economy. Years of prudential management and other regulatory reforms has caused banks to develop a cushion for any unfavorable events and as a result banking sector has withstood the pandemic largely unscathed, though the policy space seems to be shrinking. Credit to private sector in majority of the economies is largely growing due to accommodative policy stance of the central banks around the world while installment deferrals, waivers and other policy actions helped keep the faith in the banking sector.

Non financial firms approached the pandemic with already accumulated risks and hence some cash flow irregularities were faced by the non-financial firms. However, those were timely managed by policy support. There still remain risks such as credit risks and increased leverages that could lead to greater impact in case the stress is magnified.

Sovereign debt levels have risen to all time high with global public debt level of above 100 percent of GDP in 2020. While the pandemic has caused "worst global recession since the great depression", the accommodative and timely policy actions have so far been very helpful in mitigating the worst scenarios.

The situation seems to be improving in many economies and IMF suggests few policy actions that need to be kept in mind while formulating future course of actions. Those are spelled out under various stages of the development of pandemic situation.

Table 2.1: Policy Recommendations Under Different Scenarios

S.No.	Different scenarios	Policy Considerations
1	Policy Priorities during Gradual Reopening Under Uncertainty	Monetary accommodation should be maintained.
		The necessary liquidity support to financial markets and institutions should be maintained.
		Banks should be encouraged to continue lending.
		Policymakers should develop effective strategies to deal with corporate and household solvency pressures.
		Emerging and frontier market economies facing financing difficulties may require official support.
2	Policy Responses if Recovery is Delayed	In the event of a deterioration of the economic outlook (for example, due to new outbreaks), policymakers should be prepared to scale up liquidity support but in a more targeted manner.
		Monetary policy may have to be eased further as needed to support the flow of credit to the economy.
		Policymakers should provide solvency support to mitigate systemic risk.
3	Policy Priorities once Pandemic Is under	Monetary policy accommodation should be maintained until central bank objectives are

	Control	achieved.
		Liquidity support should be withdrawn as warranted once conditions improve.
		Banks should be encouraged to proactively clean up nonperforming loans.
		Policymakers should develop effective strategies to deal with private debt overhang.
		Policymakers should prepare to deal with the implications of corporate and household insolvencies for banks and nonbank financial institutions, as well as for sovereigns.
		Policymakers should adopt policies to encourage more proactive management of climate-change-related risks.
		Policymakers should adopt policies to encourage greater digital investment to enhance financial sector efficiency and inclusion.
4	Post-Pandemic Financial Reform Agenda	Strengthening the regulatory framework for the nonbank financial sector.
		Implementing micro and macro prudential measures to curb excessive risk taking in the lower-for-longer interest rate environment.

The Asian Development Outlook published by Asian Development Bank forecasts South Asian economies to contract by 6.1 percent in 2020. With majority of the countries experiencing a relaxation in containment measures, the economic activities are expected to move forward and hence a growth of around 7.2 percent is projected for 2021. But tourism reliant countries such as Sri-Lanka, Maldives and Nepal are expected to have a longer recovery path (ADB, 2020).

2.2 Overview of Nepalese Financial System

2.1.1 Financial Ecosystem of Nepal

The financial system of Nepal comprises of the BFIs regulated by Nepal Rastra Bank (NRB) and other institutions established under various Acts with separate mandates. In Nepalese financial ecosystem, various financial players are closely interacting for fulfilling the financing needs of economy by mobilizing their resources. The resources generated by these players largely vary from public deposits, small savings and institutional savings to various types of fund generated out of their regular businesses. Their investment widely ranges from micro-credits, personal loans, business loan, project financing to large consortium arrangements.

NRB is the regulator of "A", "B", "C", "D" class BFIs and Infrastructure Development Bank which are licensed to collect public as well as institutional deposit and invest in the infrastructure sectors. While there are other financial institutions that are legitimized by their respective acts and legislations whereby they are collecting fund and investing by various means. There are contractual saving and non-bank financial institutions (NBFI) operating in Nepal, which are focused on long term sources of funds such as Employee Provident Fund (EPF), Citizen Investment Trust (CIT), Postal Saving Banks, Social Security Fund (SSF) and Insurance Companies.

While the negligible impact of global financial crisis of 2007-08 can be attributed to the low level of integration into the global financial market, there has been a gradual increment in the level of interconnectedness and the overall transactions within the global markets. This has been expedited with the invention and adoption of new technologies in fin-tech. While there are benefits of deeper integration, it also possesses some risks. The domestic financial system is connected to that of international market players as they can borrow foreign loan, accept the foreign bank guarantee, invest in derivative instruments, involve in forward contract, etc. NRB hence is actively involved in regulation and supervision for continued stability in the financial system. Along with this, the NRB is actively pursuing greater accessibility, inclusiveness, transparency in the financial system. With growing complexities the financial system is also faced with the risk of money laundering and terrorism financing. In this regard a Financial Information Unit (FIU) is conducting its activities rigorously which discourages and tracks such illicit activities to catch up with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) measures.

The financial ecosystem can be considered sound if the pertaining risk is properly identified and managed in which the whole ecosystem keeps functioning. The financial ecosystem must be able to collect and mobilize the best available financial resources in an efficient manner. The self fulfilling financial system enables economy to make resource available whenever needed. There are wide ranges of financial institutions in operation and so far no significant imbalances were noted in financial ecosystem of Nepal.

2.2.2 Size of the Overall Financial System

The financial system of Nepal comprises of banking, insurance, securities market, contractual saving institutions and other institutions involved in foreign exchange transactions and payment and settlement services in the country.

NRB, being the central bank, regulates BFIs. Contractual saving institutions comprises of EPF, CIT and SSF. The Securities Board of Nepal (SEBON) regulates securities market which comprises of stock exchange, listed companies, central securities depository, stockbrokers, merchant bankers, credit rating agencies, mutual funds, Application Supported by Blocked Amount (ASBA) members and depository participants. Likewise, insurance companies are under the purview of Insurance Board and cooperatives fall under the jurisdiction of Department of Cooperatives, Government of Nepal (GoN).

Following the financial liberalization policy adopted since the mid-1980s, there has been proliferation of the number of BFIs in the last few decades. The growth in the number of BFIs has moderated after NRB introduced moratorium on licensing. For the last few years, the banking system has been undergoing restructuring and consolidation, particularly through the merger and acquisition.

As of mid-July 2020, the total number of BFIs stood at 155 comprising 27 commercial banks, 20 development banks, 22 finance companies, 85 micro finance financial institutions and 1 infrastructure development bank. Besides, 39 insurance companies and non-bank financial institutions in the form of EPF, CIT, Deposit and Credit Guarantee fund (DCGF), Reinsurance Company, SSF and a Postal Saving Bank are also in operation. License provided by NRB to some cooperatives for conducting limited banking transactions were revoked from August 2018. Similarly, NRB licensed Financial Intermediary Non-Governmental Organizations (FINGOs) were converted into MFIs during the 2018/19.

Table 2.2: Number of BFIs and Other Institutions

Banks and Financial Institutions	Mid-July 2017	Mid-July 2018	Mid-July 2019	Mid-July 2020
Commercial Banks	28	28	28	27
Development Banks+	40	33	29	20
Finance Companies++	28	25	23	22
Micro finance Financial Institutions	53	65	90	85
Infrastructure Development Bank				1
Sub-Total	**149**	**151**	**170**	**155**
NRB Licensed Cooperatives	15	14	*	*
NRB Licensed FINGOs (with limited banking activities)	25	24	**	**
Insurance Companies	26	38	39	39
Reinsurance Company	1	1	1	1
Sub Total	**67**	**77**	**40**	**40**
Securities Market Institutions				
Stock Exchange	1	1	1	1
Central Depository Company	1	1	1	1
Stockbrokers	50	50	50	50
Merchant Bankers	24	25	30	32
Mutual Funds	9	9	9	14
Credit Rating Agencies	1	2	2	2
Depository Participants$	65	70	72	76
ASBA BFIs$	0	65	52	52
Sub-Total	**86**	**88**	**93**	**100**
Employees Provident Fund	1	1	1	1
Citizen Investment Trust	1	1	1	1
Postal Saving Bank	1	1	1	1
Deposit and Credit Guarantee Fund	1	1	1	1
Credit Information Center Limited	1	1	1	1
Social Security Fund				1
Total	**307***	**321***	**308***	**301**

* *Figures adjusted from earlier published figure because of delicensing of NRB Licensed cooperatives and NRB Licensed FINGOs.*

$ *BFIs repeated as ASBA BFIs and Depository Participants not included in Total.*

\+ *including 1 problematic: ++ including 3 problematic*

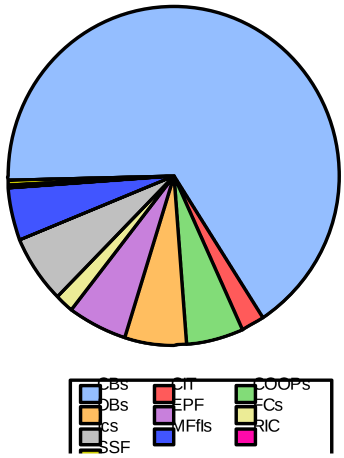
Table 2.3: Structure of the Nepalese Financial Sector (Assets/ Liabilities or Sources/Uses)

BFIs and Contractual Saving Institutions	Mid-July			*(Amount In Billion Rupees)*	
	2016	**2017**	**2018**	**2019**	**2020**
Commercial Banks	2,184.81	2,621.23	3,104.27	3,687.33	4,413.57
Development Banks	350.84	305.07	374.70	486.31	413.42
Finance Companies	103.44	82.60	96.01	112.54	122.49
MFIs	100.77	133.91	175.61	273.02	325.16
NIFRA				13.15	13.97
Cooperatives	385.72	396.53	388.13	491.93	383.14
Employees Provident Fund	224.85	251.28	292.16	346.64	388.71
Citizen Investment Trust	83.01	99.10	114.06	148.90	180.71
Insurance Companies	158.24	185.89	260.31	347.15	437.32
Reinsurance Company	6.26	6.85	10.04	12.14	15.09
Social Security Fund					28.96
Total	**3,597.94***	**4,082.4***	**4,815.29***	**5,905.96***	**6,722.54**
Market capitalization (NEPSE)	1,889.45	1,856.82	1,435.13	1,567.5	1,792.76
Total (incl. market capitalization)	**5,487.41**	**5,939.28**	**6,250.42**	**7,473.43**	**8,515.30**
Percentage Share (Excluding NEPSE Market Capitalization)					
Commercial Banks	60.72	64.00	64.29	62.26	65.65
Development Banks	9.75	7.45	7.76	8.21	6.14
Finance Companies	2.88	2.02	1.99	1.90	1.83
MFIs	2.80	3.27	3.64	4.61	4.84
NIFRA					0.20
Cooperatives	10.72	9.68	8.04	8.30	5.70
Employees Provident Fund	6.25	6.14	6.05	5.85	5.79
Citizen Investment Trust	2.31	2.42	2.36	2.51	2.69
Insurance Companies	4.40	4.54	5.39	5.86	6.51
Reinsurance Company	0.17	0.24	0.21	0.20	0.22
Social Security Fund					0.43
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

* *Figures adjusted from earlier published figure because of delicensing of NRB Licensed cooperatives and NRB Licensed FINGOs as well as licensing of NIFRA.*

The share of BFIs in total assets and liabilities of the financial system stood at 78.66 percent in mid-July 2020 compared to 79.06 percent in the previous year. The commercial banks remained the key player in the financial system occupying 65.65 percent of the system's total assets followed by development banks (6.14 percent), Micro finance financial institutions (4.84 percent) and finance companies (1.83 percent). These figure stood at 62.26 percent, 8.21 percent, 1.90 percent, 4.61 percent respectively in the previous year. The share of NIFRA stood at 0.20 percent.

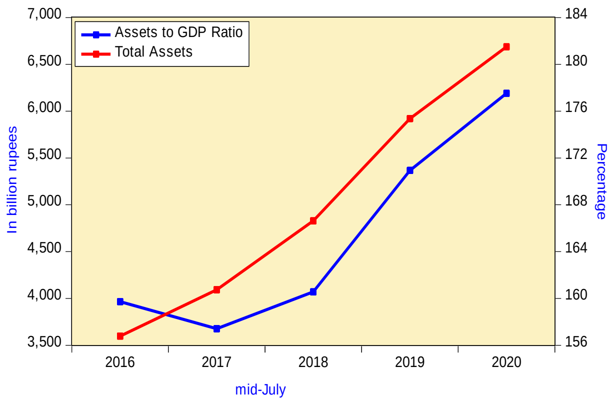
Figure 2.1: Structure of Assets Holding in Financial System



In case of contractual saving institutions, insurance companies are a dominant institution having 6.51 percent share, followed by EPF (5.79 percent), CIT (2.69 percent), and Reinsurance Company (0.22 percent) as of mid-July 2020 respectively. These figure stood at 5.86 percent, 5.85 percent, 2.51 percent and 0.20 percent in the previous year. The share of cooperatives in total financial system stood at 5.70 percent in mid-July 2020 compared to 8.30 in mid-July 2019.

Figure 2.2 depicts the size of Nepalese financial system. The ratio of total assets of the financial system to GDP, which has been continually rising, reached 177.53 percent in mid-July 2020. Total assets and liabilities of commercial banks remained at 117.16 percent of GDP followed by development banks (10.97 percent), finance companies (3.36 percent), MFIs (8.61 percent) and Cooperatives (10.17 percent). Further, such ratio for contractual saving institutions stood at 27.34 percent comprising 10.31 percent of EPF, 4.27 percent of CIT, 11.60 percent of insurance companies, 0.40 percent of Reinsurance Company and 0.74 percent of Social Security fund in mid-July 2020.

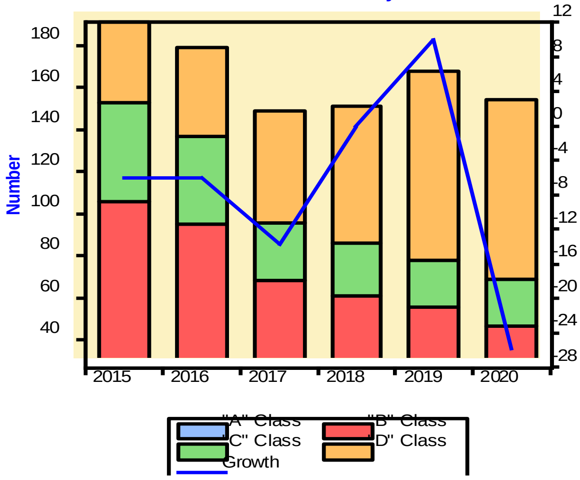
Figure 2.2: Total Assets and Assets to GDP Ratio



2.2.3 Structure and Performance of Banks and Financial Institutions

The Nepalese banking system has evolved significantly over the years and as a result banking sector has been seen as largely resilient to shocks. The impact of global financial crisis of 2007/08 was minimal due to the less exposed nature to international financial markets. Current COVID-19 situation has been dealt well with prudential regulatory interventions of which the basis was formed due to the strong regulatory measures in the preceding years. The efforts made to consolidate the banking sector over the years have caused number to decrease along with the improvement of the quality and strengths of institutions. The decreasing trend is primarily attributed to the mergers and acquisitions. While the number of BFIs may have been decreasing there is general trend of increase in capital base, branches, and assets among others.

Figure 2.3: Number and Growth of BFIs Licenced By NRB

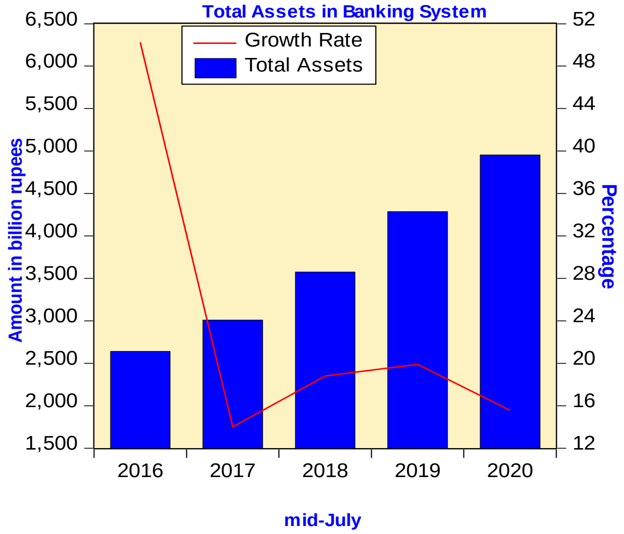


2.2.4 Growth of Assets in the Banking System

Total assets and liabilities of BFIs have continued to increase. As of mid-July 2020, total assets of BFIs increased by 15.57 percent to Rs.4,953.77 billion, compared to Rs.4,286.19 billion a year ago. Though restrictions have been placed on the licensing of new BFIs, there has been significant expansion of the balance sheet of BFIs mainly due to the increase in deposits and credits. Increase in deposits is mainly driven by the increase in

Figure 2.4

Total Assets in Banking System



banking habits, expansion in banking outreach, supported by the wider adoption of information technology, and increasing remittance inflows.

As of mid-July 2020, the five large commercial banks namely Rastriya Banijya Bank Limited (RBBL), Global IME Bank Limited (GLOBAL), NIC Asia Bank Limited (NICA), Nabil Bank Limted (NABIL) and Nepal Investment Bank Limted (NIBL) collectively accounted for 26.35 percent of total banking system assets and 29.58 percent of total commercial banks' assets. As of mid-July 2020, the five large commercial banks i.e RBBL, GLOBAL, NICA, NABIL and NIBL had total assets size of Rs.289.01 billion, Rs.280.46 billion, Rs.274.43 billion, Rs.237.72 billion, and Rs.223.92 billion respectively. This implies a concentration of banking assets to few banks in Nepal. The failure of any of these large banks is, therefore, likely to have a significant impact on the financial stability.

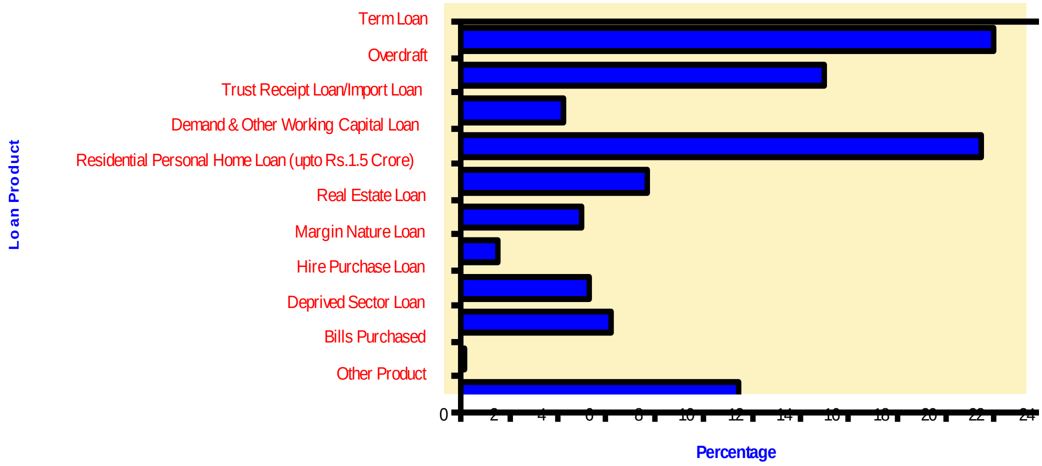
2.2.5 Sectoral Credit Distribution by the Banking Sector

The fourth quarter of the review period was largely impacted by the COVID-19, but banking sector was found to be proactive in terms of facilitating credit in the economy. A large part of BFIs lending is concentrated in eight key areas of economic activities. Of the total credit outstanding, as of mid-July 2020, trade (wholesaler and retailer) accounted for 20.29 percent, followed by agriculture, forestry and beverage production related (17.27 percent), other services (14.45 percent), construction (10.64 percent), finance, insurance and real estate (7.74 percent), agricultural and forest related (5.82 percent), Electricity, Gas and Water (4.96 percent) and consumption (4.86 percent).

Table 2.4: Credit Distribution in the Banking System(July, 2020)

Sector	Percent
Agricultural and Forest Related	5.82
Fishery Related	0.17
Mining Related	0.20
Agriculture, Forestry & Beverages Production Related	17.27
Construction	10.64
Electricity, Gas and Water	4.96
Metal Products, Machinery & Electronic Equipment & Assemblage	1.41
Transport, Communication and Public Utilities	2.99
Wholesaler & Retailer	20.29
Finance, Insurance and Real Estate	7.74
Hotel or Restaurant	4.55
Other Services	4.61
Consumption Loans	4.86
Local Government	0.05
Others	14.45
TOTAL	100

Figure 2.5: Product wise lending of BFIs

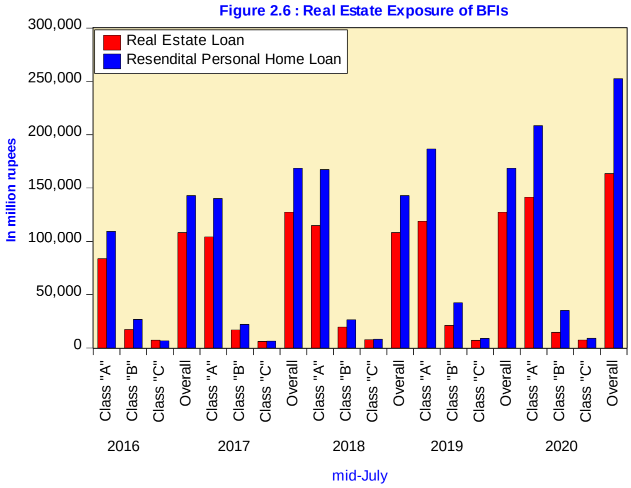


Concentration of lending to a few sectors would expose banks to credit concentration risk. Hence, NRB has made mandatory provision of lending to some specified sectors to support economy, BFIs have been slowly diversifying their portfolios and are actively lending into these sectors. As per the product-wise portfolio, BFIs have made highest lending in term loan (22.00 percent) followed by demand and working capital loan (21.50 percent) and overdraft (14.96 percent). The real estate loan has come below the regulatory requirement of 10 percent, standing at 5.01 percent in mid-July, 2020. Figure 2.5 depicts the product-wise lending of BFIs as of mid-July 2020.

2.2.6 Real Estate Lending

NRB has adopted some macro prudential measures to address real estate lending such as caps on real estate loans, loan-to-value ratio (LTV), and sectoral capital requirements. NRB has directed BFIs to limit their real estate and housing loan exposure to 25 percent of their total loans. The BFIs are also required not to issue loans exceeding 50 percent of fair market value of the collateral/project outside Kathmandu valley and 40 percent

Figure 2.6 : Real Estate Exposure of BFIs



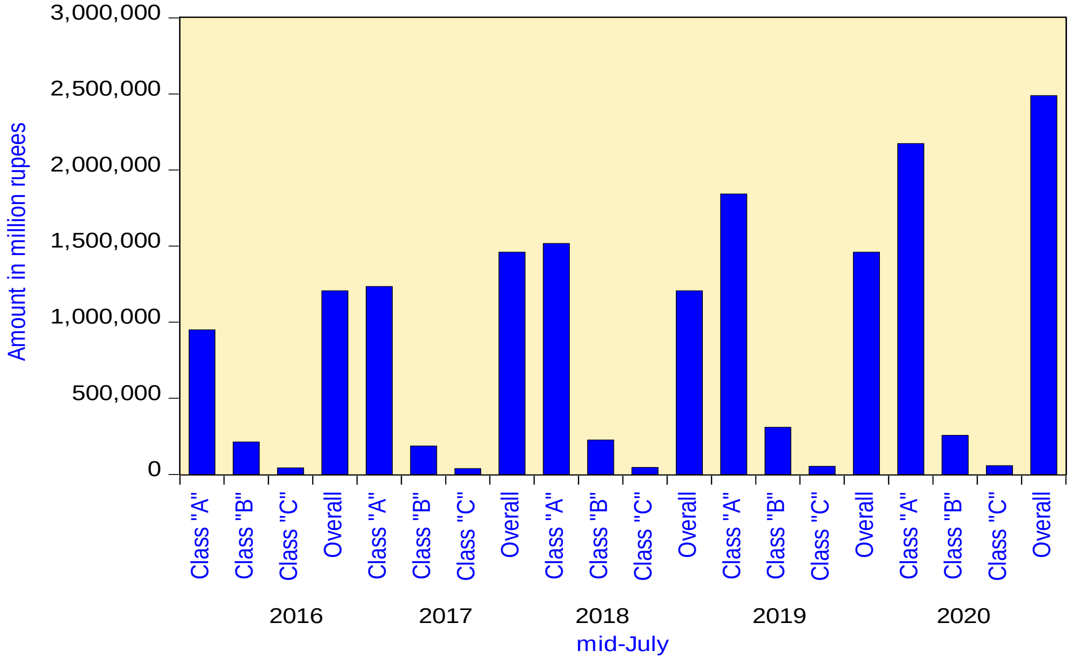
inside Kathmandu valley. LTV ratio on residential home loan, whereby BFIs can lend up to Rs.15 million for personal residential home loan, is kept at 60 percent. LTV ratio for First home buyers (for loans up to Rs.15 million) is kept at 70 percent.

