FINANCIAL STABILITY REPORT

FISCAL YEAR 2020/21

(Issue No. 13)

Nepal Rastra Bank

May, 2022

Disclaimer

This *Thirteenth 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 2021. 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 in mid-July 2021. All the data and information in this report are retrieved from NRB depository, unless stated.

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Published by:
Nepal Rastra Bank
Central Office
Banks and Financial Institutions Regulation Department
Financial Stability Unit
Baluwatar, Kathmandu
Nepal
Ph: 977 1 4411407
Fax: 977 1 4414552
Email: fsu@nrb.org.np

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List of Abbreviations

ADBL	Agriculture Development Bank Limited
ASBA	Application Supported by Blocked Amount
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BFIs	Bank and Financial Institutions
CAR	Capital Adequacy Ratio
CBS	Central Bureau of Statistics
CDSC	CDS and Clearing Ltd.
CD ratio	Credit to Deposit Ratio
CIT	Citizen Investment Trust
CRR	Cash Reserve Ratio
DCGF	Deposit and Credit Guarantee Fund
EPF	Employee Provident Fund
FINGO	Financial Non-government Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoN	Government of Nepal
HIDCL	Hydroelectricity Investment and Development Company Ltd
IMF	International Monetary Fund
INR	Indian Rupees
IPO	Initial Public Offering
LCY	Local Currency
LLP	Loan Loss Provision
LTV	Loan to Value Ratio
MFIs	Microfinance Financial Institutions
NBL	Nepal Bank Limited
NCHL	Nepal Clearing House Ltd.
NEPSE	Nepal Stock Exchange Limited
NPA	Non-Performing Assets
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
PSO	Payment System Operator
PSP	Payment Service Provider
QIB	Qualified Institutional Buyer
RBBL	Rastriya Banijya Bank Limited
ROA	Return on Assets
ROE	Return on Equity
Rs.	Nepalese Rupees
RWA	Risk Weighted Assets
SOBs	State Owned Banks
SEBON	Security Board of Nepal
SLF	Standing Liquidity Facility
SSF	Social
US	United States
WEO	World Economic Outlook

FOREWORD

COVID-19 pandemic has impacted global financial system along with human, social and economic condition of the countries. Nepal has also suffered from the pandemic in different sectors. Government of Nepal, Nepal Rastra Bank and other regulators stepped up to minimize the impact through a range of policy measures. In this regard, this issue of Financial Stability Report details the performance of domestic financial system and the policies undertaken by authorities to maintain stability of it.

Nepalese financial system remained resilient amidst COVID-19 pandemic. Policy and regulatory support has cushioned to minimize the impact of pandemic during the period. Nepalese banks and financial institutions have stood reasonably sound in terms of capital, liquidity and assets quality. Largely, overall indicators of financial system remained acceptable and stress situation could not be noticed. Nepal Rastra Bank continued the major relaxation of policy measures particularly reduction of bank rate, reserve requirement, and countercyclical capital buffer while some of the regulatory relieves were rolled backed on need basis.

Nepal Rastra Bank is committed to build an efficient, robust, well-functioning and responsive financial system in Nepal which lays down the concrete foundation for sustainable and inclusive economic growth of the country.

I would like to appreciate Financial Stability Oversight Committee and also Executive Director of Banks and Financial Institutions Regulation Department for coordinating with all related departments as well as other concerned agencies for bringing out this invaluable publication.

Maha Prasad Adhikari
Governor
17 May, 2022

EXECUTIVE SUMMARY

Global Economic Development

1. The global economy is in the recovery phase from the COVID-19 pandemic. However, the speed of recovery has been affected by recurring waves of COVID-19 infection and the lack of wide availability of COVID-19 vaccines globally.

2. As per the World Economic Outlook of October 2021 of International Monetary Fund, the world output contracted by 3.1 percent in 2020 compared to an expansion of 2.8 percent in 2019. Advanced economies contracted by 4.5 percent in 2020 whereas the emerging and developing economies contracted by 2.1 percent.

Domestic Outlook

3. Annual average consumer inflation increased to 3.60 percent in 2020/21 compared to an increase of 6.15 percent in the previous year. Despite the ongoing COVID-19 pandemic, inflation is within the target.

4. According to the preliminary estimates of the CBS, the growth rate of the Nepalese economy stood at 4.0 percent in 2020/21 compared to -2.1 percent in 2019/20.

5. Merchandise trade deficit increased by 27.3 percent to Rs.1,398.71 billion in 2020/21. The export-import ratio increased to 9.2 percent in the review year from 8.2 percent in the previous year. Total merchandise trade deficit, as a percentage of GDP, slightly increased from 28.08 percent in 2019/20 to 32.78 percent in the review year.

6. The inflow under capital transfer was Rs.15.26 billion and net foreign direct investment was Rs.19.51 billion in the review year. In the previous year, capital transfer and net foreign direct investment inflows were Rs.14.21 billion and Rs.19.48 billion respectively.

7. Gross foreign exchange reserves decreased by 0.2 percent to Rs.1,399.03 billion in mid-July 2021 from Rs.1,401.84 billion in mid-July 2020.

Financial Institutions

8. As of mid-July 2021, the total number of BFIs have shrunk to 133 comprising of 27 commercial banks, 18 development banks, 17 finance companies, 70 MFIs and 1 Infrastructure Development Bank. Likewise, 19 life insurance companies, 20 non-life insurance companies, 2 reinsurance company and several non-bank financial institutions such as EPF, CIT, SSF, HIDCL and a postal saving bank are also in operation.

9. The share of BFIs in total assets of the financial system stood at 79.99 percent in mid-July 2021 compared to 78.86 percent in the previous fiscal year. Commercial banks lead the financial system in share of total assets followed by development banks. The share of MFIs is increasing whereas share of development banks and finance companies are contracting. In case of contractual saving institutions, insurance companies are a dominant institution followed by EPF.

10. NPL of BFIs stood at Rs.61.65 billion in mid-July, 2021 compared to Rs.61.59 billion in mid-July 2020. Timely and easy restructuring and rescheduling facility provided by NRB for COVID-19 impacted sectors helped to contain the NPL. The NPL, as a percentage of total loans, of banking industry decreased to 1.48 percent in mid-July 2021 from 1.89 percent in a year before.

11. The pace of credit flows from BFIs increased by 27.76 percent in FY 2020/21 compared to 12.32 percent growth in FY 2019/20. Deposit of BFIs increased by 20.50 percent in FY 2020/21 as compared to 17.27 percent in FY 2018/19.

12. The overall profitability of banking sector has increased by 21.01 percent to Rs.71.30 