The banking system has reduced its high exposures in real estate after the introduction of some additional macro prudential measures. The real estate exposure amounted to Rs.163.48 billion which accounts for 5.01 percent of total loan outstanding in mid-July 2020. Such exposure was about Rs.146.99 billion (5.86 percent of the total outstanding loan) in mid-July 2019.

Commercial banks' exposure to real estate and housing loans has declined from 19.40 percent in mid-July 2010 to 12.04 percent in mid-July 2020. Development banks and finance companies have lent 17.30 percent and 21.87 percent, respectively of their total loan portfolios to real estate and housing in mid-July 2020.

BFIs have lent 76.20 percent of their total loans against collateral of fixed assets. Commercial banks have lent 74.87 percent, development banks and finance companies have lent respectively 89.60 percent and 76.54 percent of their total loan portfolio against collateral of fixed assets.

Figure 2.7: Loan Against Collateral of Fixed Assets

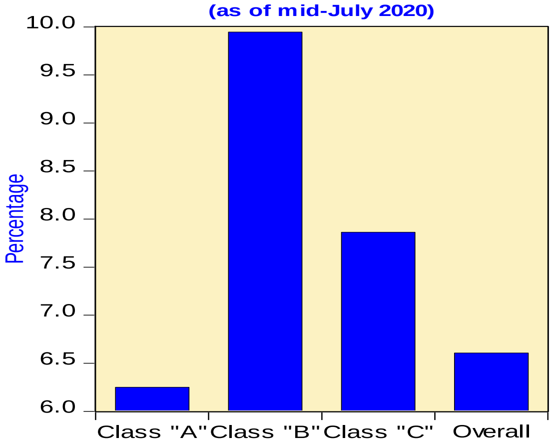


2.3 Directed Lending

2.3.1 Priority Sector Lending

The monetary policy stance of NRB is designed to ensure the adequate credit for productive investments to support the attainment of the government's GDP growth target. As on mid-July 2020, commercial banks had provided 41.18 percent of their total loan to priority sector which comprises 12.63 percent in agriculture, 28.10 percent in non agriculture sector.

Figure: 2.8: Deprived Sector Lending of BFIs (as of mid-July 2020)



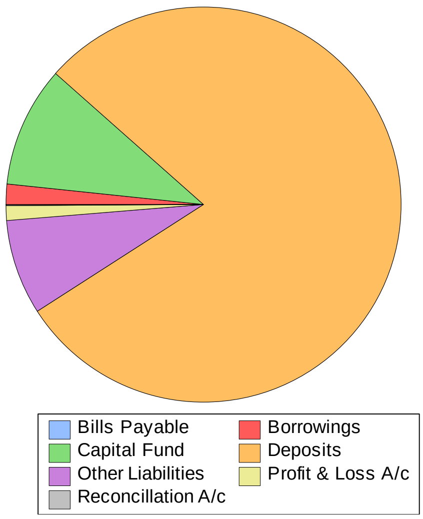
2.3.2 Deprived Sector Lending

BFIs are required to disburse certain percent of their total loans portfolio to the deprived sector as stipulated by NRB. With the objective of gradual expansion of financial access to the deprived sectors of the economy, NRB has fixed such lending requirement rate at 5 percent for class "A", "B" and "C" class BFIs. The overall deprived sector lending by BFIs as of mid-July 2020 remained 6.60 percent whereas commercial banks, development banks and finance companies have lent 6.24 percent, 9.94 percent and 7.86 percent respectively.

2.4 Liability Structure of the Banking Sector

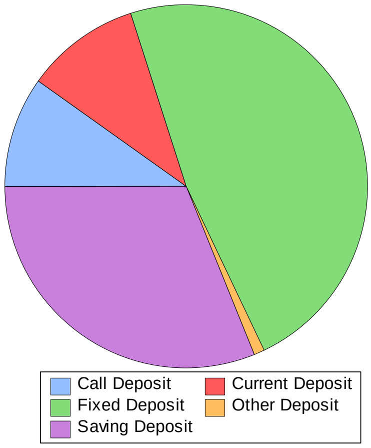
Deposits are the largest source of external funds in the banking sector. The share of total deposits is 79.40 percent of the total liabilities, as of mid-July 2020. Total deposits increased by 15.57 percent compared to 18.0 percent in mid-July 2019. Likewise, capital fund increased by 9.38 percent, borrowings decreased by 10.05 percent, whereas other liabilities increased by 27.15 percent in mid-July 2020.

Figure 2.9: Liabilities Structure of BFIs



The share of saving deposits, fixed deposits, call deposits, current deposits and other deposits in mid-July 2020 stood at 31.12 percent, 47.90 percent, 9.85 percent, 10.20 percent and 0.93 percent respectively.

Figure 2.10: Deposit Liabilities by Type of Account



The relative proportions of such deposits in mid-July 2019 were 31.62 percent, 45.51 percent, 12.44 percent, 9.29 percent and 1.15 percent respectively.

The total deposits of BFIs increased to Rs.3,933.73 billion in mid-July 2020 from Rs.3,354.42 billion a year ago. The share of top five BFIs stands at 26.23 percent of the total deposits, of the banking system, depicting a significant concentration of deposits in these institutions. Such a concentration ratio of deposit was 28.42 percent in the previous year. Among top five banks, one is state owned bank.

Specified Sector Lending

In order to facilitate the sustainable economic growth of the economy, NRB has directed BFIs to lend certain percent of their loan portfolio to the designated sectors of the economy. Class "A" banks are required to lend at least 15 percent of their total loans to agricultural sector (by 2022/2023), 10 percent to energy sector and 15 percent to MSME sector by 2023/2024 adhering to specified targets of timescale. Similar targets are set for Class "B" and Class "C" institutions which is illustrated in the Table 2.5. The objective of this policy is to ensure the availability of adequate funding for sectors like agriculture, hydropower and tourism which are believed to be key drivers of economic growth of Nepal.

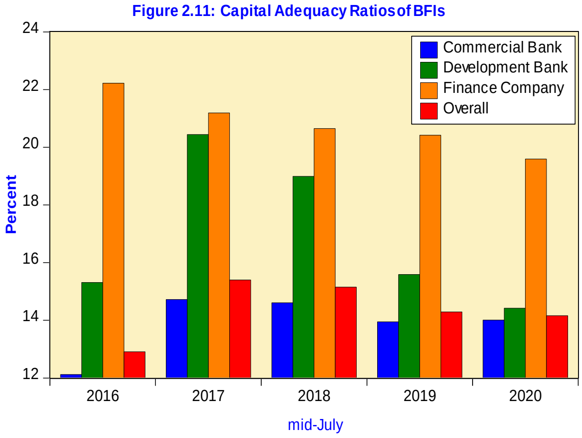
Table 2.5: Specified Sector Lending Targets

Class A				
	2020/21	**2021/22**	**2022/23**	**2023/24**
Agriculture	11	13	15	
Energy	6	7	9	10
MSME	11	12	14	15
Class B and Class C For Agriculture, SME, Energy and Tourism				
	2020/21	**2021/22**	**2022/23**	**2023/24**
Class B	16	17	19	20
Class C	11	12	14	15

2.5 Financial Soundness Indicators

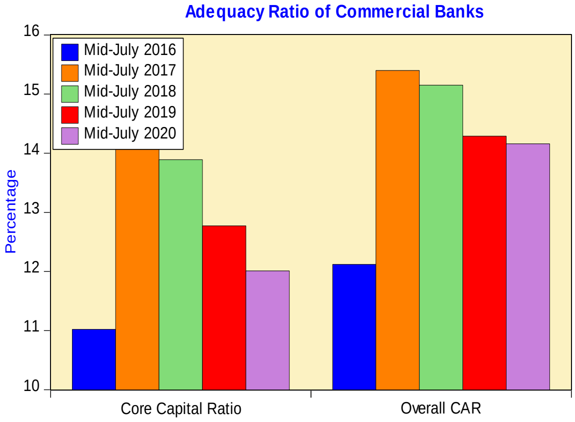
2.5.1 Capital Adequacy

Figure 2.11: Capital Adequacy Ratios of BFIs



Capital position seemed resilient to shocks during the review year. This was evident from the capital adequacy during the pandemic situation. In the review year, the capital fund of BFIs increased by 9.38 percent, to Rs.488.27 billion from Rs.446.40 billion in mid–July 2019. Such increment was 20.64 percent in the previous year. The capital fund is composed of paid-up capital (Rs.330.87 billion), statutory reserves (Rs.94.14 billion), retained earnings (Rs.4.31 billion) and other reserves (Rs.58.93 billion). In mid-July 2020, the Capital Adequacy Ratio (CAR) of commercial banks was 14.01 percent; while such CAR of development banks and finance companies were 14.42 percent and 19.59 percent respectively. The overall CAR of BFIs in mid-July 2020 stood at 14.16 percent, little lower than 14.29 percent in the previous year. The excess of CAR over the minimum requirement of banking system was mainly due to the consolidation among development banks and finance companies through merger and acquisition. The overall CAR of BFIs remained well above the standard requirements set by NRB which indicates that the banking system's capital soundness is in strong position.

Figure 2.12: Core Capital and Overall Capital Adequacy Ratio of Commercial Banks

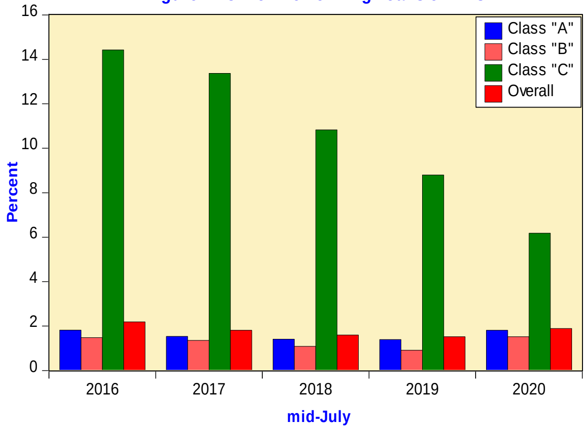


In the review year commercial banks' compliance with the minimum CAR remained 100 percent. As evident from Figure 2.12, all banks have complied with the minimum CAR in mid-July 2020. The analysis so far suggests that, over the period of mid-July of 2016-2020 the capital adequacy ratios of commercial banks were higher than regulatory standard. For instance, overall CAR of the commercial banks in mid-July 2020 was 14.16 percent compared to that of 12.12 percent in mid-July 2016.

2.5.2 Assets Quality

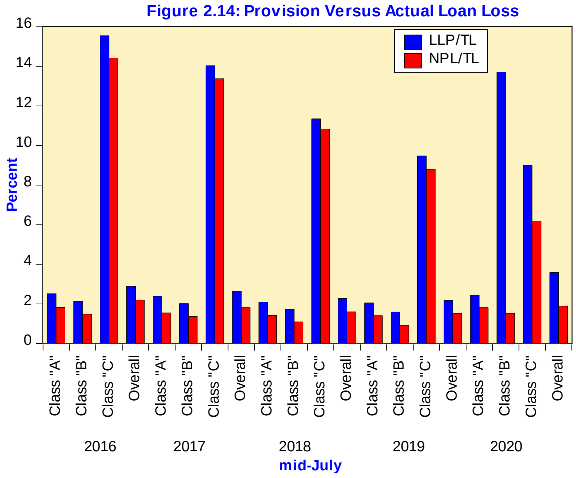
Naturally, the lockdown in the economy have impacted the cash flows of business and industries and as a result some businesses were unable to meet their banking obligations. As a result, Non-Performing Loans (NPL) of BFIs increased from Rs.44.18 billion in the previous year to Rs.61.59 billion in the review year.

Figure 2.13: Non Performing Loans of BFIs



As a result of cash flow mismatches, NRB provided some reliefs in the form of deferral, discount on interest payments and restructuring and rescheduling. These measures were crucial in maintaining the overall assets quality in the banking system. In terms of ratio of NPL to total loans, the banking sector showed slight deterioration in assets quality but sufficient provisions during the period of 2016-2020 indicating the banking sector's resilience toward vulnerable risk assets. NPL to total loans of BFIs increased by 0.37 percentage points to 1.89 percent in the review year compared to 1.52 percent a year ago. NPL to total loans of commercial banks increased by 0.41 percentage point on y-o-y basis to stand at 1.81 percent in the review year.

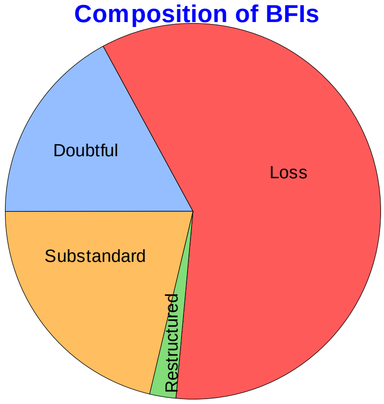
Figure 2.14: Provision Versus Actual Loan Loss



Even during the pandemic, none of the commercial banks have NPL above 5.00 percent in the review year. Likewise, NPL ratio of development banks increased by 0.60 percentage points to 1.52 percent in mid-July 2020 as compared to 0.92 percent in mid-July 2019. The NPL ratio of finance companies has come down to 6.18 percent in mid-July 2020 which was 8.80 percent in mid-July 2019. In mid- July 2020, BFIs' watch list provision to total loan remained at 0.19 percent. As of mid-July 2020, loan loss provision (LLP) of banking system amounting Rs.91.16 billion is sufficient to cover the outstanding NPL.

In the banking system, the bad loan, in loss category, amounted Rs.32.07 billion in the review year compared to Rs.26.25 billion in the previous year. The ratio of such loans to NPL decreased to 52.07 percent in the review year from 69.88 percent a year ago. It is a matter of concern that a bulk of NPL is in loss category.

Figure 2.15 : Non Performing Loan Composition of BFIs



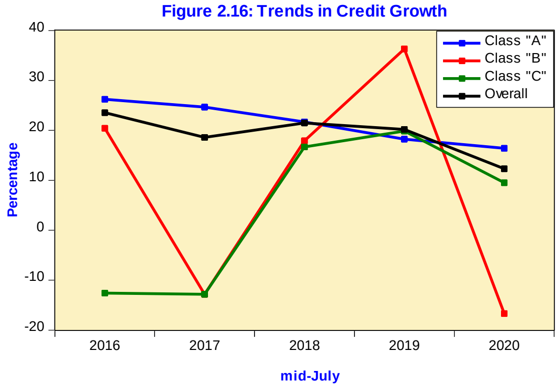
The NPL under sub-standard and doubtful categories constituted 16.87 percent and 29.55 percent respectively in the review year. The ratio of restructured/rescheduled loans to total NPL remained around 1.48 percent in 2019/20. The increase in the provision signifies the increasing risk evaluation in the financial sector, particularly in the context of COVID-19.

2.5.3 Leverage Ratio

Basel Committee on Banking Supervision has introduced leverage ratio which is complementary to the risk-based capital framework and aims to restrict the build-up of excessive leverage in the banking sector. Basel III has set a minimum leverage ratio of 3.0 percent at all times whereas NRB has set a minimum leverage ratio of 4.0 percent at all times. The leverage ratio of commercial banks stood at 8.15 percent and all commercial banks have the leverage ratio above the mandatory requirements.

2.5.4 Credit and Deposit Growth

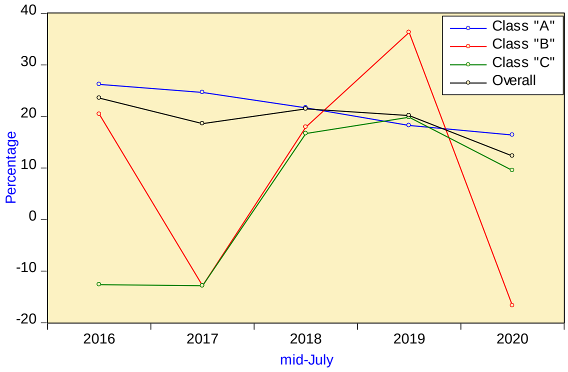
Figure 2.16: Trends in Credit Growth



Credit flows from BFIs increased by 12.32 percent in the review year compared to a growth of 20.18 percent a year ago. The decline in rate of growth can be mainly attributed to the slowdown in the overall economy due to the COVID-19 pandemic and deterioration in investment climate.

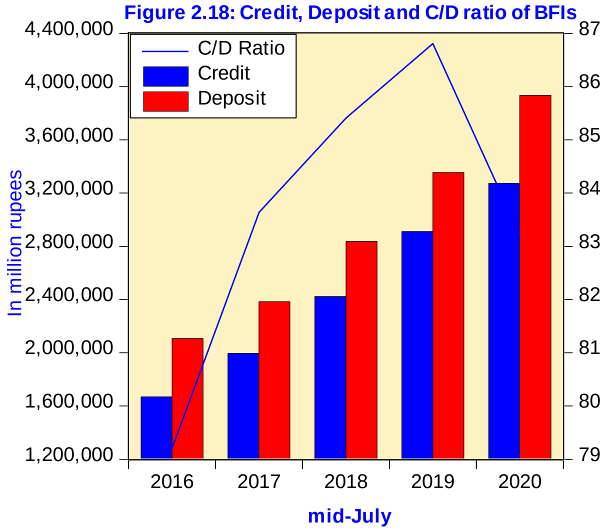
The trend of credit growth and deposit growth of "A", "B" and "C" class financial institutions is presented in Figure 2.16 and Figure 2.17, respectively. Sharp decline in credit and deposit growth rate in mid-July 2017 for development banks and finance companies is due to merger and acquisition of development banks and finance companies with commercial banks. Credit of commercial banks, and finance companies grew by 16.4 percent and 9.52 percent respectively, while the credit of development banks declined by 16.68 percent, in the review year.

Figure 2.17: Trends in Deposit Growth



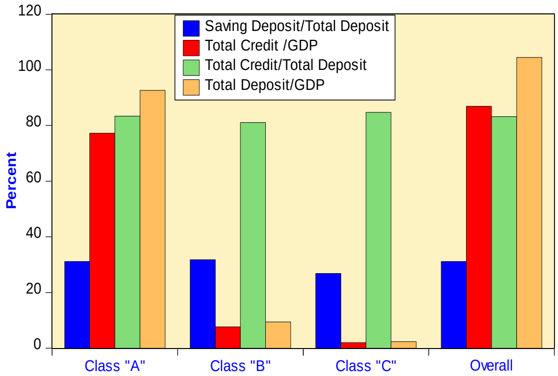
The BFIs deposits were slightly affected by the COVID-19 as the rate of deposit growth declined. The deposits of BFIs increased by 17.27 percent in the review year as compared to a growth of 18.24 percent in the previous year. The deposit growth of commercial banks and finance companies registered 21.18 percent and 16.92 percent respectively while development banks deposit declined by 10.93 percent in the review year.

Figure 2.18: Credit, Deposit and C/D ratio of BFIs



There has been a decline in overall credit to deposit ratio to 83.21 percent in mid-July 2020 from 86.81 percent in mid-July 2019. Such ratio was 84.72 percent for finance companies, 81.06 percent for development banks, and 83.39 percent for commercial banks in mid-July 2019.

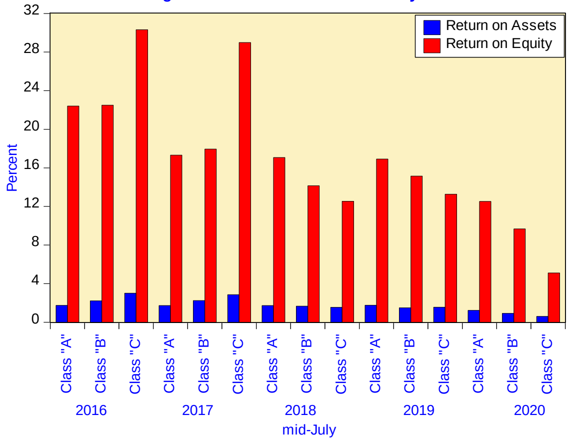
Figure 2.19: Credit, Deposit with GDP ratio and saving deposit ratio of BFIs



As of mid-July 2020, the ratio of total deposits to GDP reached 104.43 percent which was 96.83 percent in the previous year. The share of commercial banks, development banks and finance companies in total deposits stood at 88.72 percent, 9.01 percent and 2.25 percent respectively. Likewise, the ratio of total credit to GDP reached 86.88 percent. The share of commercial banks, development banks and finance companies in total credit stood at 88.91 percent, 8.78 percent and 2.30 percent, respectively.

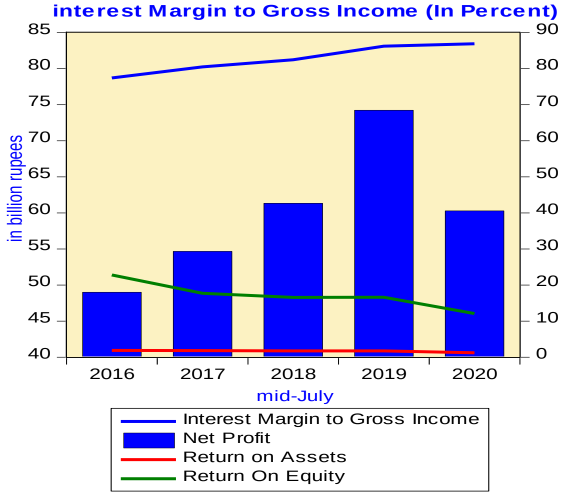
2.5.5 Profitability

Figure 2.20: Class wise Profitability of BFIs



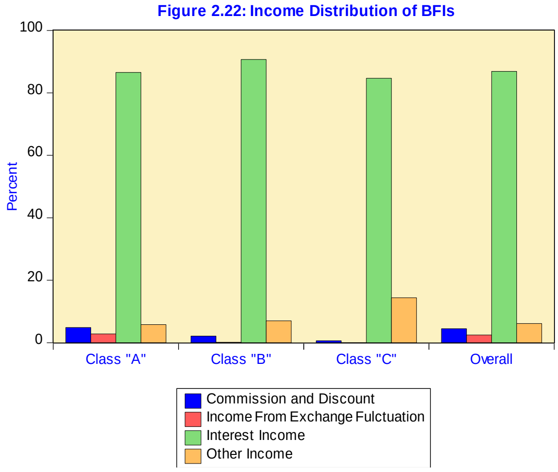
The strength of the banking sector in terms of profitability during the times of pandemic came under stress. The overall profitability of banking sector decreased by 20.61 percent in the review year and reached Rs.58.92 billion from Rs.74.22 billion in previous year. The growth rate of profitability of banking sector in the last year was 21.01 percent. The commercial banks posted the highest share of profitability of the banking sector accounting 92.23 percent of the total in mid-July 2020. The Return on Equity (ROE) of commercial banks has fallen in the review year mainly due to the effects of pandemic. The ROE of commercial banks stood at 12.52 percent whereas those of development banks and finance companies stood at 9.68 percent and 5.11 percent respectively. Such ratio was 16.92 percent, 15.14 percent and 13.27 percent, respectively in the previous year.

Figure 2.21: Net Profit (in Billion), ROE, ROA and interest Margin to Gross Income (In Percent)



The interest margin to gross income stood at 86.89 percent in the review year which was 86.25 percent in the previous year. Return on Assets (ROA) decreased to 1.19 percent from 1.73 percent; whereas ROE decreased to 12.09 percent in the review year, from 16.62 percent in the previous year. Of the total interest income, interest on loan and advance constituted 92.73 percent and interest on call accounts constituted 1.17 percent. The banking sector, thus, is still highly dependent on traditional activities of lending and deposit mobilization. The gain from exchange fluctuation was 2.48 percent in 2019/20.

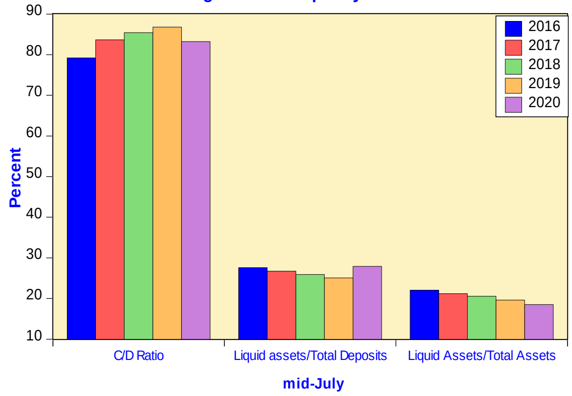
Figure 2.22: Income Distribution of BFIs



2.5.6 Liquidity

Fluctuations in the amount of liquidity have been a frequent occurrence in Nepalese financial sector due mainly to a mismatch in the growth of credit and deposits. In the first three quarters of the review year, while the economy was progressing at a natural rate, the pandemic in the final quarter of the fiscal year brought about disturbances in the financial system. However, the timely regulatory interventions by NRB were crucial in maintaining the liquidity in the banking sector. The NRB has been using credit to deposit (CD) ratio, net liquid assets to total deposits ratio, and liquid assets to total assets ratio as gross measures to monitor the liquidity condition in the financial system.

Figure: 2.23 Liquidity in BFIs



Total liquid assets to deposits ratio of BFIs stood at 27.90 percent in mid-July 2020 compared to 25.06 percent in the previous year. The total liquid assets to deposits ratios for "A", "B" and "C" class institutions were 27.52 percent, 29.49 percent and 36.40 percent, respectively, in mid-July 2020. Such ratios were 24.41 percent, 27.57 percent and 36.27 percent, respectively, in the previous year

Table 2.6: Financial Soundness Indicators of BFIs (in percent)

Indicators	Class "A" mid-July		Class "B" mid-July		Class "C" mid-July		Overall mid-July	
	2019	2020	2019	2020	2019	2020	2019	2020
Credit and deposit related indicators								
Total deposit/GDP	83.14	92.65	11.50	9.42	2.19	2.36	96.83	104.43
Total credit/GDP	72.17	77.26	9.96	7.63	1.98	2.00	84.11	86.89
Total credit/ Total deposit	86.81	83.39	86.94	81.06	90.45	84.72	86.87	83.21
CCD Ratio	75.36	69.93	76.42	71.84	74.01	68.46	75.22	69.58
Fixed deposit/Total deposit	45.42	47.18	44.91	52.99	51.78	56.01	45.51	47.90
Saving deposit/Total deposit	31.30	31.16	33.98	31.80	31.31	26.85	31.62	31.12
Current deposit/Total deposit	10.47	11.17	2.37	2.61	0.70	2.44	9.29	10.20
Call Deposit /Total Deposit	11.69	9.53	18.67	12.42	8.20	12.03	12.44	9.85
Other Deposit/Total Deposit	1.11	0.96	0.07	0.18	8.01	2.67	1.14	0.93
Assets quality related indicators								
NPL/ Total loan	1.40	1.81	0.92	1.52	8.80	6.18	1.52	1.89
Total LLP/Total loan	2.05	2.44	1.59	13.71	9.49	9.00	2.17	3.58
Res. Per. H. Loan (Up to Rs. 15 mil.)/Total Loan	7.47	7.17	12.29	12.21	12.89	12.02	8.17	7.73
Real estate exposure/Total loan	4.76	4.87	6.07	5.09	10.42	9.85	5.04	5.00
Deprived sector loan/Total loan	6.07	6.25	10.14	9.95	7.81	7.86	6.56	6.61
Cash and bank balance/Total deposit	11.30	12.29	12.30	10.40	18.47	16.46	11.58	12.21
Investment in Gov. security/Total deposit	12.33	14.26	3.83	7.92	5.08	9.08	11.16	13.57
Total liquid assets/Total deposit	24.41	27.52	27.60	29.49	36.27	36.40	25.06	27.90
Capital adequacy related indicators								
Core capital/RWA (percent)	12.38	11.78	14.86	13.21	19.50	18.01	11.58	12.01
Total capital/RWA (percent)	13.95	14.01	15.59	14.42	20.42	19.59	14.29	14.16
Wt. Avg. interest rate on deposit	6.60	6.01	4.93		-		-	
Wt. Avg. interest rate on credit	12.16	10.11	8.62		-		-	

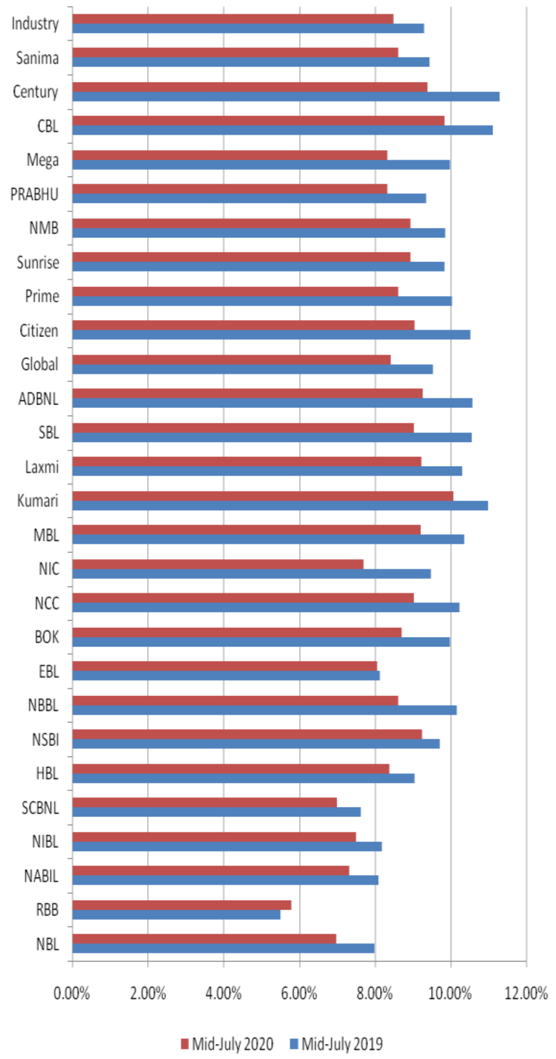
2.5.7 Base Rate of BFIs

NRB introduced base rate for commercial banks in 2013 and for development banks and finance companies in 2014 advising the BFIs not to lend, below the base rate. The base rate system also facilitates BFIs in setting their adjustable interest rate as an effective reference. Base rate is believed to enhance transparency in interest rate determination; protect the clients' interest; promote the healthy competition and sustainability of BFIs; and strengthen the monetary transmission mechanism.

Industry average base rate came down from 9.30 in the 2018/19 and stood at 8.50 percent in the review year. This can be primarily attributed to the decreased credit demand during the pandemic.

The average base rate of development banks decreased by 1.20 percentage points to 9.91 percent in 2019/20.

Figure 2.24: Base rate of commerical Banks



2.5.8 Interest Rate Spread

Interest rate spread is one of the major indicators of reflecting the cost of financial intermediation. The spread, at any given time, is generally a function of many factors such as, expenses on deposits, the general level of competition in the banking sector, the extent of credit risk, and the managerial efficiency of the concerned banks. NRB had directed "A" class banks to bring down their interest spread rate within 4.4 percent and "B" and "C" class financial institutions within 5.00 percent. BFIs have also been directed to publish their interest spread on a monthly basis. As evident from the Figure 2.25, the overall interest spread of the commercial banks stood at 4.10 percent whereas, the interest spread of the state-owned banks remained at 3.70 percent, 4.26 percent, and 4.44 percent of NBL, RBBL and ADBNL, respectively. GLOBAL has registered the highest interest rate spread among private sector commercial banks with 4.43 percent followed by Mega Bank Nepal Limited with interest rate spread of 4.40 percent. Century commercial Bank Ltd. has the lowest interest rate spread of 3.38 percent in the same period (Figure 2.25).

Figure 2.25: Net Interest Spread of Commercial Banks

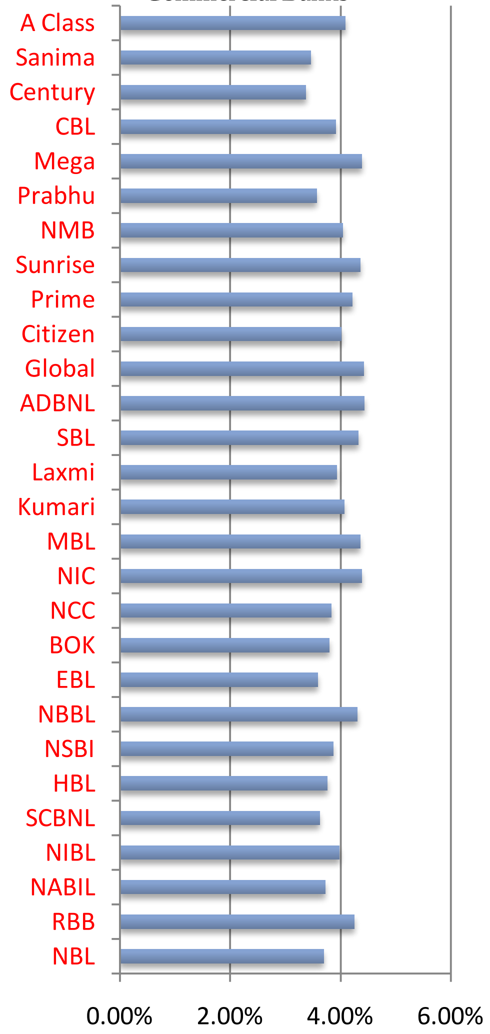
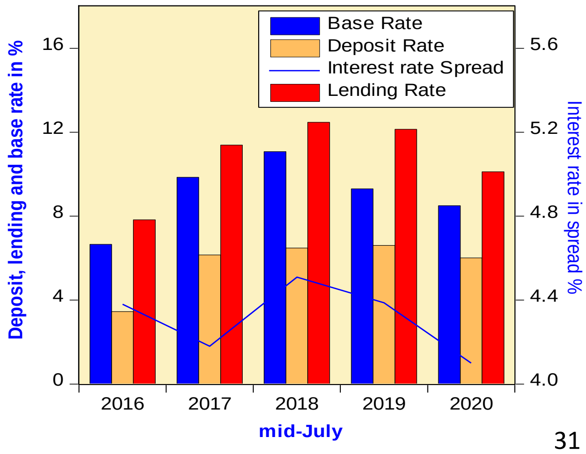


Figure 2.26: Deposit Rate, Lending Rate, Spread Rate and Base Rate of Commerical Banks



2.6 Banking Sector Consolidation: Merger & Acquisition

Banking sector consolidation is viewed as one of the key tools to enhance the capital base, achieve operational efficiency, and strengthen the resilience of BFIs and improved cultural exchange. NRB over the past few years has been proactive in terms of consolidating banks by means of merger and acquisition. NRB believes, the synergies generated through consolidation will enable BFIs to offer a wider array of products to customers. Diversifying the products offered, in turn, will not only offer opportunities for customer but also helps BFIs to diversify risks, thereby helping them to become more resilient. Through consolidation NRB expects to build resilience of the BFIs to domestic and external shocks.

To strengthen the health and competency of BFIs, NRB has given high priority to merger between licensed financial institutions. It includes specific process of merger with several incentives, regulatory relaxations and encouragement for further consolidations.

Since the introduction of Merger Bylaw 2011 (B.S. 2068) 196 BFIs have undergone mergers and acquisition, as of mid July 2020. The licenses of 150 BFIs were revoked, thereby forming 46 BFIs. The total number of BFIs licensed by NRB decreased to 155 in mid-July 2020 from 171 in mid-July 2019.

2.7 Financial Access and Inclusion

Access to finance is expected to enable the poor and low- income people to be self-reliant and break away from the vicious cycle of poverty. Increasing financial access and inclusion has been a focal point for all regulatory institutions in Nepal. They have been operating through various programs aimed to increase financial access and inclusion in the country. Nepal Financial Inclusion Portal was launched on 30 September 2018 to provide information on the status and progress of financial access and inclusion in Nepal.

2.7.1 Efforts of NRB in Expanding Financial Inclusion

Recognizing the need and importance of inclusive growth, NRB in coordination with the GoN, has taken a number of policy measures to ensure reliable and affordable financial services to the poor people in the country. NRB has been endeavoring to extend financial access and inclusion through various incentives directed towards banks and financial institutions. Financial policy of establishing a branch of commercial banks in every local bodies, expanding the size of deprived sector lending requirement for licensed BFIs, mandatory requirements for them to invest certain percentage of their total credit in the prioritized sectors, liberal branch opening policy for local municipality, special refinance facility to cottage and small industries, interest free loan to extend bank branches in all local levels, directives on consumer protection, simplified provision to extend financial services through branchless banking and mobile banking services, and policy regarding financial literacy are some of the policy measures adopted by NRB towards ensuring financial inclusion and inclusive growth in the country. In this connection, GoN has also announced a policy aiming at a bank account for every citizen.

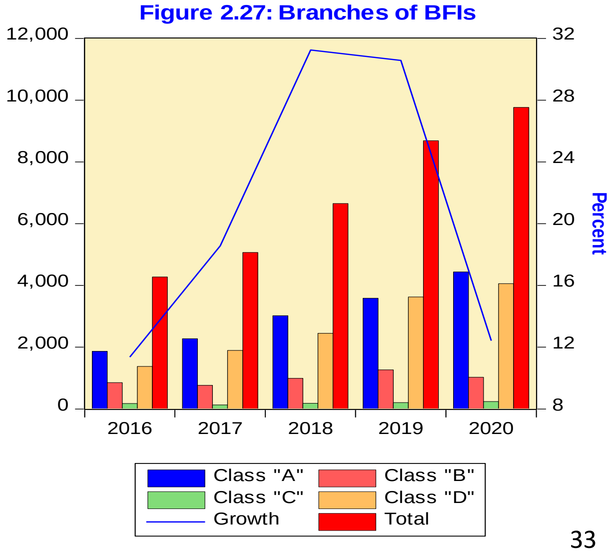
In addition to these, NRB has also been taking initiatives on extending the reach of financial literacy programs and financial consumer protection which is expected to enhance the banking habits of the people.

Table 2.7: Number of Branches of BFIs

Financial Institutions	Number of Branches mid-July 2019	Number of Branches mid-July 2020	Share (in percent) mid-July 2019	Share (in percent) mid-July 2020
Commercial Banks	3,585	4,436	41.27	45.42
Development Banks	1,267	1,029	14.58	10.53
Finance Companies	205	243	2.36	2.48
MFIs	3,629	4,057	41.77	41.54
Total	**8,686**	**9,765**	**100**	**100**

Financial access has been increasing with the expansion of branch network of financial institutions. As of mid-July 2020, the number of branch of commercial banks has reached 4,436. This was followed by Development Banks (1,029), Finance Companies (243) and MFIs (4,057). In mid-July 2019, the number of such branches of the respective categories of BFIs stood at 3,585; 1,267; 205 and 3,629, respectively. With the direction of the NRB to open at least one

Figure 2.27: Branches of BFIs



commercial bank branch in the local level, along with the increase in branches of other BFIs, the total number of BFIs branches increased by 1,079 (12.42 percent) to 9,765 in mid-July 2020. Consequently, the number of people per BFI branch (excluding MFIs) came down from 5,776 in mid-July 2019 to 5,255 in mid-July 2020. Including MFIs per branch population comes further down to 3,072.

Increase in number of branches indicates the increase in financial outreach or financial access, which is also considered as one of the indicators of financial inclusion. Despite the growth in number of BFIs and their branches, financial service providers are still mainly concentrated in urban or semi- urban areas where geographical access is relatively easy.

Table 2.8: Provincial Distribution of BFI Branches

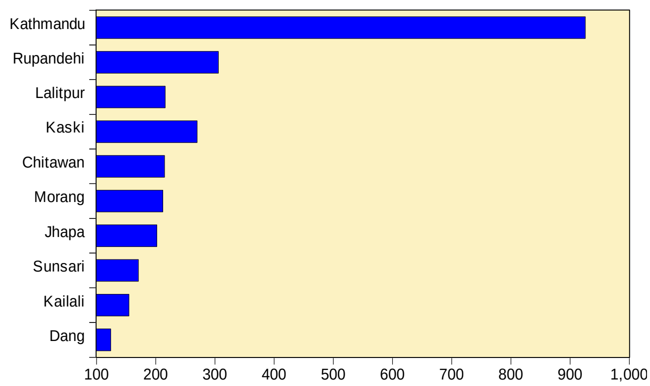
Province	A	B	C	D	Total (A+B +C)	Total (A+B+ C+D)	Share (in %)	Population (per branch)*
1	687	165	45	682	897	1,579	16.17	5,512
2	514	69	31	790	614	1,404	14.38	10,189
Bagmati	1,553	275	92	608	1,920	2,528	25.89	3,353
Gandaki	555	179	29	525	763	1,288	13.19	3,302
Lumbini	657	262	36	917	955	1,872	19.17	5,338
Karnali	177	17	4	186	198	384	3.93	9,140
SudurPaschim	293	62	6	349	361	710	7.27	8,120
Total	**4,436**	**1,029**	**243**	**4,057**	**5,708**	**9,765**		**5,255**

*Excluding MFIs

Looking upon the province-wise distribution, the majority of BFIs branches are situated in Bagmati Province, totaling 2,528 (25.89 percent). The second biggest BFI branch density is in Lumbini Province with total of 1,872 (19.17 percent).

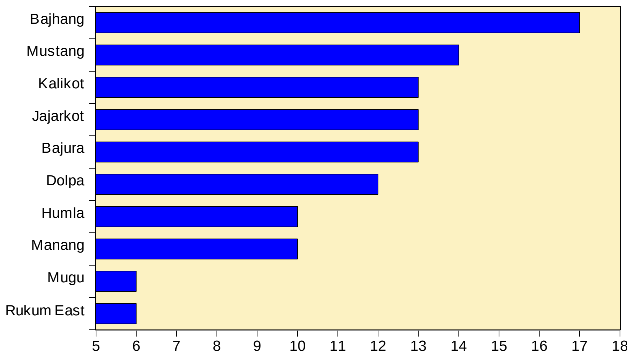
Kathmandu is highly concentrated district in terms of number of BFIs' presence, followed by Rupandehi and Kaski. Despite continuous efforts from the NRB in increasing the outreach of financial services in remote areas, the result is still not

Figure 2.28: District Having Highest Bank Branches



satisfactory in terms of branch expansion in Karnali Province. As of mid-July 2019/20, Rukum East and Mugu district had only 6 BFIs branches while Humla and Manang districts had 10 bank branches.

Figure 2.29: Districts Having Least Bank Branches



Investment in Information Technology (IT) based systems is vital to improve banking efficiency and service delivery in this competitive age. The resulting greater efficiency and outreach will help promote financial inclusion, reduce intermediation costs thereby improving the bottom line of the financial services. Table 2.9 demonstrates the status of electronic banking such as numbers of ATM terminals, number of debit cards, credit cards along with the increase in number of internet banking and mobile banking customers.

Table 2.9: Use of Financial Services

Particulars	Class "A"	Class "B"	Class "C"	Total
No. of Deposit Accounts	27,724,764	4,075,310	654,130	32,454,204
No. of Loan Accounts	1,196,289	302,441	45,329	1,544,059
No. of Branchless Banking Centers	1,574	0	0	1,574
No. of Branchless Banking Customers	193,607	0	0	193,607
No. of Mobile Banking Customers	10,115,313	1,100,743	90,741	11,306,797
No. of Internet Banking Customers	1,001,866	23,332	6,029	1,031,227
No. of ATMs	3,759	296	51	4,106
No. of Debit Cards	7,062,472	231,287	35,443	7,329,202
No. of Credit Cards	160,297	0	0	160,297
No. of Prepaid Cards	63,775	0	0	63,775

Branchless banking has been developed to address the payment needs of people who do not have access to the BFIs' branches. It is a cheaper means of banking system which can be operated in the remote districts while phone- based payment systems have been introduced to enhance convenience in making payments at merchandise outlets. In mid-July 2020, branchless banking centers numbered 1,574. BFIs are encouraged to serve through branchless banking in remote areas.

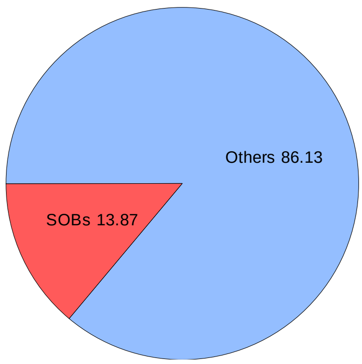
2.8 Financial Literacy

Realizing the importance of financial literacy to improve the demand side of financial access, NRB is being involved in various activities to promote financial literacy in the country. 2019/20 was a step forward in the continuous effort of NRB. As NRB is affiliated with different international organizations like Alliance for Financial Inclusion (AFI), and Child and Youth Finance International (CYFI) which are dedicated to promote financial inclusion and financial literacy in the country; various financial literacy- programs were conducted in 2019/20 as well. As a member of AFI, NRB has made some commitments towards financial inclusion under the 'Maya Declaration 2013' and most of the commitments in this regard have been fulfilled. The monetary policy of 2018/19 envisioned bank account for every citizen and a campaign was announced for the same (NRB, 2018). Similarly, banks were allocated and mandated to open bank branches in local bodies to improve the access. As a result, the accessibility of banking increased to 747 of the 753 local bodies in the review year.

A special school-visit program, entitled 'NRB with Students' has been initiated by the NRB on financial literacy since 2013/14. During this on-going program, a team of NRB visits different schools to organize a brief presentation on financial literacy and distributes the financial literacy materials to the students. NRB has already organized several of such programs in different schools throughout the country. Most of these programs were chaired by the high-level authorities of NRB, including Governor himself in many occasions. NRB has also been working closely with the Ministry of Education to incorporate the issues of financial literacy in formal educational curriculum. To promote financial literacy, a separate window has been dedicated within the NRB website.

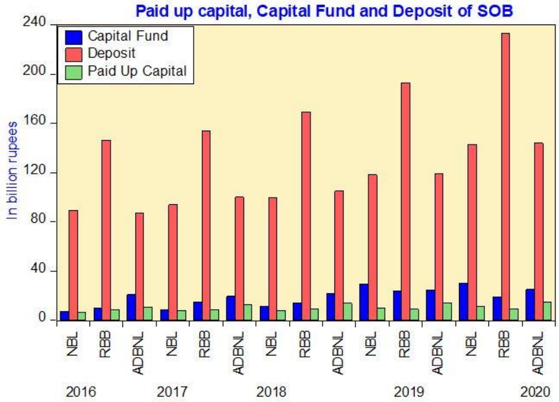
2.9 Performance and Reform of State Owned Commercial Banks

Figure: 2.30
Share of SOBs in Total Assets of Commercial Banks



Nepal Bank Limited (NBL), Rastriya Banijya Bank Limited (RBBL) and Agriculture Development Bank Limited (ADBL) are the three state-owned commercial banks, whose total assets and liabilities in mid-July 2020 was equivalent to 18.24 percent of GDP. The share of total assets and liabilities of BFIs to GDP reached to 131.502 percent in mid-July 2020. This reflects the progress achieved in Nepal's financial deepening. The total assets increased from Rs.610.80 billion in mid-July 2019 to Rs.687.31 billion in the review year. The total share of SOBs in total assets of commercial bank is 13.87 percent in mid-July 2020.

Figure 2.31
Paid up capital, Capital Fund and Deposit of SOB



The state-owned commercial banks represent 13.21 percent share in total deposits of commercial banks. Their market share in terms of loan and advances of all BFIs stood at 13.22 percent in the review year. Among these banks, financial and regulatory position of RBBL, especially in terms of capital base and capital adequacy remains at satisfactory level. The asset quality of NBL and ADBNL has been gradually improving in the review year.

As of mid-July 2020, capital fund of NBL stood at Rs.30.18 billion, while that of RBBL and ADBL stood at Rs.18.99 billion and Rs.24.99 billion respectively. The corresponding capital funds of these SOBs in mid-July 2019 were Rs.23.43 billion, Rs.23.65 billion and Rs.24.46 billion, respectively. This shows a significant improvement in the capital base of NBL while those of RBBL and ADBL deteriorated in the review year.

The core-capital to risk-weighted-assets and total capital to risk weighted assets of ADBL stood at 17.63 percent and 20.46 percent in mid-July 2020. Such capital was 19.29 percent and 20.31 percent, respectively, in mid-July 2019. The core capital and total capital to risk weighted assets of NBL stood at 15.93 percent and 16.68 percent, respectively. Similarly, core capital and total capital to risk weighted assets of RBBL stood at 12.00 percent and 12.68 percent respectively in mid-July 2019. Improvement in CAR of SOBs indicates improved resilience (Figure 2.32).

Figure2.32: Capital Adequacy of SOBs

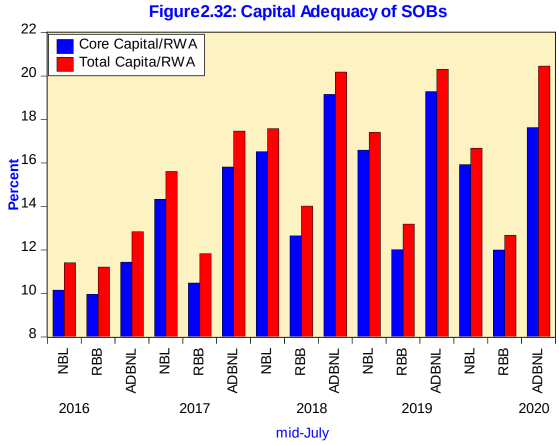
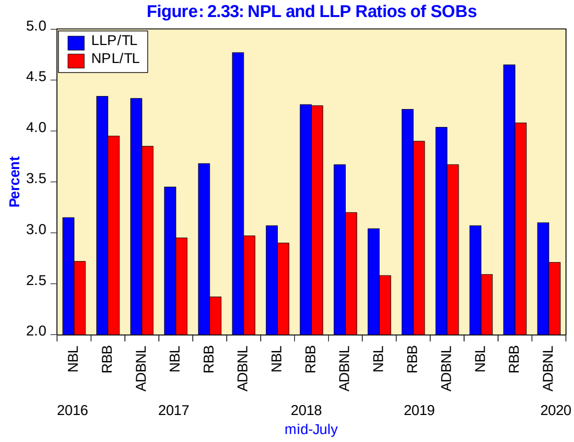


Figure: 2.33: NPL and LLP Ratios of SOBs



The NPL ratio of state-owned banks has deteriorated from 3.38 percent in mid-July 2019 to 3.48 percent in mid-July 2020. As on mid-July 2020, the NPL ratio of ADBL was 2.71 percent, while RBBL and NBL had NPL ratios of 4.08 percent and 2.59 percent respectively. This implies deterioration in their asset quality. Such ratios were 3.67 percent, 3.90 percent and 2.58 percent in mid-July 2019 (Figure 2.33). The NPL ratios of all state-owned banks were found to be improving gradually but the pandemic situation has caused some deterioration in the assets quality and as a result assets quality of SOBs has also deteriorated slightly. Overall NPL of commercial banks has improved from 2.41 percent in 2019 mid-July to 1.81 percent in mid-July 2020.

2.10 Infrastructure Development Bank

In the review year the Nepal Infrastructure Development bank managed to collect fixed deposit of Rs.250 million from institutional depositors, and approved loans of Rs.6 billion to five projects. Net profit was Rs.847.10 million while the Bank's total assets stood at Rs.13.97 billion, which was Rs.13.15 billion in the previous year.

The authorized capital, issued capital and paid-up capital in the review year remained unchanged at Rs.40 billion, Rs.20 billion and Rs.12 billion respectively.

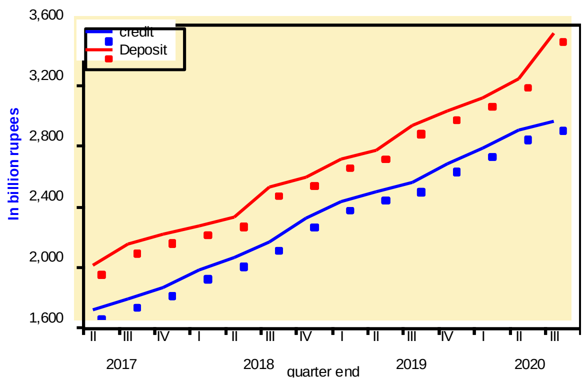
CHAPTER – III
PERFORMANCE OF FINANCIAL INSTITUTIONS

3.1 Performance of Commercial Banks

There is a significant dominance of BFIs in Nepalese financial system. Moreover, among the BFIs, commercial bank holds significant share in total assets (Rs.4, 413.57 billion as of mid-July 2020). In the review year, share of commercial banks in total assets and liabilities of NRB licensed BFIs increased to 89.09 percent from 80.87 percent in mid-July 2019. Similarly, ratio of total assets and liabilities of commercial banks to GDP increased to 117.16 percent in mid-July 2020 from 106.43 percent a year ago. The dominance of commercial banks in total banking sector in terms of assets and liabilities as well as in terms of balance sheet component has broadly remained stable. The total assets (or liabilities) of commercial banks increased by 19.69 percent to Rs.4,413.57 billion in mid-July 2020 from Rs.3,687.33 billion in mid-July 2019.

3.1.1 Deposits and Credits

Figure 3.1: Deposit and Credit trends of commercial banks



Total deposit and credit of commercial banks stood at 92.64 percent and 77.25 percent of GDP, respectively, in the review year compared to 83.14 percent and 72.17 percent respectively, in the previous year. Total deposits grew by 21.18 percent to Rs.3,490.10 billion in the review year compared to a growth of 16.53 percent in the previous year. Total credit flow grew by 16.40 percent and reached Rs. 2,910.23 billion in the review year.

Besides loans and advances, investment in government securities has emerged as the second best option for commercial banks to utilize their excess liquidity. Investment in government securities increased by 40.11 percent, on y-o-y basis, to Rs.497.64 billion in the review year.

3.1.2 Capital

The capital fund of commercial banks rose by 12.64 percent to Rs.433.94 billion in the review year from Rs.385.24 billion a year ago. Of the total capital fund, paid up capital was Rs.284.81 billion and statutory reserves were Rs.86.03 billion. Moreover, in mid-July 2020, all the commercial banks have maintained the mandatory CAR. Total capital fund to risk weighted exposure of commercial banks has increased to 14.01 percent in mid- July 2020 from 13.96 percent in mid-July 2019 (Table 3.1).

3.1.3 Assets

The aggregate NPL to total loan ratio of commercial banks increased to 1.81 percent in mid-July 2020 from 1.43 percent in mid-July 2019. Commercial banks (excluding state owned banks) have a combined NPL ratio of is 1.55 percent in mid-July 2020, whereas such ratio was 1.09 percent in the previous year.

Table 3.1: Major Financial Indicators of Commercial Banks
(Ratio in Percentage)

Indicators	mid-July 2019	mid-July 2020
Tier 1 & Tier 2 Capital /RWE	13.96	14.01
Tier 1 Capital/RWE	12.39	11.78
NPL/Total Loan	1.43	1.81
Return on Equity	17.18	12.52
Net Interest Spread	4.09	4.10
Total Credit to Total Deposit	86.77	83.39
Total Liquid Assets/Total Deposit	24.31	27.52
Base Rate	8.93	8.50

The total loans of commercial banks under priority sector in agriculture and non agriculture sector accounts for 12.63 percent and 28.10 percent respectively.

Product-wise loan comparison with the previous year reveals that commercial banks were less motivated to invest in real estate lending and margin nature loan as they represented 4.87 percent and 1.42 percent, respectively, of the total loan in mid-July 2020. Similarly, product wise loans in terms of term loan, overdraft loan, demand and other working capital loan and hire purchase loan represent 21.46 percent, 14.50 percent, 23.57 percent and 4.99 percent respectively, of the total loan in mid-July 2020. Such ratios were 19.08 percent, 15 percent, 23.96 percent and 5.68 percent, respectively, in mid-July 2019. There was noticeable growth in term loan and slight dip in demand and other working capital loan and hire purchase loan. As of mid-July 2020, commercial banks have disbursed 6.24 percent of their total loan in the deprived sector. Loan against properties have shown to be increasing the review year. Out of total loan, a significantly higher proportion i.e., 89.50 percent are backed by collateral of properties in mid-July 2020 compared to 89.53 percent a year ago.

3.1.4 Profitability

Compared to a significant growth of 22.47 percent in the previous year, net profit of the commercial banks declined by 16.66 percent to Rs.54.35 billion in the review year. All commercial banks registered positive profit during the review year. Contribution of interest income was 86.52 percent of the total income in the review year, an increase from 85.76 percent in the previous year.

3.2 Stress Testing of Commercial Banks

3.2.1 Credit Shock

Stress testing results based on data of mid-July 2020 obtained from 27 commercial banks revealed that a combined credit shock of 15 percent of performing loans degraded to substandard, 15 percent of substandard loans deteriorated to doubtful loans, 25 percent of doubtful loans degraded to loss loans, and 5 percent of performing loans deteriorated to loss loans categories would push down the aftershock CAR of 23 commercial banks below the minimum regulatory requirements (including conservation buffer) of 11 percent. The numbers of such banks were 24 in mid-July 2019. Four commercial banks have complied with the regulatory requirement of CAR after shock i.e. 11 percent.

However, another scenario of 25 percent of performing loans of real estate and housing sector directly downgraded to loss loans showed some respite. Under this scenario, CAR of one commercial bank will come below the required level of 11 percent. In mid-July 2019 only one bank belonged to this category. The result showed that majority of commercial banks maintained their resilience towards real estate sector during the year.

In another credit shock test, under the scenario of top two large exposures (loans) downgraded from performing to substandard category, the CAR of one commercial bank would fall below the required level signifying no change from previous year. The overall credit shock scenario revealed that banks' credit quality has been improving as per the expectation due to various measures taken during the review year.

3.2.2 Liquidity Shock

The stress test under scenario of withdrawal of deposits by customers by 2, 5, 10, 10 and 10 percent for five consecutive days showed that 20 out of 27 commercial banks are vulnerable towards liquidity crisis in mid-July 2020. 5 banks were prone to liquidity shock of withdrawal of 5 percent of deposits in a single day, while 13 banks' liquidity ratio would drop below 20 percent after withdrawal of 10 percent deposit in a single day. The number of banks seeing their liquidity ratio drop below 20 percent would grow to 22 if the single day deposit withdrawal increased to 15 percent. In mid-July 2019, the numbers of banks prone to liquidity shock under single day deposit withdrawal of 5, 10 or 15 percent were 8, 17 and 26, respectively.

With the shock of withdrawal of deposits by top 2, 3 or 5 institutional depositors, liquid assets to deposit ratio of 8, 13 and 19 commercial banks would be below 20 percent in mid-July 2020. However, any commercial banks were not vulnerable in case of deposit withdrawals from top 2, 3 and 5 individual depositors. Liquid assets to deposit ratio of 13, 19 and 23 commercial banks were vulnerable in similar scenario in mid-July 2019.

3.2.3 Market and Combined Credit and Market Shock

The stress testing result under market shock revealed that 28 commercial banks have maintained enough CAR to absorb the interest rate shock and maintain it above the regulatory requirement. The interest rates were calibrated by changes in deposits and credit interest rates from 1 percent to 2 percent. Similarly, commercial banks were found to be safe from exchange rate risks as the net open position to foreign currency was lower for all 27 of them. Furthermore, since commercial banks have nominal equity investments, the impact of fluctuation in equity price is near to zero. However, equity prices of 2 commercial banks had declined by 50 percent.

When analyzing through market shock, all commercial banks could maintain their CAR above the regulatory requirement of 11 percent. The banks did not bear interest rate risks as they pass it directly to their clients; so, they are found to be less affected by interest rate shock as well.

The combined credit and market shocks based on a scenario of 25 percent of performing loan of real estate and housing sector directly downgraded to substandard category of NPLs and fall of the equity prices by 50 percent showed that CAR of 2 banks would fall below 11 percent. However, under a more adverse scenario of 15 percent of performing loans deteriorated to substandard, 15 percent of substandard loans deteriorated to doubtful loans, 25 percent of doubtful loans deteriorated to loss loans and the equity prices fall by 50 percent, the CAR of 10 banks would remain above the regulatory minimum level and CAR of 18 banks would fall below regulatory minimum of 11 percent.

Table 3.2: Summary Results of Stress Testing the Banking System of Nepal

mid-July 2020

-	-	Number of Banks with CAR		
-	-	< 0%	0% - <11%	>=11%
Pre-Shock		**0**	**0**	**27**
Post-Shock				
Credit Shocks				
C-1 a	15 Percent of Performing loans deteriorated to substandard	**0**	**12**	**15**
C-1 b	15 Percent of Substandard loans deteriorated to doubtful loans	**0**	**0**	**27**
C-1 c	25 Percent of Doubtful loans deteriorated to loss loans.	**0**	**0**	**27**
C-1 d	5 Percent of Performing loans deteriorated to loss loans.	**0**	**18**	**9**
C-2	All NPLs under substandard category downgraded to doubtful.	**0**	**0**	**27**
	All NPLs under doubtful category downgraded to loss.	**0**	**0**	**27**
C-3	25 Percent of performing loan of Real Estate loan directly downgraded to substandard category of NPLs.	**0**	**0**	**27**
C-4	25 Percent of performing loan of Real Estate loan directly downgraded to Loss category of NPLs.	**0**	**1**	**26**
C-5	Top 2 Large exposures downgraded: Performing to Substandard	**0**	**0**	**27**
Market Shocks				
Interest Rate Shocks				
IR-1a	Deposits interest rate change (+,-) by 1% on an average.	**0**	**0**	**27**
IR-1b	Deposits interest rate change (+,-) by 1.5% on an average.	**0**	**0**	**27**
IR-1c	Deposits interest rate change (+,-) by 2% on an average.	**0**	**0**	**27**
IR-2a	Loan interest rate change (+,-) by -1% on an average.	**0**	**0**	**27**
IR-2b	Loan interest rate change (+,-) by -1.5% on an average.	**0**	**0**	**27**
IR-2c	Loan interest rate change (+,-) by -2% on an average.	**0**	**0**	**27**
Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by 20%	**0**	**0**	**27**
ER-1b	Appreciation of currency exchange rate by 25%	**0**	**0**	**27**
Equity Price Shocks				
Eq-1	Fall in the equity prices by 50%	**0**	**1**	**26**
Combined Credit & Market Shocks				
COMB-1	25 Percent of performing loan of Real Estate loan directly downgraded to substandard category of NPLs. and Fall in the equity prices by 50%	**0**	**1**	**26**

COMB-2	15 Percent of Performing loans deteriorated to substandard, 15 Percent of Substandard loans deteriorated to doubtful loans, 25 Percent of Doubtful loans deteriorated to loss loans. and Fall in the equity prices by 50%	**0**	**14**	**13**

Liquidity Shocks

		Number of Banks becoming illiquid aftershock of		
-		**3 days**	**4 days**	**5 days**
L-1	Withdrawal of customer deposits by 2% 5% 10% 10% and 10% for five consecutive days respectively.	**0**	**4**	**20**
		Number of Banks with Liquid Assets to Deposit Ratio		
		< 0%	**0% - <20%**	**>=20%**
Pre-Shock		**0**	**0**	**27**
Post-Shock				
L-2-a	Withdrawal of deposits by 5%	**0**	**3**	**24**
L-2-b	Withdrawal of deposits by 10%	**0**	**13**	**14**
L-2-c	Withdrawal of deposits by 15%	**0**	**22**	**5**
L-2-c	Withdrawal of deposits by 20%	**0**	**24**	**3**
L-3a	Withdrawal of deposits by top 2 institutional depositors.	**0**	**8**	**19**
L-3b	Withdrawal of deposits by top 3 institutional depositors.	**0**	**13**	**14**
L-3c	Withdrawal of deposits by top 5 institutional depositors.	**0**	**19**	**8**
L-3d	Withdrawal of deposits by top 2 individual depositors.	**0**	**0**	**27**
L-3e	Withdrawal of deposits by top 3 individual depositors.	**0**	**0**	**27**
L-3f	Withdrawal of deposits by top 5 individual depositors.	**0**	**0**	**27**
		< 0%	**0% - <11%**	**>=11%**
L-4	Top 2 Inter Bank Lending goes bad Number of Banks with CAR	**1**	**0**	**26**
		< 0%	**0% - <20%**	**>=20%**
	Number of Banks with Liquid Assets to Deposit Ratio	**0**	**3**	**24**

3.3 Performance of Development Banks

Development banks' performance remained satisfactory amid the adverse consequences brought by COVID-19. Development banks were able to maintain buffers of capital and liquidity over current regulatory requirements. Immediate policy interventions by NRB to mitigate the impact of COVID-19 in March and April 2020 have supported banks to remain in comfortable position in terms of liquidity and profitability. Similarly various circulars/provisions issued by the NRB after the monetary policy for 2020/21 have assisted to strengthen the performance of development banks.

Due to the slower growth of remittance during the year, the deposit growth remained slower in last quarter of the 2019/20. However, the industry witnessed normal growth of remittance as well as deposit in recent days. Similarly low credit demand led to slow credit growth in last quarter of the 2019/20.

There has been slight decrease in base rate and interest rate spread as compared to the previous. Such decline was a reflection of high liquidity and mandatory regulatory requirements.

Mergers and acquisitions continued during 2019/20. National level as well as regional development banks went into consolidation process, as a result, the number of development banks reduced significantly and reached to 20 from 29 in 2018/19. In the review year, 4 National Development Bank and 2 regional development banks merged into/acquired by commercial bank. OM Development Bank Limited merged with NMB Bank Limited, Gandaki Development Bank Limited merged with Mega Bank Nepal Limited, Kailash Development Bank Limited merged with Prime Commercial Bank Limited, Deva Bikas Bank Limited merged with Kumari Bank Limited. Similarly, regional level development bank Kankai Bikas Bank Limited got acquired by Prime Commercial Bank Limited and Sahayogi Bikas Bank Limited acquired by Citizens Bank International Limited.

Similarly, 3 Regional Development banks went into merger in the review year. Bhargav Development Bank and Purnima Development Bank went into merger with Shine Resunga Development Bank. Similarly, Nepal Community Development Bank merged with Tinau Mission Development Bank. Thus, downsize of financial figures, related to developments banks, in the review year is to be understood with the merger/acquisition perspectives.

3.3.1 Deposit and Credit

In the review year, total deposits of development Bank declined by 10.93 percent to Rs.354.78 billion, compared to Rs.398.33 billion during 2019/20, while gross loan also declined by 16.81 percent to Rs.287.13 billion. Gross loan, in the previous year, had increased by 36.30 percent to Rs.345.17 billion. However, such significant reductions of figures have to be understood in the context of merger and acquisitions that took place during 2019/20.

Credit to deposit ratio (CD) stood at 80.94 percent during 2019/20 while CCD was 71.81 percent. Such ratios were 86.94 and 76.49 percent respectively during 2018/19. 4 months long nationwide lock down announced by the government and the severe consequence brought by COVID-19 during the period was the main contributor for low credit demand.

3.3.2 Assets

In 2019/20 total assets of development banks decreased by 11.89 percent to billion to Rs.428.45 billion from Rs.486.31 billion in 2018/19. The NPL which stood at Rs.4.60 billion as of mid-July 2020, accounted for 1.52 percent of total loans. The NPL as a percentage of total loans increased by 0.60 percentage points during 2019/20. The NRB provisions that allowed banks not to downgrade the loans on the basis of ageing, deferrals and several other provisions have played major role to uphold banks' asset quality despite the severe impact on various economic sectors. Without considering regulatory forbearance, NPL of development banks was expected to reach above 10 percent.

Table 3.3: Major sector of NPL of Development Banks (Ratio in Percentage)

Sector	NPL (mid-July 2020)
Transportation, Storage and Communication	39%
Electrical Equipments	22%
Non Food Production Related	15%
Hotel and Restaurant	15%
Construction	13%

3.3.3 Capital

In the review year, the core capital decreased by 26.85 percent to 395.28 billion, compared to an increase of 9.2 percent in the previous year. This decrease of capital figure is also due to the merger of 6 development banks with commercial banks. Core capital to Risk Weighted Assets (RWA) declined to 13.15 percent as on mid-July 2020 from 14.86 percent on mid-July 2019. While capital fund to RWA figure declined to 14.37 percent from 15.96 percent.

The regulatory requirement for 2019/20 requires a minimum of 6 percent of tier 1 capital to RWE and a minimum 10 percent total capital fund to RWE for development banks. Though, CAR is declining, development banks seem to be in a comfortable position with respect to capital adequacy requirement.

The contraction in capital adequacy was largely driven by an increase in business volume via credit growth and reduction in profit figures of development banks in the year 2019/20.

3.3.4 Profitability

Total net profit of development banks decreased by 66.45 percent during 2019/20, compared to increment of 17.69 percentages in the previous year. However, such reduction of figures has to be understood in the context of merger and acquisitions. During 2019/20, 6 development banks were merged with/ acquired by commercial banks, among those 4 were national level development banks.

Table 3.4: Major Indicators of Development Banks (Ratio in Percentage)

Core Capital Ratio	13.21
Capital Adequacy Ratio	14.42
C/D Ratio	81.06
CCD Ratio	71.84
Non Performing Assets NPA)	1.52
Net Liquidity	29.49
Statutory Liquidity Ratio	15.74
Spread Rate	4.86
Base Rate	9.91
Priority Sector Lending	23.88
Deprived Sector	9.95
Total Real Estate exposure	5.09
Return on Assets (ROA)	0.57
Return on Equity (ROE)	6.07

ROE and ROA of development banks as on mid-July 2020, stood at 6.07 and 0.57 percent respectively. ROE and ROA stood 13.27 percent and 1.51 percent respectively in previous year. Merger and acquisition as well as reduction in profit were the major contributors for wide contraction on returns.

3.3.5 Base Rates and Spread Rates

The average base rate of development banks decreased by 1.20 percentage points to 9.91 percent during 2019/20. Similarly, interest rate spread decreased from 5.08 to 4.86 percent in review year. This drop off in base rate is largely attributed by the reduction in cash reserve ratio to 3 percent and decrease in interest of deposits by the influx of liquidity in the economy. Similarly, decrease in spread rate is largely attributable to the changes in regulatory requirements.

3.4 Stress Testing of Development Banks

For Stress test purpose, only 19 banks are taken into analysis, as one institution (Narayani Development Bank) was remained in problematic status till end of 2019/20. The Stress test results of 2019/20 had indicated that development banks remain quite vulnerable to various kinds of shocks. Due to the adverse impact by COVID-19, development banks remain in stress, thus, greater resilience seems necessary for credit and liquidity shocks.

3.4.1 Credit Shock

Standard credit shock test results indicated that in Credit Shock criteria, where 15 percent performing loan downgraded into substandard loan, five development banks' CAR falls below 10 percent. Similarly, in the same criteria, where 5 percent of performing loan deteriorated into bad loan, 9 banks' including 7 national level and 2 regional level development banks' CAR push below the regulatory requirement of 10 percent. The result reveals that in absence of regulatory relaxations, banks would not able to withstand the shocks.

3.4.2 Liquidity Shock

With the high influx of liquidity in the economy, development banks remain comfortable in terms of liquidity. Standard liquidity shock test results suggested that few development banks would fall below mandatory liquidity ratio in stress scenarios. Stress test results indicate that five national level development banks would see its liquidity ratio dip below minimum level in case if there were withdrawal of deposits by 2 percent first day, 5 percent second day and 10 percent for three consecutive days.

Five percent withdrawal of deposit would push one national level development banks liquidity ratio to fall below the regulatory requirement of 20 percent. In case if 10 percent of depositors withdrew their deposits, five national level development banks' liquidity position falls below 20 percent. Similarly, two national level development banks would reach below 20 percent if top two institutional depositors withdrew their deposits. Likewise, three national level development banks would go below 20 percent if three institutional depositors withdrew their deposits. No adverse impact on liquidity observed if 5 top individual depositors withdrew their deposits.

The stress test result indicates that concentration of institutional deposit brings the liquidity risk and poor resilience.

3.4.3 Other Shocks

All development banks were found to be resilient to standard interest rate, exchange rate and equity price shocks such that none of the institutions would have their CAR fall below the regulatory minimum of 10 percent. Similarly, all institutions were found to have adequate capital adequacy, in case of top 2 Inter Bank Lending goes bad.

Table 3.5: Summary Results of Stress Testing of National Level Development Banks

mid-July 2020

Events		Number of Banks with CAR		
		< 0%	**0% - <10%**	**>=10 %**
	Pre Shock	0	0	11
A. After Credit Shock		**Post Shocks**		
		< 0%	**0% - <10%**	**>=10 %**
C1	15 Percent of Performing loans deteriorated to substandard	0	1	10
	15 Percent of Substandard loans deteriorated to doubtful loans	0	0	11
	25 Percent of Doubtful loans deteriorated to loss Loans	0	0	11
	5 Percent of Performing loans deteriorated to loss Loans	0	2	9
C2	All NPLs under substandard category downgraded to doubtful.	0	0	11
	All NPLs under doubtful category downgraded to loss.	0	0	11
C3	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to substandard category of NPLs.	0	0	11
C4	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to Loss category of NPLs.	0	1	10
C5	Top 5 Large exposures downgraded: Performing to Substandard	0	0	11
B. After Market Shocks				
(a) Interest Rate Shocks		**< 0%**	**0% - <10%**	**>=10 %**
IR-1a	Deposits interest rate changed by 1.0 percent point on an average.	0	0	11
IR-1b	Deposits interest rate changed by 1.5 percent point on an average.	0	0	11
IR-1c	Deposits interest rate changed by 2.0 percent point on an average.	0	0	11
IR-2a	Loan interest rate changed by -1.0 percent point on an average.	0	0	11
IR-2b	Loan interest rate changed by -1.5 percent point on an average.	0	0	11
IR-2c	Loan interest rate changed by -2.0 percent point on an average.	0	0	11
IR-3	Combine Shocks (IR-1a & IR-2a)	0	0	11
(b) Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by20%	0	0	11

ER-1b	Appreciation of currency exchange rate by25%	0	0	11
(c) Equity Price Shocks				
EQ-1	Fall in the equity prices by 50%	0	0	11
C. After Liquidity Shocks				
	Events			
L-1a	Number of BFIs illiquid after on 1st day while withdrawal of deposits by 2%		0	
	Number of BFIs illiquid after on 2nd day while withdrawal of deposits by 5%		0	
	Number of BFIs illiquid after on 3rd day while withdrawal of deposits by 10%		0	
	Number of BFIs illiquid after on 4th day while withdrawal of deposits by 10%		0	
	Number of BFIs illiquid after on 5th day while withdrawal of deposits by 10%		7	
Number of Banks with Liquid Assets to Deposit Ratio		**< 0%**	**0% - <20%**	**>=20 %**
	Pre-shocks	0	0	11
		After Shocks		
L-2a	Withdrawal of deposits by 5%	0	4	7
L-2b	Withdrawal of deposits by 10%	0	10	1
L-2c	Withdrawal of deposits by 15%	0	11	0
L-2d	Withdrawal of deposits by 20%	0	11	0
L-3a	Withdrawal of deposits by top 1 institutional depositors.	0	0	11
L-3b	Withdrawal of deposits by top 2 institutional depositors.	0	2	9
L-3c	Withdrawal of deposits by top 3 institutional depositors.	0	3	8
L-3d	Withdrawal of deposits by top 4 institutional depositors.	0	5	6
L-3e	Withdrawal of deposits by top 5 institutional depositors.	0	5	6
L-4a	Withdrawal of deposits by top 1 individual depositors.	0	0	11
L-4b	Withdrawal of deposits by top 2 individual depositors.	0	0	11
L-4c	Withdrawal of deposits by top 3 individual depositors.	0	0	11
L-4d	Withdrawal of deposits by top 4 individual depositors.	0	0	11
L-4e	Withdrawal of deposits by top 5 individual depositors.	0	0	11

3.5 Performance of Finance companies[1]

Share of finance companies in the overall banking system is lesser in comparison to “A” and “B” class financial institutions. Such ratio is 2.36 percent in mid-July 2020, which was 2.19 percent in mid-July 2019. The total assets and liabilities of finance companies increased in mid-July 2020 by 14.56 percent to Rs.114 billion as compared to mid-July 2019. Finance companies mobilized aggregate deposit of Rs.89 billion in mid-July 2020 which is an increment of 19.22 percent as compared to mid-July 2019.

[1] *Excluding Problematic Finance Companies*

All finance companies except three are in profit as exemplified by positive ROA (0.60 percent) and ROE (4.26 percent). As an impact of COVID-19, CCD ratio came down and thus profitability of almost all finance companies has been reduced this year due to slow recovery and lower utilization of fund.

3.5.1 Assets and Assets Quality

Gross Loan and advances of finance companies stood at Rs.75 billion which accounted for 2 percent of total GDP which was 1.86 percent in mid-July 2019. The investment of finance companies increased by 73.77 percent and reached Rs.10.67 billion in mid-July 2020 which was Rs.6.14 billion in mid-July 2019. Investment in government securities accounted for 75.62% whereas 21.71% of total investment was on share investment and rest on Other Investments.

The credit to deposit and core capital ratio of finance companies stood 66.11 percent in mid-July 2020, which is below the prescribed limit showing under utilization of source of fund. Such ratio was 72.05 percent in mid-July 2019. Total NPL of finance companies increased to 2.97 (excluding problematic finance companies) percent in mid-July 2020 from 2.4 percent in mid-July 2019. Non-banking assets of finance company have increased by 41.67 percent to Rs.0.51 billion in mid- July 2020 from RS.0.36 billion in mid-July 2019. Loan loss provision reached to Rs.2.79 billion in mid-July 2020 from that of Rs.1.94 billion in mid-July 2019.

3.5.2 Capital

Capital fund of finance companies stood at Rs.16.31 billion in mid-July 2020 which is 20.24 percent of risk weighted exposure of the same period. In mid-July 2019 such ratio was 19.40 percent amounting to Rs.15.2 billion. In mid-July 2020 all finance companies have maintained at least 2 percent buffer above regulatory requirements.

3.5.3 Liquidity

Net liquid assets to total deposit of finance companies stood at 33.65 percent in the review year which implies that finance companies are in comfortable position in terms of liquidity.

3.5.4 Sectoral Loan Classification

Out of total loan and advances in the sector wise category, wholesale and retail sectors comprise the highest share 14.41 percent followed by construction sectors (13.06 percent) and finance, insurance and real estate sector (11.05 percent) in mid-July 2020. Share of agriculture and forest sector is 6.2 percent. Likewise in the product wise category, term loan’s share stood at 9.07 percent and share for demand and other working capital loan including overdraft loan stood at 6.56 percent in total loan portfolio. The portion of loan lent on deprived sector stood at

7.53 percent, which is above the regulatory limit of 5 percent. In mid-July 2020 the share of real estate loan stood at 9.85 percent of total loans and advances.

3.5.5 Merger/Acquisition and Problematic Bank Resolution

Total number of finance companies which stood 23 in mid-July 2019 decreased to 22 in mid-July 2020 as one finance company was acquired by commercial bank in the review year. As of mid-July 2020, three finance companies are in problematic status and under resolution process, while two finance companies were released from problematic status.

Table 3.6: Major Indicators of Finance Companies (as of mid-July 2020)

Particulars	Ratios (in percent)
Core Capital to RWA	18.59%
Capital Fund to RWA	19.24%
Credit to Deposit (LCY) Ratio	81.28%
Credit to Deposit (LCY) & Core Capital	66.11%
Non-Performing Loan to Total Loan	2.97%
Liquid Assets to Total Deposits	36.40%
Weighted Average Interest on Credit	13.13%
Weighted Average Interest on Deposit	8.24%
Weighted Average Interest on Govt. Sec.	4.16%

3.6 Stress Testing of Finance Companies

NRB has mandated all the national-level finance companies to conduct stress tests and report it to NRB on a quarterly basis. Among 19 finance companies 16 are of national level. Stress testing result of the 16 national-level finance companies shows that finance companies remained less vulnerable to individual credit shocks and liquidity shocks in aggregate. However, for 2 finance companies, CAR decreased to less than 10 percent after combined credit shocks. In the same way 6 finance companies will have liquidity ratio less than 20 percent after withdrawal of deposits by 20 percent. Position of finance companies after stress testing scenarios is shown in the Table 3.6.

Table 3.7: Summary Result of Stress Testing of Finance Companies

Criteria	Number
No. of Finance Companies with CAR below 10 percent before shocks	**0**
A. Credit Shock	
	No. of FCs having CAR<10 percent
15 Percent of Performing loans deteriorated to substandard	0
15 Percent of Substandard loans deteriorated to doubtful loans	0
25 Percent of Doubtful loans deteriorated to loss loans	0

5 Percent of Performing loans deteriorated to loss loans	1
All NPLs under substandard category downgraded to doubtful.	0
All NPLs under doubtful category downgraded to loss.	0
25 Percent of performing loan of Real Estate & Housing sector loan directly downgraded to Loss category of NPLs.	0
Top 5 Large exposures downgraded: Performing to Substandard	0

B. Liquidity Shock

	No. of Finance Companies having Liquidity Ratio<20 percent
Withdrawal of deposits by 5 percent	0
Withdrawal of deposits by 10 percent	2
Withdrawal of deposits by 15 percent	4
Withdrawal of deposits by 20 percent	6
Withdrawal of deposits by top 1 institutional depositor	0
Withdrawal of deposits by top 2 institutional depositors	0
Withdrawal of deposits by top 3 institutional depositors	1
Withdrawal of deposits by top 4 institutional depositors	2
Withdrawal of deposits by top 5 institutional depositors	2
Withdrawal of deposits by top 1 individual depositor	0
Withdrawal of deposits by top 2 individual depositors	1
Withdrawal of deposits by top 3 individual depositors	1
Withdrawal of deposits by top 4 individual depositors	1
Withdrawal of deposits by top 5 individual depositors	1

Note: Above mentioned data does not include data regarding 3 Problematic Finance Companies which are under resolution process.

3.7 Performance of Micro Finance Financial Institutions

As of mid-July 2020, there were 85 MFIs operating as "D" class licensed institutions. Among them, 4 are wholesale lending MFIs. Out of 80 Retail lending MFIs, 2 are public deposit takers, namely, Nirdhan Utthan Microfinance Institution and Chhimek Microfinance Institution.

Table 3.8: Capital Adequacy & Assets Quality of MFIs (as of mid-July 2020)

In Billion Rs.

Particulars	mid-July 2019	mid-July 2020	Change %
Total Capital Fund of MFIs	32.22	38.20	18.54
Capital Fund of Retail MFIs	25.99	31.15	19.84
Capital Fund of Wholesale MFIs	6,231,7	7.05	13.13
Total Paid-up Capital of MFIs	17.07	21.49	25.87

Paid-up Capital of Retail MFIs	14.17	18.12	27.86
Paid-up Capital of Wholesale MFIs	2.90	3.37	16.14
Total Assets of MFIs	273.06	325.15	19.08
Assets of Retail MFIs	232.32	279.94	20.50
Assets of Wholesale MFIs	40.73	45.20	10.98
Total Loan and Advances of MFIs	235.15	262.73	11.73
Loans and Advances of Retail MFIs	198.38	224.79	13.31
Loans and Advances of Wholesale MFIs	36.77	37.93	3.17
Total Overdue (Loan & Interest) of MFIs	4.20	9.41	123.85
Overdue (Loan & Interest) of Retail MFIs	4.18	9.24	120.58
Overdue (Loan & Interest) of Wholesale MFIs	0.01	0.17	986.98
Total Loan Loss Provision of MFIs	4.01	7.64	90.33
Loan Loss Provisions of Retail MFIs	3.54	6.90	95.04
Loan Loss Provisions of Wholesale MFIs	0.47	0.72	54.89

3.7.1 Capital Adequacy & Assets Quality

The total outstanding loan of MFIs as of mid-July 2020 raised by 11.73 percent to Rs.262.73 billion as compared to Rs.235.15 billion in mid-July 2019. As of mid-July 2020, total capital fund of MFIs increased by 18.54 percent and reached Rs.38.21 billion compared to the same period of the last year. Out of total capital fund, capital fund of wholesale and retail MFIs comprises Rs.7.05 billion and Rs.31.15 billion respectively. The total paid-up capital of MFIs increased by 25.87 percent and reached Rs.21.50 billion. The ratio of paid-up capital to total capital fund stood at 56.26 percent. The paid-up capital of wholesale MFIs stood at Rs.3.37 billion. As per the regulatory requirement, MFIs are required to maintain at least 4.0 percent of total risk-weighted assets as core capital and 8.0 percent as the capital fund.

As of mid-July 2020, the number of branches of all MFIs reached to 3,946, creating employment for 19,017 employees. In comparison to previous year, the total members of MFIs increased by 8.22 percent and reached 4,686,609 in mid-July 2020.

In review year, total asset of MFIs increased by 19.08 percent and reached Rs.325.15 billion. In this category, the share of wholesale MFIs assets stood at 13.90 percent only. Loan and advances registered a growth rate of 11.73 percent and reached Rs.262.73 billion. Out of the total loans and advances, the wholesale loan shared only 14.44 percent while, retail loans shared the rest 85.56 percent. The ratio of loan and advances to the total assets stood at 80.80 percent.

The total amount of overdue loan, including interest, of these institutions increased by 123.85 percent and reached Rs.9.41 billion as compared to the same period of the last year. COVID-19 pandemic induced such rapid increment in total overdue loan (including interest) of MFIs. The overdue of wholesale MFIs stood at Rs.0.17 billion and retail MFIs stood at Rs.9.24 billion. Likewise, the amount of loan loss provision of these MFIs increased by 90.33 percent and reached Rs.7.64 billion during the review year.

3.7.2 Profitability and Liquidity

Total savings mobilized by the MFIs increased by 23.96 percent and reached Rs.106.15 billion in the review year. As compared to the total liabilities of these institutions, the share of savings remained at 32.65 percent. Out of total savings, public deposits shared only 2.23 percent which was collected by only two public deposit taker MFIs, viz. Chhimek Laghubitta Bittiya Sanstha Limited and Nirdhan Utthan Laghubitta Sanstha Ltd., and the rest being collected only from the members of 78 retail MFIs. Total borrowings of these MFIs during the review year increased by 12.34 percent and reached Rs.142.09 billion. Out of the total borrowings, wholesale MFIs borrowed Rs.34.34 billion, which comprises only 24.16 percent of total borrowing. As compared to total liabilities of MFIs, the share of borrowed amount remained at 43.70 percent.

Table 3.9: Profitability and Liquidity (as of mid-July 2020)

In Billion Rs.

Particulars	mid-July 2019	mid-July 2020	Change %
Total Savings in MFIs	85.63	106.15	23.96
Total Borrowings of MFIs	126.48	142,09	12.34
Borrowings of Retail MFIs	95.24	107,75	13.13
Borrowings of Wholesale MFIs	31.23	34.33	9.93
Public deposit	2.12	2.37	11.55

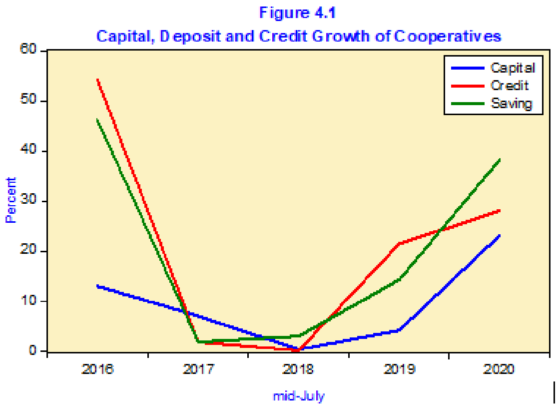
Table 3.10: Outreach and Impact of Microcredit

Particulars	mid-July 2019	mid-July 2020	Change %
No. of MFIs	90	84	-6.67
No. of Retail MFIs	86	80	-6.98
No. of Wholesale MFIs	4	4	0.00
No. of Branches of MFIs	3,547	3,946	11.25
No. of Branches of Retail MFIs	3,533	3,931	11.27
No. of Branches of Wholesale MFIs	14	15	7.14
Total Members of MFIs	4,330,586	4,686,609	8.22
No. of Members of Retail MFIs	4,329,836	4,685,463	8.21
No. of Members of Wholesale MFIs	750	1,146	52.80
Total Capital Fund of MFIs (In Billion Rs.)	32.22	38.20	18.54
Capital Fund of Retail MFIs (In Billion Rs.)	25.99	31.15	19.84

Capital Fund of Wholesale MFIs (In Billion Rs.)	6.23	7.05	13.13
Total Paid-up Capital of MFIs (In Billion Rs.)	17.07	21.49	25.87
Paid-up Capital of Retail MFIs (In Billion Rs.)	14.17	18.12	27.86
Paid-up Capital of Wholesale MFIs (In Billion Rs.)	2.90	3.37	16.14
Total Assets of MFIs (In Billion Rs.)	273.06	325.15	19.08
Assets of Retail MFIs (In Billion Rs.)	232.32	279.94	20.50
Assets of Wholesale MFIs (In Billion Rs.)	40.73	45.20	10.98
Total Loan and Advances of MFIs (In Billion Rs.)	235.15	262.73	11.73
Loans and Advances of Retail MFIs (In Billion Rs.)	198.38	224.79	13.31
Loans and Advances of Wholesale MFIs (In Billion Rs.)	36.77	37.93	3.17
Total Savings in MFIs (In Billion Rs.)	85.63	106.15	23.96
Total Borrowings of MFIs (In Billion Rs.)	126.48	142.09	12.34
Borrowings of Retail MFIs (In Billion Rs.)	95.24	107.75	13.13
Borrowings of Wholesale MFIs (In Billion Rs.)	31.23	34.33	9.93
Total Overdue (Loan & Interest) of MFIs (In Billion Rs.)	4.20	9.41	123.85
Overdue (Loan & Interest) of Retail MFIs (In Billion Rs.)	4.18	9.23	120.58
Overdue (Loan & Interest) of Wholesale MFIs (In Billion Rs.)	0.01	0.17	986.98
Total Loan Loss Provision of MFIs (In Billion Rs.)	4.01	7.63	90.33
Loan Loss Provisions of Retail MFIs (In Billion Rs.)	3.54	6.90	95.04
Loan Loss Provisions of Wholesale MFIs (In Billion Rs.)	0.47	0.72	54.89
Public deposit (In Billion Rs.)	2.12	2.37	11.55
No of Total Staff	0.01	0.01	9.53

CHAPTER - IV
NON BANKING FINANCIAL INSTITUTIONS

4.1 Cooperatives



According to statistics from Department of Cooperatives, 29,883 cooperatives comprising 7.30 million memberships are operating throughout the country as of mid-July 2020. The Department of Cooperatives has been adopting stringent policies for registration of new cooperatives, particularly for savings and credit cooperatives, as most of the cooperatives involved in saving and credit operation were found to be operating without following the Cooperative Standard issued by the Department. Similarly, the Department has been cautious over registration of new multipurpose cooperatives.

4.1.2 Financial Highlights of Cooperatives

As of mid-July 2020, deposits of cooperatives totaled Rs.477.96 billion while their total credit stood at Rs.426.26 billion. Cooperatives have total capital of Rs.94.10 billion.

Table 4.1: Key Figures of Cooperatives (As of mid-July 2020)

Indicators	Figures*
No. of Cooperatives	29,883
Members (Nos.)	7.30 Million
Total Staff (Nos.)	88,309
Total Capital (in Rs.)	94.10 Billion
Deposit (in Rs.)	477.96 Billion
Credit (in Rs.)	426.26 Billion
Credit to Deposit Ratio	89.18%
Credit to Capital and Deposit Ratio	74.51%

Source: Department of Cooperatives

** as per revised data of department of co-operatives.*

The number of co-operatives has decreased from earlier published data (34,737 in 2018/19) and this was primarily because of the recent survey conducted by Department of co-operatives.

A study conducted by Department of co-operative on the impact of COVID-19 on co-operative sector found that the total deposit of co-operatives rose by 8.63 percent while 2 percent growth was observed in the overall in the credit during the lockdown period. Similarly, liquidity in the co-operative sector grew by 2.75 percent and the total assets grew by 4 percent (Department of Co-operative, 2077).

4.2 Other Financial Institutions

4.2.1 Insurance Companies

There are altogether 40 (20 non-life and 19 life and 1 Reinsurance) insurance companies as of mid-July 2020. Total assets/liabilities of insurance companies rose by 25.97 percent to Rs.437.32 billion in 2019/20. Total assets of life insurance companies and non-life insurance companies expanded by 27.45 percent and 18.17 percent respectively.

Table 4.2: Sources and Uses of Funds of Insurance Companies

In Billion Rs.

Sources	Life				Non-Life			
	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Paid-up Capital	8.3	25.56	30.84	32.79	6.22	10.41	13.91	17.61
Reserve Funds	138.41	180.12	248.75	323.5	24.41	23.62	35.15	40.22
Other Liabilities	4.35	10.92	12.63	16.13	4.2	9.67	5.86	7.04
Total	**151.06**	**216.6**	**292.22**	**372.44**	**34.83**	**43.7**	**54.93**	**64.88**
Uses	**Life**				**Non-Life**			
Cash and Bank	2.25	3.75	6.69	7.34	2.37	3.15	2.63	3.67
Investment	138.83	196.23	263.88	335.59	22.42	31.54	38.05	44.46
Fixed Assets	1.64	2.2	2.47	2.59	1.36	1.42	1.79	1.81
Other Assets	8.34	14.42	19.19	26.9	8.67	7.59	12.46	14.93
Total	**151.06**	**216.6**	**292.22**	**372.44**	**34.83**	**43.7**	**54.93**	**64.88**

Source: Beema Samiti (Insurance Regulatory Authority of Nepal)

While the coverage of insurance penetration is very low in comparison to other financial services in Nepal, there have been some sign of significant growth in recent years. Number of policies issued have risen steadily over the years and reached 9.03 million (2.20 million non-life and 6.83 million life) in the review year.

4.2.2 Reinsurance Companies

There is only one reinsurance company in Nepal which was formally established in November 7, 2014. Before its establishment, there was an institution called Insurance Pool Nepal to make arrangement of reinsurance for bearing the claims of risk emanating from Riot, Strike, Malicious Damage & Terrorism (RMSDT). The reinsurance company, presently, has been carrying out various reinsurance portfolios mostly in non-life part. The total assets/liabilities of Reinsurance Company rose by 24.29 percent to Rs.15.09 billion during 2019/20.

4.2.3 Employees Provident Fund (EPF)

The total assets of EPF increased by 12.13 percent to Rs.388.71 billion in 2019/20.

Table 4.3: Key Indicators of EPF mid- July 2020

Indicators	Amount (Billion Rs.)
Sources of Fund	
Provident Fund	354.41
Pension Fund	0.48
General Reserve and Other Reserve	29.06
Liabilities	1.45
Provisions	3.31
Uses of Fund	
Cash and bank	0.98
Investment in Government Saving Bonds	0.00
Investment in Government Debt Bonds	0.32
Investment in Fixed Deposits	107.76
Investment in Equity Shares	21.33
Investment in Debentures	0.23
Project Loan	63.90
Lending to Contributors	190.09

Staff Loan and Advances	1.64
Investment Properties (Investment in Fixed Assets)	0.71
Property, Plant and Equipment (Fixed Assets)	0.52
Assets under construction	0.03
Miscellaneous Assets	1.2
Total	388.71
Loan and Investment to Total Fund Ratio	99.29
Loan and Investment to Provident Fund Ratio	108.90

Source: Employee Provident Fund

The funds collected by the EPF grew by 14.38 percent to Rs.354.41 billion in the review year. Similarly, it has created reserves from the profit worth of Rs.29.06 billion.

On utilization side, 48.90 percent of the fund is used in lending to contributors, whereas, 27.72 percent is used in investment in fixed deposits. EPF has been utilizing almost all of its total resources. The loan and investment to total fund ratio stands at 99.20 percent. Its cash and bank balance stood at Rs.0.98 billion. Cash and bank balance seem to be on lower side and EPF has investment in equity shares.

4.2.4 Citizen Investment Trust (CIT)

CIT is another institutional fund mobilizer with a significant market share. As of mid-July 2020, net fund collections of CIT stood at Rs.180.71 billion, recording a growth of 20.11 percent from Rs.150.46 billion in mid-July 2019. Apart from this, its paid-up capital stood at Rs.1.64 billion while the reserve fund was Rs.12.84 billion.

CIT has been heavily dependent on BFIs for its fund mobilization. Out of total funds, 49.26 percent has been placed on fixed deposits at BFIs. While fixed deposit accounts 83.40 percent of total investment of CIT, loan and advances to participants accounts 25.52 percent of total funds. Considering the nature of the funds, which have longer term prospect, it can be utilized for long term projects with high return.

Table 4.4: Key Figures of CIT

Figures (Billion Rs.)

Indicators **Sources of Funds**	**mid- July 2020**	**mid- July 2019**
Paid up Capital	1.64	1.1
Calls in Advance	0.13	0.17
Reserve Fund	12.84	5.82
Fund Collection	140.59	123.91
Other Liabilities	25.51	19.46
Total	**180.71**	**150.46**
Uses of Fund		
Cash and Bank Balances	5.12	4.59
Investments	**106.75**	**84.23**
a) Fixed Deposits	89.03	76.70
b) Governments Bonds	0.60	0.60
c) Shares and debentures	16.72	6.93
d) Subsidiary	0.4	
Loan and Advances	46.12	40.65
Fixed Assets& Assets in WIP	1.84	1.24
Other Assets	20.88	19.75
Total	**180.71***	**150.46***

Source: Citizen Investment Trust

**Earlier published figures modified due to change in reporting standard*

The CIT has adopted NFRSs from the 2019/20, hence necessary adjustments according to the NFRSs was done resulting in an increase in the total assets (Rs.180 billion against Rs.161.07). Similar other variations in other categories were also observed for 2019/20.

4.2.5 Social Security Fund (SSF)

The Social Security Fund (SSF) is a type of pension fund scheme which is based on individual and organizations' contribution. This fund provides various benefits such as assistance for medical treatment, health and maternity protection, accident and disability protection, dependent family protection, and elderly protection of employee. Organizations registered under the scheme are only eligible to enjoy the benefits offered by the fund.

Table 4.5: Key Figures of SSF mid- July 2020

Amount (Billion Rs.)

SOURCES OF FUNDS	
Medical, Health and Maternity Protection Fund	0.07
Accident and Disability Protection Fund	0.11
Dependent Family Protection Fund	0.02
Old Age Protection Fund	2.24
National Level Welfare Fund	21.06
Social Security Tax Fund	0.47
Accumulated Profit/ (loss)	4.86
Government loan	0.05
Other liabilities	0.05
TOTAL SOURCES OF FUND	**28.96**
USES OF FUND	
Cash and Cash Equivalents	0.71
Deposit on Bank and Financial Institutions	27.15
Property, Plant and Equipments	0.01
Intangible Assets	0.0006
Receivables and other miscellaneous assets	1.08
TOTAL	**28.96**
Other Indicators	
Number of Employers associated	9,202
Number of contributors associated	132,722
Government Contributor (At the time of COVID-19) (in Billion Rs.)	1.08
Total contribution amount (in Billion Rs.)	2.42
Total Benefit/ claim amount provided to contributors (in Billion Rs.)	0.0085

As of mid-July 2020, National Welfare Fund of SSF stood at Rs.21.06 billion. Uses of fund of the SSF are concentrated in investment in fixed deposit with amount of Rs.27.15 billion.

As of mid-July 2020, the total number of contributors associated with SSF reached 133,722 while the number of contributors associated reached 9,202.

CHAPTER - V
FINANCIAL MARKETS

5.1 Global Financial Market Perspectives

5.1.1 US Government Treasuries

Yields on US government treasuries have continuously decreased in the review year. Yield on 3 months US Treasury Bills was 2.13 percent per annum on 17 Jul 2019, which has come down to 0.14 percent on 15 Jul 2020. Such decrease in yield is mostly attributable to decrease in US Federal Funds Rate by the Federal Reserve. There has been five instances of decrease in the US Federal Funds Rate in the review year (on 1 August 2019 by 25 bps, 19 September 2019 by 25 bps, 31 October 2019 by 25 bps, 3 March 2020 by 50 bps and 16 March 2020 by 100 bps), making a total decrease of 225 basis points. The average yield on three months T-bills that has been 1.14 percent per annum in the review year, which was 2.30 percent in the same period of the previous year. The highest yield of 2.13 percent per annum has been recorded on 17 Jul 2019 and the lowest yield of -0.04 percent on 25 March 2020.

Figure 5.1: Daily Yield Curve Rates for 3 Months US T-Bills

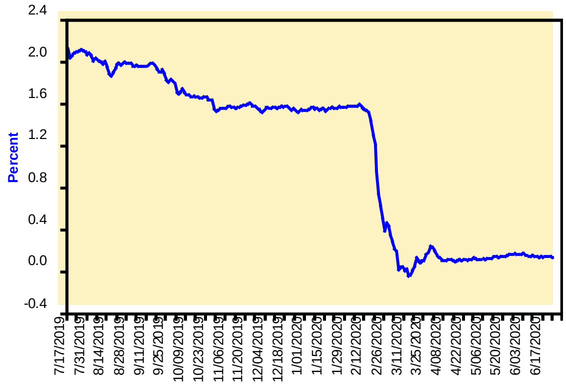
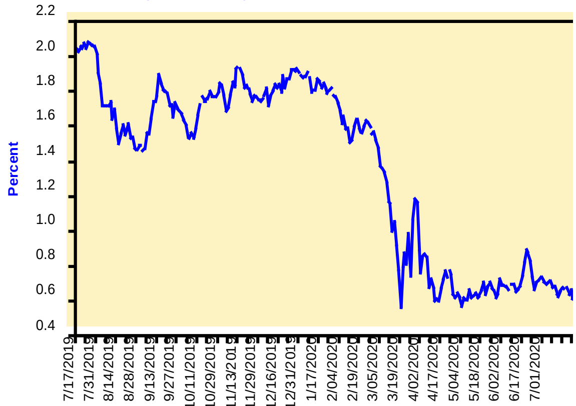


Figure 5.2: 10 year U.S. Government Bond Rate



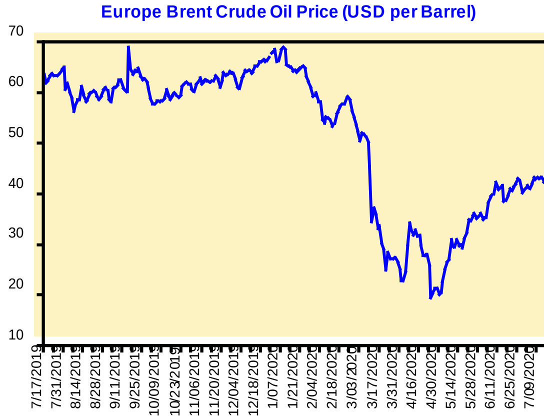
Contrary to the yield on short term security, yield on long term securities has been non-negative in the review year though it also exhibited decreasing trend. During the review year, 10-year US Government Bond has recorded highest yield of 2.08 percent per annum on 25 July 2019 and lowest yield of 0.56 percent per annum on 9 March 2020. The average yield has been 1.35 percent per annum, which was 2.70 percent in the same period of the previous year.

5.1.2 Crude Oil

Brent crude oil price, the international benchmark, which was trading at US Dollar 63.66 per barrel on mid-July 2019, has come down to US Dollar 43.79 per barrel on mid-July 2020. During the review year, it traded between US Dollar 19.33 to 69.02 per barrel. Crude oil price reached the highest level of US Dollar 69.02 on 16 September 2019 and the lowest level being US Dollar 19.33 on 21 April 2020.

During the review year, oil price witnessed sharp decline in March 2020 and first half of April 2020. Oil price fluctuated mainly because of the effects of COVID-19, due to decrease in demand as a result of restrictions on travel and movements imposed by several authorities across the globe and because of record output cuts from OPEC countries. Oil prices started to recover from the start of May 2020, induced by resumption of demand from emerging economies such as China and India.

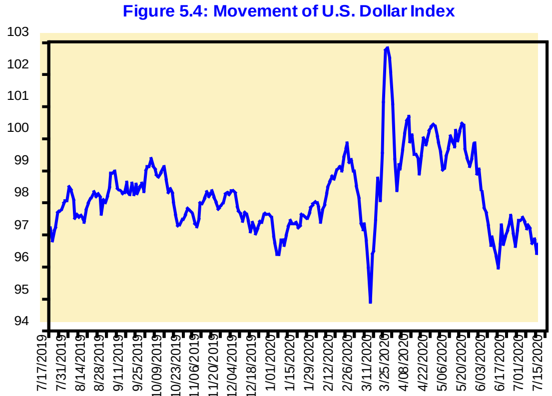
Figure 5.3
Europe Brent Crude Oil Price (USD per Barrel)



5.1.3 Dollar Index

The US Dollar Index is an index measure of the value of the United States Dollar relative to a basket of foreign currencies including Euro, Japanese Yen, Pound Sterling, Canadian Dollar, Swedish Krona and Swiss Franc.

Figure 5.4: Movement of U.S. Dollar Index

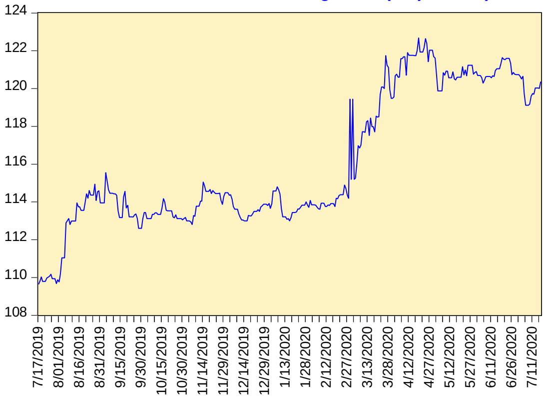


During the review year, the index recorded the highest value of 102.82 on 20 March 2020 and lowest value of 94.89 on 9 March 2020. Volatility in the index is attributable to factors like COVID-19 pandemic, geo-political tensions in the Middle-East, internal politics of the USA including the attempts of impeachment of the President, among others.

5.1.4 Dollar-Rupee Exchange Rate

Nepalese currency depreciated by 10.07 percent against US Dollar during 2019/20 compared to the depreciation by 0.02 percent in the same period of the previous year. The exchange rate of one US Dollar stood at Rs.120.37 in mid-July 2020 compared to Rs.109.36 in mid-July 2019.

Figure 5.5
Movement of Nominal Exchange Rate (Rs per USD)



5.2 Domestic Financial Market

5.2.1 Securities Market

In recent years, SEBON has been implementing various structural reform programmes and policies to develop and modernize the securities markets. Primary market services have been expanded to all districts. With the modernization of primary market, investors have been participating in Initial Public Offerings (IPOs) online through Mero Share, ASBA and C-ASBA platforms. SEBON has also facilitated the services of merchant banking and securities broking business outside of the Kathmandu valley. Mutual fund and corporate bond issuance are also increasing; fund mobilization through these instruments occupies a significant portion in total public offerings. Furthermore, SEBON has conducted a study to reduce and rationalize the brokerage commission in order to minimize the transaction cost in the secondary market.

The securities markets in the first half of 2019/20 remained promising whereas the second half of the fiscal year was highly affected by the COVID-19 pandemic. Most of the secondary market indicators such as NEPSE index, market capitalization, market turnover grew in the first half of the fiscal year compared with the same period of the previous year. However, the stock market remained closed for 93 days in the early days of the COVID-19 pandemic due to the requirement of physical presence in the trading system of NEPSE and that affected secondary markets during the second half of 2019/20. There were only 182 transaction days in the 2019/20, which were 246 transaction days in previous fiscal year. During the year, total fund mobilization through primary market decreased by one third. In the review year, the issues of debentures have increased significantly. Similarly, the number of securities market participants increased marginally in 2019/20. The list of securities market participants in the past five fiscal years is presented in Table 5.1.

Table 5.1: Securities Market Participants

SN	Participants	mid-July 2016	mid-July 2017	mid July 2018	mid July 2019	mid July 2020
1	Stock Exchange	1	1	1	1	1
2	Central Depository Company	1	1	1	1	1
3	Stockbroker	50	50	50	50	50
4	Merchant Banker	17	24	25	30	32
5	Fund Manager and Depository	6	9	9	9	14
6	Credit Rating Agency	1	1	2	2	2
7	Listed Companies	229	208	196	215	212
8	Depository Participant	66	65	70	72	76
9	ASBA BFIs	-	-	65	52	52
	Total	**371**	**426**	**419**	**432**	**440**

Source: Securities Board of Nepal

5.2.2 Primary Market

During the last three fiscal years, corporate sectors mobilized funds through IPOs, FPOs, right offerings, stock dividends, debentures and mutual fund schemes. In 2019/20, funds amounting to Rs.3.99 billion have been mobilized through IPOs, Rs.4.41 billion through right shares, Rs.23.45 billion through debentures and Rs. 1.8 billion through mutual fund schemes. Thus, a total of Rs.33.65 billion funds have been mobilized in the 2019/20 which is less by 32.4 percent as compared to the total fund mobilization of Rs.49.8 billion in the same period of the last year. Decrease in total amount of debenture, mutual fund and absence of FPOs attributed to the decline of fund mobilization in primary market. The status of the primary market for the last three fiscal years is presented in Table 5.2.

Table 5.2: Primary Market (Amount in Rs. billion)

SN	Particulars	Fiscal Year						Percentage Change			
		2017/18		2018/19		2019/20		In Number		In Amount	
		Number	Amount	Number	Amount	Number	Amount	2018/19	2019/20	2018/19	2019/20
1	IPOs	22	8.3	28	7.3	9	3.99	27.27	-67.86	-12.05	-45.34
2	Right Offerings	15	25.7	19	5.9	11	4.41	26.67	-42.11	-77.04	-25.25
3	FPOs	6	11.5	-	-	-	-	-100.00	-	100.00	-
4	Debenture	1	3	12	30	12	23.45	1,100.0	0.00	900.00	-21.83
5	Mutual Fund	4	4.8	6	6.6	2	1.8	50.00	-66.67	37.50	-72.73
	Total	**48**	**53.3**	**65**	**49.8**	**34**	**33.65**	**35.42**	**-47.69**	**-6.57**	**-32.43**

Source: Securities Board of Nepal

The primary market has been expanded to 77 districts of the country through Applications Supported by Blocked Amount (ASBA) and Centralized ASBA (C-ASBA) System. With the introduction of ASBA and C-ASBA System, people have been able to participate in public offerings through online system. The introduction of inclusive securities allotment system by SEBON, which allows subscribing 10 units of shares, has helped increase the reach for initial public offerings to the small investors. Similarly, SEBON implemented IT Policy, 2019 in order to facilitate and standardize the use of information technology in the securities markets.

5.2.3 Secondary Market

Despite the COVID-19 pandemic, the major indicators of the secondary market remained positive in 2019/20. The number of listed companies has however decreased to 212 from 215, because of merger and acquisition among banks and financial institutions in the review year. In 2019/20, total traded value of the listed securities remained Rs.150.04 billion, an increase of 36.3 percent compared to Rs.110.07 billion of 2018/19. Average daily turnover has been Rs.0.82 billion, a significant increase of 83.2 percent as compared to Rs.0.45 billion of 2018/19.

Market capitalization reached Rs.1,792.76 billion, an increase of 14.4 percent as compared to the previous year. Similarly, float market capitalization has increased by 14.3 percent and reached to Rs.638.1 billion. In 2019/20, NEPSE Index plunged by 8.2 percent to 1362.35 points. Float index which was 92.43 points in the 2018/19, increased by 3.3 percent to 95.47 points in 2019/20. The trend in secondary market during last three fiscal years is presented in Table 5.3.

Table 5.3: Secondary Market

S. No	Indicators	Unit	Fiscal Year			Percentage Change	
			2017/18	2018/19	2019/20	2018/19	2019/20
1	No. of Listed Companies	Number	196	215	212	9.7	-1.4
2	No. of listed Securities	Million	3,598.75	4,206.6	4,827.58	16.9	14.8
3	Turnover	Rs. in billion	121.39	110.07	150.04	-9.3	36.3
4	Average Daily Turnover	Rs. in billion	0.52	0.45	0.82	-13.5	83.2
5	Trading Days	Days	233	246	182	5.6	-26
6	No. of Scripts Traded	Number	259	277	268	6.9	-3.2
7	No. of Securities Traded	Million	293.82	387.51	428.52	31.9	10.6
8	No. of Transactions	Number	1,311,034	1,422,791	1,848,773	8.5	29.9
9	Total Paid up Value of Listed Shares	Rs. in billion	352.09	412.28	473.39	17.1	14.8
10	Market Capitalization	Rs. in billion	1,435.14	1567.5	1792.76	9.2	14.4
11	Float Market Capitalization	Rs. in billion	483.9	558.25	638.1	15.4	14.3
12	Turnover/Market Capitalization (Annualized)	Percentage	8.5	7	8.37	-17.6	19.6
13	Turnover/Float Market Capitalization (Annualized)	Percentage	25.1	19.7	23.51	-21.5	19.4
14	NEPSE Index	Points	1,212.36	1,259.02	1,362.35	3.8	8.2
15	NEPSE Sensitive Index	Points	255.2	271.25	288.25	6.3	6.3
16	NEPSE Float Index	Points	87.15	92.43	95.47	6.1	3.3

Source: Nepal Stock Exchange Ltd.

There are around 1.7 million investors participating through their own Dematerialized (DEMAT) accounts. Online trading system has been functionalized and there are more than 68,000 active investors participating through online trading system in securities transaction with the assistance of 50 brokers and their 46 branches in the major cities of the country.

5.2.4 Policy Initiatives

On a regulatory perspective, with the implementation of Specialized Investment Fund Regulations, 2019, SEBON has introduced corporate governance codes for the listed companies, and has rolled out legal and regulatory framework for venture capital, private equity and hedge funds. Various fund managers have applied for the permission to manage venture capital and private equity funds. Anti-money Laundering Guidelines and KYC requirements for securities businesspersons have been implemented with the provisions of legal actions including monetary penalties in case of non-compliance. SEBON amended Securities Registration and Issuance Regulations, 2016 in order to provide scope for free-pricing of shares issued through Initial Public Offerings (IPOs) and to make more effective rights issuance. Similarly, SEBON made amendments in the Mutual Funds Regulations, 2008, Credit Rating Regulations, 2011, Securities Businesspersons (Stockbroker and Dealer) Regulations, 2007, and Securities Businesspersons (Merchant Banker) Regulations, 2008 in order to strengthen the legal framework of securities market in the country.

CHAPTER - VI
PAYMENT SYSTEM

6.1 Evolution of Payment System

Payment system has been considered to be an important element of the financial stability and is evolving as a core central banking function around the world. It is believed that a well-developed payment system ultimately contributes in strengthening the domestic financial system. NRB has been entrusted with the responsibility of establishing and promoting the system of payment, clearing and settlement and to regulate these activities in order to develop secure, healthy and efficient system of payment in the country.

The world is moving faster towards adoption of modern technologies including electronic payments in settling financial transactions or in the purchase of goods and services. The traditional payment system has many problems and is being gradually replaced by electronic payment system all over the world. In line with the global trend, NRB aims at gradually moving towards less cash society by facilitating various instruments of electronic payments.

6.2 Legal Regulatory and Oversight Framework of Payment Systems

Payment System modernization effort in Nepal was started with the formulation of Nepal Payment System Development Strategy, 2014. Since then, NRB has initiated number of reforms in the payment systems. Currently, Payment Systems Department (PSD) of NRB is performing regulatory, catalytic, operator, and overseer role in the payment systems. Payment and Settlement Act, 2019, Payment and Settlement Bylaw, 2020 and Licensing Policy for Payment Related Institutions 2016 provide a strong legal basis for the development of national payment system.

6.2.1 Legal Framework

Nepal Rastra Bank Act, 2002

Nepal Rastra Bank Act, 2002 has an objective to develop a secure, healthy and efficient system of payment and this act also gives powers to regulate, inspect, and supervise payment, clearing, and settlement arrangements.

Payment and Settlement Act, 2019

Payment and Settlement Act is one of the most important legal frameworks that came into existence in 2019. The major provisions of this Act are as follows:

- **Licensing Responsibility:** NRB has been tasked with the responsibility of issuance, withdrawal or refusal of license to an entity to work as a payment service provider or provide any service under the Act.
- **Oversight:** NRB is empowered to monitor and conduct inspection of the licensed institutions and the services they provide on a regular basis.
- **Dispute Resolution Committee:** In the event of any dispute arising between the institutions with regard to any work to be performed under this Act, the same to be handled by the Dispute Resolution Committee.
- **Power to Give Direction:** NRB has the power to give directions to its licensed entities.
- **Powers to Frame Regulations:** Under the Act, NRB has a power to frame bylaw for administration of the Act.
- **National Payment Board:** Act has made the provision of National Payment Board (NPB). The main function of the Board is to make policy provision for the establishment of safe, sound and efficient payment mechanism, minimizing the risk inherent with payment systems, and modernization of payment systems.
- **Secretariat to the Board:** A Department of the NRB as prescribed would provide Secretariat support to the Board.
- **Institution Responsibility:** Act has clearly defined the responsibilities of Payment System Operator (PSO) and Payment Service Providers (PSP).
- **Real Time Gross Settlement (RTGS):** NRB has given authority to operate RTGS system for high value and critical payment.
- **Punishment, Fines and Penalties:** Act has mentioned punishment, fines, and penalties for licensed institutions in the case of breach of laws.

Payment and Settlement Bylaw, 2020

Payment and Settlement Bylaw has been formulated for the development of the secure, healthy and competent payment system. It is further required for the fulfillment of the objective of NRB Act that specify the functions related to regulation, supervision and oversight of the services and instruments issued by the institutions which operate payment and settlement services.

6.2.2 Regulatory Framework

NRB is issuing license to operate as a PSO and PSP. With the objective of promoting innovation in digital financial services, PSD is also giving permission to add additional instruments/services to licensed PSO and PSP.

As of mid-July-2020, all commercial banks (27), 12 development banks, and 7 finance companies are operating as PSP. Apart from this, there are total 23 institutions licensed by NRB are operating as payment institutions. Among them, 9 are PSO and 14 are PSP.

Table 6.1: Licensed Institution to Work as PSP/PSO(As of mid-July 2020)

S.N.	Category	Nature of License	Number
1	Commercial Bank ("A" Class)	PSP	27
2	Development Bank ("B" Class)	PSP	12
3	Finance Company ("C" Class)	PSP	7
4	Non-bank/financial Institution	PSO	9
5	Non-bank/financial Institution	PSP	14

6.2.3 Oversight Framework

Among different roles of central bank, oversight of payment systems is one of the major functions whereby the safety and efficiency of payments are ensured. Monitoring the activities of key players in the arena of payment and settlement systems, assessing them, and making inspection and supervision of payment related institutions whenever necessary are several forms of oversight functions. NRB is carrying its oversight activities based on the "Payment System Oversight Framework, 2018". The objectives of the oversight framework are to (i) ensure sound legal foundation, (ii) enhance risk management and control, (iii) boost competitive market conditions (iv) integration and interoperability of different payment system, (v) assess reach and range of payment services, (vi) prevention of market from abuse and frauds and (vii) safeguard customers and ensure their protection.

6.3 Payment Systems Strategy, Reports and Indicators

a. Payment Systems Strategy

In recognition that payment systems are an integral part of every country's financial system and are vital for its soundness, and for monetary policy implementation and capital market development, the NRB is committed to the safety and efficiency of Nepal's National Payment Systems (NPS).

Payment systems development in Nepal has been guided by the Nepal Payments System Development Strategy (NPSDS), 2014. The NPSDS outlined the steps that would be taken by NRB to implement the strategy across the nine pillars comprising (i) Legal Framework, (ii) Large Value and Time-Critical Payment Systems, (iii) Retail Payment Systems, (iv) Government Payments, (v) Securities Depository, Clearing and Settlement Mechanisms, (vi) Interbank Money Market, (vii) International Remittances, (viii) Oversight of the National Payment Systems, and (ix) Co-operative Framework for the Payments System.

NRB has developed the Retail Payment Strategy (RPS), 2019 with the objectives of (i) Safety and Efficiency; (ii) Creating the Regulatory Framework for Deepening the Digital Retail Payment Systems, (iii) Financial Awareness and Literacy and (iv) Strengthen Oversight, Including the Cyber-risk Management and Cyber-resiliency of the National Payment System (NPS).

The Retail Payment Systems are typically a low value payment system catering to the needs of consumers, businesses and the Government in serving their payment requirements, which consist of cheque clearing, electronic funds transfer, card payment systems, e-money, and remittances. The Retail Payment Systems in Nepal are mainly operated by Nepal Clearing House Limited (NCHL), which provides image-based cheque clearing solution and electronic fund transfers comprising credit transfers and direct debits, and operators in the cards payment space viz., Smart Choice Technologies P. Ltd (SCT) and Nepal Electronic Payment System Ltd. (NEPS). The e-money and remittance service providers complement the payment infrastructure.

b. Payment System Reports

All the licensed institutions are required to report their transaction at various time frames and in various prescribed format through the reporting portal. This will provide assistance in the process of decision making in course of oversight activities. The implementation of Supervisory Information System (SIS) will further enhance the quality of data that would further ease the analysis.

c. Payment Systems Indicators

Payment Systems Indicators are being published monthly since August, 2020. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments.

6.4 Real-time Gross Settlement (RTGS) System

As an operator of the payment system and based on the mandate given by Payment and Settlement Act and Bylaw, NRB has installed and implemented RTGS System for high value and critical payment. RTGS System is an electronic fund transfer system in which the transfer of funds between one bank to another takes place in "real-time" and on a "gross" - transaction by transaction - basis, without bundling or netting with any other transaction.

RTGS System formally started since 12th September 2019. PSD has issued RTGS System Rule, 2019 which regulates the membership criteria, members' responsibilities, settlement rules, operating procedures in the RTGS system. Similarly, NRB has issued a separate directive for the operation of RTGS. Transactions can be settled in five different currencies i.e. Nepalese Rupees (Rs.), US Dollar (USD), Euro (EUR), Pound Sterling (GBP) and Japanese Yen (JPY).

RTGS implementation has eased the high value payment process which was earlier based on manual clearing in NRB's general ledger (Olympic) system. Further, it is expected that the RTGS System will enhance the trust and confidence towards the payment systems as it significantly reduces liquidity risk and eliminates credit risk in payment mechanism.

6.5 Electronic Payment Instruments and Consumer Pattern

Though majority of payment is still made through cash and cheques in Nepalese economy, use of digital payment instruments (ATM, Wallet, POS machine, QR code etc.) is gradually increasing day by day. Instant payment includes connectIPS and QR Code based payment. ConnectIPS is one of the most popular products, at public level, offered and operated by NCHL where the system allows the bank customers to make instant payments. QR Code based payment system is one of the cheapest and easy payment platforms for instant payment. NRB is presently encouraging QR code-based payment.

Mobile banking and Internet banking services are being provided by the BFIs to its customers which allows its users to perform financial transactions on digital mode like Electronic Fund Transfer, QR Payments, Utility Payments, Direct Debit and Direct Credit.

CHAPTER - VII

FINANCIAL SECTOR POLICIES AND INFRASTRUCTURES

7.1 Global Policy Developments

Timely and often times "unconventional" measures adopted by the authorities and central bank around the world has helped respond quickly against the impact of the COVID-19 to some extent. International regulatory and standard setting bodies have been proactive in analyzing policy impact under different scenarios and recommending policy measures.

Majority of the various regulators focus were on measures related cut back in benchmark rates and relaxation on some supervisory rules while other regulators focused on relaxation of capital requirements, easing liquidity, uninterrupted credit, resolution and recovery among others.

7.2 Domestic Policy Developments

While the first three quarters of the 2019/20 were focused on ensuring stability and foster development, the focus was shifted to mitigating the impact of COVID-19 for final quarter of the 2019/2020. In these regards, status of the policies and updates in regulatory measures that were made in the 2019/20 are outlined below.

7.2.1 Issuance of Guideline on Recognition of Interest Income, 2019

A guideline to provide guidance to standardize the practices adopted by bank and financial institutions was issued in form of Guideline on Recognition of Interest Income, 2019.

This guideline aims to achieve greater standardization of the practices on recognition of interest income on loan and advances of bank and financial institutions that have adopted NFRSs in preparation of their financial statements. BFIs are expected to apply the criteria set out in this guideline for identification of loans on which interest income recognition should be suspended or ceased to be accrued for the reporting of financial statement of 2018/19 and thereafter.

7.2.2 Supervisory Information System (SIS)

In order to assist cooperation and sharing of supervisory knowledge and information, the SIS was implemented for commercial banks on a pilot test basis from January 8, 2020 with the view of enlarging scope and reach in the future.

7.2.3 Gold Deposit Policy

With a view of monetizing the gold held by the Nepalese citizen, a circular was issued to commercial banks enabling them to accept gold as deposit. As per the policy, commercial banks can accept a minimum of 25 grams gold as deposit. Interest can be either in cash or gold itself. The commercial banks have to establish a mechanism to test the purity and weight of the gold. The acceptable purity of gold is set at 995 fitness. The duration of deposit is set between three to five years.

7.2.4 Debt Service to Gross Income Ratio

To encourage more prudential lending practices NRB introduced a limit on debt service to gross income ratio. The limit is set at 50 percent. Loans not meeting this criterion need to be classified under watch list category.

7.2.5 Strengthening Anti-Money Laundering Measures for Non Banking Financial Institutions

To combat money laundering and financing of terrorism, NRB issued guidelines to EPF, CIT and Postal Saving banks. Anti-Money laundering measures are primarily guided by Money laundering prevention act, 2008, and money laundering prevention rules of 2073.

The provision made by NRB mandates the NBFIs to put in place an AML/CFT related policy covering procedures and guidelines relating to identification, verification of suspicious and threshold transactions and monitoring and tracing concerned transactions. Similarly, it also guides on issues such as politically exposed person (PEP) and beneficial owner (BO), guides on enhanced customer due diligence (ECDD) and other transaction related provisions.

7.3 Measures Undertaken by NRB to Maintain Financial Stability

Since the publication of financial stability report for fiscal year 2018/19, numbers of additional stability measures have been undertaken by NRB. Some of them are outlined below:

a. With an aim of improving the reach and accessibility of subsidized loan, the subsidized loan manual was updated with criteria such as mandatory disbursement of number of loans to BFIs and their branches.

b. For a greater transparency of financials, BFIs were mandated to implement the integrated tax system implemented by Inland Revenue Department.

c. BFIs were notified to secure their IT infrastructures from potential cyber attacks, malware, ransom wares, spam, phishing, spoofing etc. For this, the BFIs need to prepare the strategy for detecting and preventing their IT infrastructures.

d. BFIs were required to enlist in the social security fund.

e. Commercial Banks were required to put in place a countercyclical buffer for the 2019/20. This requirement was later suspended for the year in view of the COVID-19 pandemic.

f. Limit of interest spread for commercial banks is set at 4.4 percent effective from the beginning of 2020/21. For development banks and finance company, the limit is 5 percent.

g. Banks have to limit their institutional deposits at 10 percent of total deposit from 15 percent previously.

h. For a greater accessibility of information, BFIs need to put in place an audio notice board as well as publish the information in Nepali language as well for proper dissemination of information.

i. Commercial banks have to report through go-AML Production Environment compulsorily for AML/CFT related reporting effective from 3^{rd} quarter of the 2019/20. Such timeline for development banks and finance company was set for the start of 2020/21.

Survey on the Impact of COVID-19

An online survey was conducted by NRB to evaluate the impact of COVID 19 on business and industries for the period June 8-24, 2020. 674 respondents participated in the survey

Major Findings

- During the lockdown period, 61 percent of the businesses/industries were completely shut down, 35 percent were operating in sub-par capacity and only 4 percent of the business/industries were operating at their full capacity. Majority of business/industries that were closed included the hotels, restaurant, education institutions, real estate, transportation and storage industries.
- 22.5 percent of the business/industries had laid off employees and more than one third of the laid off employee constituted of temporary, contractual and daily wage earners. Hotel and restaurants laid off most of the employees.
- Salaries were cut-down by around 18.2 percent mainly by relatively bigger business/industries compared to other sectors.
- 96.7 percent of the industries reported that their production/operation reduced considerably.
- The major problem identified by the businesses/industries was that on the cost of continuing with their business, paying off salaries and wages, rent, and loan installments.
- Small and medium scale industries were identified to be hardest hit by the pandemic.
- The time that would take businesses/industries to return to normal operation was expected to be around 9 months. For hotels and restaurants industries, the turnaround time was expected to be around 13 months.

7.4 Policy Response to COVID-19

a. Policy Response from NRB

NRB has been pro-active in terms of response to mitigate the impact of COVID-19. These actions have supported economic activity, uninterrupted flow of credit while maintaining financial stability. Some of the steps in this regards are listed below:

I. Liquidity

Mismatch in borrower cash flows had led to heightened stress for borrowers. Short term liquidity is essential to maintain the confidence in the financial sector and hence, NRB moved swiftly to ensure there is adequate liquidity during the time of pandemic while also enforcing its stance of accommodating financial sector trends. In the early days of the lockdown cash reserve ratio (CRR) was reduced by 100 basis points (4 percent to 3 Percent). Similarly, the bank rate was reduced by 100 basis points (from 6 percent to 5 percent). While, upper bound of interest rate corridor i.e. SLF rate was reduced by 100 basis points and lower bound i.e. deposit rate was also reduced by 100 basis points.

II. Assets Classification and Provisioning

The investment of banks during the time of pandemic has taken a toll and as a result the assets quality has deteriorated. Realizing this would impact the financials of bank unduly, the NRB allowed BFIs not to classify their portfolio of loans which were in pass category to watch list for not being renewed during the lockdown period. This only applied to the pass category of loans and all other category of loans was to be downgraded as per the existing provisions.

III. Credit Flows, Loan Repayments, Restructuring and Rescheduling

The initial phases of the pandemic brought challenges which were not anticipated in any economies and the only means to stop the contagion was to restrict the movement of people. Realizing this, the NRB directed BFIs to allow a moratorium and defer the recovery process of all the installment-based loans till mid-July 2020 outstanding for the month of March/April 2020 without any penal charges for such deferral. Similarly, the tenure of short-term loans was also increased by 60 days.

To decrease the movement and to keep the employees of BFIs engaged only with the critical functions,, the provision of interest capitalization was relaxed and for those borrowers who have already received approval from NRB, the interest capitalization can be done till the period of mid-July 2020.

When the country was reeling under the pressure to upgrade and install new facilities for COVID-19, NRB instructed BFIs to sanction the loan within 5 working days to the borrowers who want to import medical equipment for the control of COVID-19, medicines, food supplies and other necessary items mainly to ease the situation. Similarly, BFIs had to sanction loans within 5 working days to the borrowers of Tourism and Transport sector who were in pass category till mid-Jan 2020 for which the fees should not be more than 0.25%.

Similarly, a provision was made for COVID-19 affected business whereby an additional 10% working capital limits can be sanctioned, if the borrower can justify the needs and which need to be repaid within a year at most.

BFIs were allowed to report the loans under 'priority sector' if lending were made to the hospitals who want to enlarge their facilities for the treatment of COVID-19.

IV. Interventions on Interest Rates

A direct market intervention in terms of interest rates was also made by the NRB. In the initial phases of the lockdown, the NRB directed BFI's to provide 10% discount on interest amount for those borrowers who want to pay their installments within mid-April 2020, amidst lockdown.

Similarly, in the next phase, the NRB directed the BFIs to lower their interest rates for COVID-19 impacted business by 200 basis points for the fourth quarter of 2019/20. This was not applicable for business and sectors such food manufacturing and trading business, medical shops, internet, telephone and television service providers, liquor and tobacco related business, soap and chemicals and operating hydropower projects, which were not much impacted by the pandemic.

V. Promoting Digital Payments

Throughout this pandemic, the thing that has stood up has been the payments system and is believed to be the point of departure for a cashless banking habit. Conscious efforts were undertaken to promote the cashless banking habits and make payments digitally. In the initial days of the pandemic, a notice was issued by NRB to make all the electronic transactions, including use of any BFI's ATMs on free of charge, till mid-July 2020. Similarly, BFIs' were mandated to entertain the requests of customers received via email and telephone to enable their electronic banking services and easing or helping out with other banking services.

VI. Macro Prudential Measures

The use of capital and liquidity buffers to accommodate the credit expansion has been suggested by various agencies from the very early days of the pandemic albeit with some caution. The countercyclical buffers, which were modeled build resilience and sustain financing in tough times, were relaxed in many countries. Moving along with this line, the NRB relaxed the provision of Counter Cyclical Buffer for the time being, which was supposed to come in effect from the 2020/21.

VII. Operations, Availability of Service and Business Continuity

Banking sector has turned out to be the backbone of an economy and the continued operation is a must. Hence, even during the pandemic period, NRB issued various circulars and guidelines to BFIs for continued operations. Notices were issued directing BFIs and customers to use ATMs and other modes of electronic transactions. Similarly, BFIs were directed to open least number of branches in coordination with local authorities while continuously providing the vital services. Besides, NRB even continuously encouraged work from home, shift wise work and job rotations among other giving full flexibility for the continued operations of banking services.

VIII. Customer Safety

NRB has emphasized the safety of customer and the employee which could not be compromised at any cost and hence directed BFIs to adopt the operational health standards set by GON and World Health Organization. In line with this, various notices were issued warranting BFIs to maintain health standards such as social distancing, sanitizers, masks and other equipment for the front line workers and disinfecting the notes and office premises daily.

IX. Dividend Payout

Authorities around the world are unanimous on their suggestion that the dividend payout must be restricted as more and more capital may be needed for absorption of possible damages in the days to come. The NRB also put some restrictions on BFIs for dividend payouts from the profits of fiscal year ending on July, 2020. As per the provisions, cash dividend for 2020/21 is restricted at 30 percent of distributable profit, subject to cap of weighted average interest on deposit. Similarly the dividend cannot be distributed (except for tax purposes), if the distributable profit is less than 5 percent of the paid-up capital.

X. Income Recognition and Reporting

BFIs were not penalized for not meeting quarterly regulatory ratios and the reporting was also halted for the time being to contain the movement of staffs. This was later scrapped and reporting was resumed as the movements were regulated for BFIs and length of the disease started becoming vaguer.

Similarly, interest amount which is recovered until mid-October 2020 could be calculated in the financial statements for the 2019/20. Such tenure was only 15 days (after the balance sheet date), previously.

Likewise, BFIs were allowed to report the expenses under Corporate Social Responsibility for the donations made to the fund created by GoN to control COVID-19.

XI. Refinancing

In the initial phase of pandemic, to ensure adequate liquidity in the market and to accommodate market needs, the Refinance fund was increased by Rs.20 billion and the SMEs were prioritized for refinance facility. Similarly, Limit for Refinancing of SME was raised to Rs.1.5 million (from Rs.1 million) and refinance rate for such was maintained at 2 percent (from 3 percent) while the interest rate the BFI charges for such kind of loans cannot exceed 5 percent (previously 7 percent).

Later, the refinance facility was revamped completely with the issuance of "Nepal Rastra Bank, Refinance manual, 2077" and the scope of the refinance facility was broadened to include the business and sectors affected by COVID-19.

b. Policy Response from CIT

For clients who have met their obligations, 10 percent rebate on interest payable for the period of mid-March to mid-July of 2020 was provided, if the customer paid their installments before mid-July 2020

A compensation of Rs.2 Lakhs was provided in case it can be verified that the customer died due to the COVID-19. Further, during the lockdown period, CIT developed an online payment system for all payments related needs.

c. Policy Response from EPF

The COVID-19 pandemic disrupted contribution collection due to widespread loss of income and jobs of private sector employees. The pandemic caused cost overruns and project delays. Due to the inability to disburse project loans as per disbursement plan and excess liquidity situation in market, portfolio could not expand substantially. Since the beginning of COVID-19, there has been a continuous decrease in interest rates.

To cope with the crisis of pandemic, EPF launched a scheme of COVID-19 insurance and for members cash compensation of Rs. 2 Lakhs was declared in case of death due to COVID-19. In the context of corporate borrowers and members interest subsidy was provided similarly as the policy of NRB and decision of GoN. EPF announced 10 percent deduction on interest of house loan and also extended the time of payment of interest.

COVID-19 fuelled the EPF's movement towards digital transformation which includes cashless and cheque less transactions with collaboration of NCHL and BFIs. Further, EPF initiated to develop various services to members which includes online special loan and online loan deposit.

d. Policy Response from Insurance board

A major policy action undertaken by insurance sector was to issue COVID-19 insurance policies. Under this, the insurers could get insured for the COVID-19 and in case they are tested positive, treatment cost of up to Rs.1 Lakh is reimbursed.

7.5 Future Possibilities

While there are no immediate stresses noticed in the banking sectors, the situation can change in the months to come, as the economy starts to repel the effects of policy actions taken during the year. Prolonged pandemic effects may put stress on profitability given the sluggish demand of credit. The profitability of banking sector has decreased (Rs.58.92 billion in mid–July 2020 from Rs.74.22 billion in mid-July 2019), and the credit flows from BFIs increased by 12.32 percent in mid-

July, 2020 compared to 20.18 percent credit growth a year ago. While the economy is slowly gathering pace, the businesses are going to create the demand for loan that may put some stress over loanable funds and liquidity, to cope with this the banking sector needs to be prudent while extending the credit facilities.

The banks' compliance towards minimum CAR remained at a comfortable position but there was a slight decline in the overall capital position (14.16 percent from 14.29 percent). Further slowdown in the economic condition can put stress on the capital.

There has been deterioration in assets quality as evident from increasing NPL for the fiscal year. The levels of NPL may grow in the months to come as the economic activities are yet to return back to pre-COVID-19 normal. The restructured portfolio of loans as a result of cash flow mismatches may rise in the days to come.

The risk stemming out of NBFIs seems at a manageable level, as the policy initiatives undertaken in the NBFI segment has largely been effective. The insurance sector in particular, can come under stress as number of claims continues to rise.

A change in traditional banking habits was observed during the pandemic period with people becoming aware and friendly with the fin-tech services. This shift in the habits can be a new normal which comes with security and privacy related vulnerabilities as well. Hence BFIs needs to safeguard and strengthen their IT infrastructures to meet with the growing fin-tech needs.

Annex-I

Statement of Assets and Liabilities of Banks & Financial Institutions (Aggregate)*(In Million Rs.)*

	Liabilities	Mid-July				% Change		
		2017	2018	2019	2020			
		1	2	3	4	2/1	3/2	4/3
1	**CAPITAL FUND**	308,652	370,014	446,402	488,277	19.88	20.64	9.38
	a. Paid-up Capital	225,314	282,196	305,885	330,876	25.25	8.39	8.17
	b. Statutory Reserves	53,665	63,756	76,174	94,150	18.80	19.48	23.60
	c. Retained Earning	(3,005)	(1,932)	4,538	4,312	-35.71	-334.90	-4.98
	d. Others Reserves	32,678	25,995	59,805	58,939	-20.45	130.07	-1.45
2	**BORROWINGS**	31,800	35,453	90,729	81,610	11.49	155.92	-10.05
	a. NRB	7,094	12,122	22,927	7,992	70.87	89.14	-65.14
	b. "A"Class Licensed Institution	9,094	8,583	34,286	5,392	-5.62	299.48	-84.27
	c. Foreign Banks and Fin. Ins.	-	-	3,299	14,810	0.00	0.00	348.99
	d. Other Financial Ins.	5,299	2,436	3,283	1,737	-54.04	34.79	-47.10
	e. Bonds and Securities	10,312	12,312	26,935	51,679	19.39	118.76	91.87
3	**DEPOSITS**	2,384,807	2,836,930	3,354,428	3,933,738	18.96	18.24	17.27
	a. Current	204,361	256,809	311,505	401,130	25.66	21.30	28.77
	b. Savings	816,572	947,024	1,060,516	1,224,189	15.98	11.98	15.43
	c. Fixed	998,259	1,229,731	1,526,497	1,884,402	23.19	24.13	23.45
	d. Call Deposits	333,350	367,597	417,390	387,287	10.27	13.55	-7.21
	e. Others	32,265	35,770	38,519	36,729	10.86	7.69	-4.65
4	**Bills Payable**	2,219	3,109	2,309	2,053	40.09	-25.72	-11.11
5	**Other Liabilities**	224,201	263,876	303,249	385,596	17.70	14.92	27.15
	1. Loan Loss Provision	52,553	55,009	54,893	78,604	4.67	-0.21	43.19
	2. Interest Suspense a/c	34,892	37,705	20,271	27,582	8.06	-46.24	36.06
	3. Others	136,756	171,163	228,085	279,410	25.16	33.26	22.50
6	**Reconcillation A/c**	2,359	4,265	15,556	3,427	80.84	264.72	-77.97
7	**Profit & Loss A/c**	54,882	61,338	73,519	59,045	11.76	19.86	-19.69
	TOTAL	**3,008,920**	**3,574,985**	**4,286,193**	**4,953,745**	**18.81**	**19.89**	**15.57**
	Assets							
1	**LIQUID FUNDS**	423,242	439,299	466,279	563,630	3.79	6.14	20.88
	a. Cash Balance	64,373	74,893	92,563	110,726	16.34	23.59	19.62
	Nepalese Notes & Coins	63,283	72,208	84,640	98,161	14.10	17.22	15.97
	Foreign Currency	1,090	2,685	7,923	12,565	146.37	195.09	58.59
	b. Bank Balance	305,795	298,098	295,862	369,615	-2.52	-0.75	24.93
	1. In Nepal Rastra Bank	233,257	218,135	215,138	294,780	-6.48	-1.37	37.02
	2. "A"Class Licensed Institution	38,882	41,055	29,036	27,141	5.59	-29.28	-6.53
	3. Other Financial Ins.	6,369	7,557	13,010	3,372	18.65	72.16	-74.08
	4. In Foreign banks	27,287	31,352	38,678	44,322	14.89	23.37	14.59
	c. Money at Call	53,074	66,307	77,853	83,288	24.93	17.41	6.98
2	**INVESTMENTS**	232,707	331,231	375,402	534,611	42.34	13.34	42.41
	a. Govt.Securities	214,381	295,854	374,262	533,827	38.00	26.50	42.63
	b Others	18,326	35,377	1,140	784	93.05	-96.78	-31.24
3	**SHARE & OTHER INVESTMENT**	129,938	109,665	186,189	171,683	-15.60	69.78	-7.79
4	**LOANS & ADVANCES (Including Bills Purchased)**	1,994,078	2,422,798	2,913,970	3,273,096	21.50	20.27	12.32
	4.1 LOANS & ADVANCES	1,976,880	2,419,842	2,910,511	3,270,133	22.41	20.28	12.36
	a. Private Sector	1,923,942	2,355,915	2,819,279	3,156,509	22.45	19.67	11.96
	b. Financial Institutions	44,543	58,056	86,056	110,945	30.34	48.23	28.92
	c. Government Organizations	8,394	5,871	5,176	2,679	-30.06	-11.83	-48.24
	4.2 BILLS PURCHASED	17,199	2,956	3,459	2,963	-82.81	17.03	-14.36
5	**LOANS AGT. COLLECTED BILLS**	571	129	-	-	-77.46	-100.00	0.00
6	**FIXED ASSETS**	40,634	47,763	71,420	78,568	17.54	49.53	10.01
7	**OTHER ASSETS**	166,139	206,834	253,949	312,752	24.49	22.78	23.16
	a. Accrued Interests	37,666	43,309	46,171	117,719	14.98	6.61	154.96
	b. Others	128,473	163,525	207,777	159,955	27.28	27.06	-23.02
8	**Expenses not Written off**	279	264	26	189	-5.36	-89.99	613.61
9	**Non Banking Assets**	4,465	4,614	5,716	7,076	3.33	23.87	23.80
10	**Reconcillation Account**	16,631	12,389	13,167	11,715	-25.51	6.28	-11.03
11	**Profit & Loss A/c**	235	1	75	426	-99.69	10417.22	464.35
	TOTAL	**3,008,920**	**3,574,985**	**4,286,193**	**4,953,745**	**18.81**	**19.89**	**15.57**

Annex-II

Profit and Loss Statement of Banks & Financial Institutions (Aggregate) *(In Million Rs.)*

	Mid-July				% Change		
	2017	2018	2019	2020			
	1	2	3	4	2/1	3/2	4/3
1 Interest Expenses	97,851	167,967	212,129	232,951	71.66	26.29	9.82
1.1 Deposit Liabilities	95,609	165,254	208,274	227,205	72.84	26.03	9.09
1.1.1 Saving A/c	23,526	39,005	48,102	53,627	65.80	23.32	11.49
1.1.2 Fixed A/c	55,651	112,317	143,530	157,021	101.82	27.79	9.40
1.1.2.1 Upto 3 Months Fixed A/c	2,496	8,398	8,211	7,335	236.48	-2.22	-10.68
1.1.2.2 3 to 6 Months fixed A/c	2,673	6,799	10,806	18,168	154.39	58.93	68.14
1.1.2.3 6 Months to 1 Year Fixed A/c	29,697	57,784	72,244	74,620	94.58	25.02	3.29
1.1.2.4 Above 1 Year	20,785	39,336	52,269	56,898	89.25	32.88	8.86
1.1.3 Call Deposit	16,430	13,818	16,374	16,291	-15.90	18.50	-0.51
1.1.4 Certificate of Deposits	2	114	268	266	5683.67	134.99	-0.75
1.2 Others	2,242	2,713	3,855	5,746	21.00	42.11	49.04
2 Commission/Fee Expense	601	613	1,668	1,695	1.97	172.29	1.59
3 Employees Expenses	26,627	31,472	39,312	42,145	18.20	24.91	7.21
4 Office Operating Expenses	20,755	25,517	29,456	32,395	22.95	15.44	9.98
5 Exchange Fluctuation Loss	109	125	35	6	15.31	-71.96	-83.89
5.1 Due to Change in Exchange Rates	88	102	26	5	16.08	-74.34	-81.86
5.2 Due to Foreign Currency Transactions	21	23	9	1	12.00	-61.39	-89.93
6 Non-Operatiing Expenses	34	58	164	463	74.28	180.08	182.54
7. Provision for Risk	12,763	15,147	19,852	33,869	18.68	31.06	70.61
7.1 Loan loss Provision	11,477	12,875	19,032	33,522	12.17	47.83	76.13
7.1.1 General Loan loss Provision	7,036	6,484	8,358	17,257	-7.84	28.90	106.46
7.1.1.1 Pass Loan Loss Provision	6,257	5,679	6,457	10,921	-9.24	13.71	69.12
7.1.1.2 Watch List Provision	779	806	1,901	6,336	3.44	135.94	233.29
7.1.2 Special Loan Loss Provision	4,375	6,216	9,623	15,094	42.07	54.80	56.86
7.1.3 Additional Loan Loss Provision	66	174	1,051	1,171	162.29	503.65	11.40
7.2. Provision for Non-Banking Assets	1,053	1,255	481	124	19.15	-61.67	-74.23
7.3. Provision for Loss on Investment	186	716	147	92	284.90	-79.49	-37.32
7.4. Provision for Loss of Other Assets	46	302	191	131	555.73	-36.53	-31.35
8 Loan Written Off	996	971	917	411	-2.50	-5.53	-55.19
9 Provision for Staff Bonus	6,657	7,982	8,857	7,499	19.90	10.96	-15.33
10 Provision for Income Tax	20,371	24,583	30,505	24,783	20.68	24.09	-18.76
11 Others	56	29	21	36	-48.09	-28.98	74.69
12 Net Profit	54,665	61,337	74,230	58,924	12.20	21.02	-20.62
TOTAL EXPENSES	**241,483**	**335,802**	**417,146**	**435,177**	**39.06**	**24.22**	**4.32**
Income							
1. Interest Income	194,358	283,227	359,820	378,136	45.72	27.04	5.09
1.1. On Loans and Advance	181,923	265,446	335,598	350,654	45.91	26.43	4.49
1.2. On Investment	5,875	10,903	13,247	19,023	85.58	21.50	43.60
1.2.1 Government Bonds	4,830	9,360	11,868	17,635	93.77	26.80	48.59
1.2.2 Foreign Bonds	153	186	195	109	21.29	4.66	-44.25
1.2.3 NRB Bonds	777	1,031	620	1,038	32.69	-39.84	67.49
1.2.4 Deventure & Bonds	115	327	565	242	184.63	72.80	-57.16
1.3 Agency Balance	1,022	988	1,064	640	-3.33	7.70	-39.84
1.4 On Call Deposit	3,475	3,928	6,394	4,459	13.02	62.79	-30.26
1.5 Others	2,063	1,963	3,517	3,360	-4.83	79.16	-4.46
2. Comission & Discount	11,807	13,569	18,694	19,439	14.93	37.76	3.99
2.1 Bills Purchase & Discount	240	117	218	194	-51.18	86.03	-11.04
2.2 Comission	9,865	11,381	15,685	15,925	15.37	37.82	1.53
2.3 Others	1,702	2,071	2,791	3,321	21.69	34.75	18.98
3 Income From Exchange Fluctuation	6,249	7,850	10,506	10,780	25.62	33.84	2.61
3.1 Due to Change in Exchange Rate	707	1,537	1,182	1,320	117.44	-23.10	11.70
3.2 Due to Foreign Currency Trans.	5,542	6,313	9,324	9,461	13.91	47.70	1.46
4 Other Operating Income	10,772	13,392	15,376	11,434	24.32	14.81	-25.64
5 Non Operating Income	3,783	2,491	792	2,353	-34.15	-68.19	196.94
6 Provision Written Back	12,883	14,545	10,302	12,606	12.90	-29.17	22.36
7 Recovery from Written off Loan	1,504	673	995	**449**	-55.26	47.82	-54.88
8 Income from Extra Ordinary Expenses	108	53	635	(98)	-50.71	1090.25	-115.50
9 Net Loss	18	-	26	79	-100.00	0.00	203.28
TOTAL INCOME	**241,483**	**335,802**	**417,146**	**435,177**	**39.06**	**24.22**	**4.32**

Annex-III

Major Financial Indicators of Micro finance Financial Institutions *(In Million Rs.)*

Rs in million

	Liabilities	Mid-July 2017	2018	2019	2020	% change 2/1	3/2	4/3
		1	2	3	4	2/1	3/2	4/3
1	**CAPITAL FUND**	12,593	17,420	25,503	33,424	38.33	46.40	31.06
	a. Paid-up Capital	7,721	11,159	17,078	21,495	44.52	53.04	25.87
	b. Statutory Reserves	1,748	2,451	3,531	4,814	40.25	44.08	36.32
	c. Retained Earning	1,179	1,379	1,750	2,790	16.91	26.91	59.44
	d. Others Reserves	1,944	2,431	3,144	4,324	25.03	29.33	37.53
2	**BORROWINGS**	66,773	87,707	126,378	142,095	31.35	44.09	12.44
	a. NRB	555	2,070	1,701	8	273.02	-17.80	-99.52
	f. Others	66,218	85,637	124,677	142,086	29.33	45.59	13.96
3	**DEPOSITS**	34,344	49,549	85,606	106,150	44.27	72.77	24.00
4	**BILLS PAYABLE**	2	1	75	41	-33.54	5591.09	-45.48
5	**OTHER LIABILITIES**	10,366	13,552	23,664	29,558	30.73	74.63	24.90
	a. Loan Loss Provision	1,716	2,391	4,013	7,631	39.32	67.86	90.16
	b. Interest Suspense a/c	939	1,121	1,800	4,003	19.49	60.53	122.36
	c. Others	7,712	10,039	17,851	17,924	30.18	77.81	0.41
6	**RECONCILIATION A/c**	5,780	3,480	5,192	8,482	-39.79	49.19	63.36
7	**PROFIT & LOSS A/c**	3,907	4,039	6,608	5,419	3.37	63.62	-17.99
	Total	**133,765**	**175,748**	**273,028**	**325,169**	31.39	55.35	19.10
	Assets					0.00	0.00	0.00
1	**LIQUID FUNDS**	12,498	16,314	19,246	30,382	30.54	17.97	57.86
	a. Cash Balance	94	147	214	379	56.92	45.57	76.94
	b. Bank Balance	6,243	9,190	13,398	16,872	47.19	45.79	25.93
	c. Money at Call	6,161	6,977	5,634	13,130	13.26	-19.25	133.06
2	INVESTMENT IN SECURITIES EXCEPT SHARES	43	43	312	468	0.00	629.98	49.91
3	**SHARE & OTHER INVESTMENT**	2,658	2,565	2,262	9,732	-3.52	-11.81	330.28
4	**LOANS & ADVANCES**	106,541	145,944	235,101	262,732	36.98	61.09	11.75
	Institutional	24,131	30,597	38,955	39,721	26.79	27.32	1.97
	Individual	82,410	115,347	196,147	223,012	39.97	70.05	13.70
5	**FIXED ASSETS**	1,219	1,472	2,107	2,223	20.72	43.14	5.50
6	**OTHER ASSETS**	4,766	5,735	8,552	11,063	20.34	49.11	29.36
7	**EXPENSES NOT WRITTEN OFF**	11	7	11	11	-36.38	53.11	1.87
8	**NON BANKING ASSETS**	-	-	1	1	0.00	0.00	0.00
9	**RECONCILIATION A/c**	5,959	3,609	5,391	8,469	-39.44	49.37	57.11
10	**PROFIT & LOSS A/c**	70	57	45	88	-18.74	-20.95	96.81
	Total	**133,765**	**175,745**	**273,028**	**325,169**	**31.38**	**55.35**	**19.10**
	Profit & Loss A/c							
	1 INTEREST EXPENSES	5,938	11,759	17,022	21,965	98.04	44.75	29.04
	1.1 Deposit Liabilities	2,414	3,486	5,111	8,069	44.41	46.62	57.86
	1.2 On Borrowing	3,524	8,273	11,911	13,896	134.78	43.97	16.67
	2 COMMISSION/FEE EXPENSES	0	3	7	38	1378.80	114.61	472.63
	3 EMPLOYEE EXPENSES	3,619	4,735	6,299	8,757	30.85	33.03	39.02
	4 OFFICE OPERATING EXPENSES	1,232	1,594	2,358	2,907	29.44	47.90	23.29
	5 NON OPERATING EXPENSES	1	9	63	140	1056.98	578.43	122.70
	6 PROVISION FOR RISK	641	1,048	1,921	6,648	63.43	83.21	246.15
	6.1 Loan loss Provision	620	1,047	1,899	6,632	68.88	81.36	249.20
	6.1.1 General Loan loss Provision	456	699	1,017	3,364	53.50	45.36	230.82
	6.1.2 Special Loan Loss Provision	164	326	857	3,091	98.82	162.50	260.66
	6.1.3 Additional Loan Loss Provision	0	21	25	177	11872.25	20.05	597.58
	6.2. Provision for Non-Banking Assets	-	-	-	-	0.00	0.00	0.00
	6.3. Provision for Loss on Investment	1	1	8	1	112.20	589.80	-93.64
	6.4. Provision for Loss of Other Assets	21	0	13	16	-99.95	133712.77	19.92
	7 LOAN WRITTEN OFF	3	1	5	5	-72.34	464.16	14.51
	8 EXTRAORDINORY EXPENSES	0	-	1	18	-100.00	0.00	1279.00
	9 PROVISION FOR STAFF BONUS	519	547	861	836	5.43	57.54	-2.95
	10 PROVISION FOR INCOME TAX	1,561	1,663	2,545	2,353	6.56	52.98	-7.52
	11 NET PROFIT	3,902	4,013	6,249	5,394	2.87	55.70	-13.68
	TOTAL EXPENSES	**17,415**	**25,374**	**37,331**	**49,062**	45.70	47.12	31.43
	Income					0.00	0.00	0.00
	1. INTEREST INCOME	15,659	22,236	31,647	41,259	42.00	42.32	30.37
	1.1 On Loans and Advances	15,041	20,303	29,154	39,362	34.99	43.59	35.02
	1.2 On Investment	2	3	4	12	25.10	63.75	199.16
	1.5 Others	616	1,931	2,489	1,885	213.23	28.92	-24.29
	2. COMMISSION & DISCOUNT	410	546	805	718	33.36	47.34	-10.80
	2.1 Bills Purchase & Discount	-	-	0	0	0.00	0.00	64.47
	2.2 Comission	181	314	512	415	73.40	62.76	-18.95
	2.3 Others	228	232	293	303	1.58	26.44	3.41
	3 OTHER OPERATING INCOME	1,000	2,049	3,739	3,726	104.84	82.48	-0.33
	4 NON OPERATING INCOME	51	142	176	153	180.15	23.91	-13.28
	5 PROVISION FOR WRITTEN BACK	241	364	936	3,134	50.99	156.84	234.88
	6 RECOVERY FOR WRITE BACK	3	5	2	2	73.37	-59.94	6.73
	7 INCOME FOR EXTRA ORDINARY EXPENSES	-	0	0	18	0.00	712.18	53203.70
	8 NET LOSS	51	31	26	52	-39.31	-17.32	102.16
	TOTAL INCOME	**17,415**	**25,374**	**37,331**	**49,062**	**45.70**	**47.12**	**31.43**
	Miscellaneous Information							
	No. of Total Staffs	8,903	11,552	17,361	19,017	29.75	50.29	9.54
	No. of Total Branches	1,895	2,448	3,629	4,057	29.18	48.24	11.79
	No. of Total Centers	132,355	172,788	274,186	310,895	30.55	58.68	13.39
	No. of Total Groups	455,206	562,425	926,625	1,039,696	23.55	64.76	12.20
	No. of Total Passive Groups	4,942	5,762	9,565	9,398	16.59	66.00	-1.75
	No. of Total Members	2,338,046	2,856,380	4,327,991	4,686,659	22.17	51.52	8.29
	No. of Total Passive Members	37,050	51,516	118,044	195,311	39.04	129.14	65.46
	No. of Total Borrowers	1,576,155	1,853,417	2,679,016	2,783,222	17.59	44.54	3.89
	No. of Total Overdue Borrowers	44,281	56,824	165,984	1,001,407	28.33	192.10	503.32
	No. of Total Saving Members	2,368,500	3,010,166	4,323,957	4,679,987	27.09	43.65	8.23
	Total Saving Amount (Rs million)	34,583	49,549	101,910	106,150	43.27	105.68	4.16

Annex-IV

Sector wise, Product wise and Security wise Credit Flow from BFIs *(In Million Rs.)*

	Mid-July				% Change		
	2017	2018	2019	2020			
Sectorwise	1	2	3	4	2/1	3/2	4/3
Agricultural and Forest Related	87,899	115,386	157,905	189,981	31.27	36.85	20.31
Fishery Related	2,329	2,725	4,216	5,490	17.03	54.70	30.24
Mining Related	3,950	5,033	7,313	6,454	27.42	45.30	-11.75
Agriculture, Forestry & Bevarage Production Related	329,835	415,539	510,038	563,969	25.98	22.74	10.57
Construction	213,029	253,187	309,417	347,420	18.85	22.21	12.28
Electricity,Gas and Water	63,521	86,863	126,594	161,972	36.75	45.74	27.95
Metal Products, Machinary & Electronic Equipment & Assemblage	25,045	33,148	37,076	46,073	32.36	11.85	24.27
Transport, Communication and Public Utilities	76,264	83,255	93,129	97,603	9.17	11.86	4.80
Wholesaler & Retailer	436,443	532,011	615,309	662,828	21.90	15.66	7.72
Finance, Insurance and Real Estate	166,374	203,050	233,847	252,638	22.04	15.17	8.04
Hotel or Restaurant	66,900	91,146	122,122	148,657	36.24	33.99	21.73
Other Services	90,251	105,969	122,900	150,620	17.42	15.98	22.55
Consumption Loans	158,359	166,319	163,819	158,624	5.03	-1.50	-3.17
Local Government	1,569	1,554	1,569	1,583	-0.96	1.00	0.89
Others	272,882	327,742	406,642	472,099	20.10	24.07	16.10
TOTAL	**1,994,649**	**2,422,926**	**2,911,897**	**3,266,012**	**21.47**	**20.18**	**12.16**
Productwise							
Term Loan	320,735	423,648	562,527	718,480	32.09	32.78	27.72
Overdraft	361,907	410,911	455,716	488,596	13.54	10.90	7.22
Trust Receipt Loan / Import Loan	64,530	113,869	127,216	138,316	76.46	11.72	8.73
Demand & Other Working Capital Loan	404,195	498,116	615,755	702,115	23.24	23.62	14.03
Residential Personal Home Loan (Up to Rs. 1.5 Crore)	168,384	201,682	237,959	252,542	19.77	17.99	6.13
Real Estate Loan	127,319	142,005	146,991	163,480	11.54	3.51	11.22
Margin Nature Loan	41,170	41,129	45,417	50,410	-0.10	10.43	10.99
Hire Purchase Loan	150,400	171,054	180,957	174,058	13.73	5.79	-3.81
Deprived Sector Loan	111,985	137,728	177,390	201,610	22.99	28.80	13.65
Bills Purchased	17,354	2,859	3,342	3,304	-83.53	16.90	-1.14
Other Product	226,670	279,927	358,628	373,101	23.50	28.11	4.04
a. Credit Card				1,762	0.00	0.00	0.00
b. Education Loan				20,680	0.00	0.00	0.00
c. Cottage Industrial Loan				5,190	0.00	0.00	0.00
d. Small Industrial Loan				33,738	0.00	0.00	0.00
e. Medium Industrial Loan				50087.80	0.00	0.00	0.00
f. Small and Medium Industrial Loan				-	0.00	0.00	0.00
g. Others				261,643	0.00	0.00	0.00
Total	**1,994,649**	**2,422,926**	**2,911,897**	**3,266,012**	**21.47**	**20.18**	**12.16**
Collateral wise							
Gold and Silver	37,467	38,070	38,246	38,427	1.61	0.46	0.47
Government Securities	998	470	336	465	-52.86	-28.53	38.25
Non Governmental Securities	34,635	37,124	35,873	39,776	7.19	-3.37	10.88
Fixed Deposit Receipts	22,176	18,558	24,099	20,041	-16.32	29.86	-16.84
Own	20,781	17,907	23,569	19,704	-13.83	31.62	-16.40
Other Licences Institutions	1,395	650	530	336	-53.38	-18.51	-36.49
Collateral of Properties	1,734,997	2,136,643	2,600,225	2,913,947	23.15	21.70	12.07
Fixed Assets	1,459,790	1,788,776	2,206,624	2,489,020	22.54	23.36	12.80
Current Assets	275,207	347,867	393,601	424,927	26.40	13.15	7.96
Against security of Bill	15,874	18,166	23,281	33,694	14.44	28.15	44.73
Domestic Bills	798	826	2,382	720	3.49	188.24	-69.78
Foreign Bills	15,075	17,340	20,899	32,974	15.02	20.52	57.78
Against Guarantee	63,293	78,284	100,601	110,038	23.69	28.51	9.38
Government Guarantee	2,560	2,348	2,365	2,666	-8.27	0.72	12.73
Institutional Guarantee	42,759	55,645	77,217	80,995	30.14	38.77	4.89
Personal Guarantee	5,340	6,081	5,846	9,330	13.86	-3.86	59.59
Collective Guarantee	5,829	7,086	7,398	8,340	21.56	4.42	12.72
International Rated Foreign Bank's Guarantee	1,469	1,682	1,662	1,901	14.45	-1.16	14.39
Other Guarantee	5,336	5,444	6,112	6,806	2.02	12.28	11.35
Credit Card	906	1,257	1,670	1,748	38.78	32.88	4.62
Others	84,304	94,353	87,565	107,877	11.92	-7.19	23.20
Total	**1,994,649**	**2,422,926**	**2,911,897**	**3,266,012**	**21.47**	**20.18**	**12.16**

Annex-V

Major Financial Indicators

as on Asar End, 2077 (Mid-July, 2020)

		Class "A"	Class "B"	Class "C"	Overall
A. Credit, Deposit Ratios (%)					
1	Total Deposit/GDP	92.65	9.42	2.36	104.43
2	Total Credit/GDP	77.26	7.63	2.00	86.89
3	Total Credit/ Total Deposit	83.39	81.06	84.72	83.21
4	CCD Ratio#	69.93	71.84	68.46	69.58
5	Fixed Deposit/Total Deposit	47.18	52.99	56.01	47.90
6	Saving Deposit/Total Deposit	31.16	31.80	26.85	31.12
7	Current Deposit/Total Deposit	11.17	2.61	2.44	10.20
8	Call Deposit/Total Deposit	9.53	12.42	12.03	9.85
9	NPL/ Total Loan	1.81	1.52	6.18	1.89
10	Total LLP /Total Loan	2.44	13.71	9.00	3.58
11	Deprived Sector Loan/Total Loan $	6.25	9.95	7.86	6.61
B. Liquidity Ratios (%)					
1	Cash & Bank Balance/Total Deposit	12.29	10.40	16.46	12.21
2	Investment in Gov. Securities/Total Deposit	14.26	7.92	9.08	13.57
3	Total Liquid Assets/Total Deposit	27.52	29.49	36.40	27.90
C. Capital Adequacy Ratios (%)					
1	Core Capital/RWA	11.78	13.21	18.01	12.01
2	Total Capital/RWA	14.01	14.42	19.59	14.16
D. Financial Access					
1	No. of institutions	27	20	22	69
2	No. of Branches	4,436	1,029	243	5,708
3	No. of Deposit Accounts	27,724,764	4,075,310	654,130	32,454,204
4	No.of Loan Accounts	1,196,289	302,441	45,329	1,544,059
5	No. of Branchless Banking Centers	1,574	-	-	1,574
6	No. of Branchless Banking Customers	193,607	-	-	193,607
7	No. of Mobile Banking Customers	10,115,313	1,100,743	90,741	11,306,797
8	No. of Internet Banking Customers	1,001,866	23,332	6,029	1,031,227
9	No. of ATMs	3,759	296	51	4,106
10	No. of Debit Cards	7,062,472	231,287	35,443	7,329,202
11	No. of Credit Cards	160,297	-	-	160,297
12	No. of Prepaid Cards	63,775	-	-	63,775

E. Interest Rate(%)

1	**Wt. Avg Interest Rate on Deposit**	**6.01**
	(a) Saving	4.16
	(b) Fixed	9.02
	(c) Call	2.37
2	**Wt. Avg Interest Rate on Credit**	**10.11**

Note:

Bank balance includes money at call

Nominal GDP(At Producer's Price) for 2019/20 Rs. 3,767,043 million(Preliminary)

Negative core capital has been excluded in calculation of Capital Adequacy Ratios

$ 6 months prior Total Loan is taken to calculate Deprived Sector Lending Ratio

Asar month end (last day) CCD ratio

Annex-VI

Composition of Financial Stability Oversight Committee

Name and Designation	Status
Dr. Neelam Dhungana Timsina, Deputy Governor	Chairperson
Mr. Bhuban Kandel, Executive Director, Payment Systems Department	Member
Mr. Dev Kumar Dhakal, Executive Director, Banks and Financial Institution Regulation Department	Member
Mr. Pitambar Bhandari, Executive Director, Finance Company Supervision Department	Member
Mr. Pradeep Raj Poudyal, Executive Director, Development Bank Supervision Department	Member
Dr. Gunakar Bhatta, Executive Director, Bank Supervision Department	Member
Mr. Suman Kumar Adhikari, Executive Director, Micro-Finance Supervision Department	Member
Dr. Prakash Kumar Shrestha, Executive Director, Economic Research Department	Member
Mr. Ramu Paudel, Executive Director, Foreign Exchange Management Department	Member
Mr. Kiran Pandit, Director, Banks and Financial Institutions Regulation Department	Member Secretary
Registrar, Department of Cooperative	Invitee Member
Chairman, Insurance Board	Invitee Member
Chairman, Security Board of Nepal	Invitee Member
Administrator, Employee Provident Fund	Invitee Member
Executive Director, Citizen Investment Trust	Invitee Member
Executive Director, Social Security Fund	Invitee Member
Related Sectors Experts (maximum 2)	Invitee Member

Composition of Financial Stability Sub-Committee

Name and Designation	Status
Mr. Kiran Pandit, Director, Banks and Financial Institutions Regulation Department	Coordinator
Ms. Pushpa Adhikari, Deputy Director, Development Bank Supervision Department	Member
Mr. Prahlad Giri , Deputy Director, Microfinance Supervision Department	Member
Ms. Prativa Adhikari Finance Company Supervision Department. Deputy Director,	Member
Mr. Prakash Rai, Deputy Director, Payment Systems Department	Member
Mr. Subodh Man Shrestha, Deputy Director, Bank Supervision Department	Member
Mr. Siddha Raj Bhatta, Deputy Director, Economic Research Department	Member
Mr. Mani Raj Shrestha, Deputy Director, Foreign Exchange Management Department	Member
Mr. Kedar Prasad Pokhrel, Deputy Director, Banks and Financial Institutions Regulation Department	Member Secretary

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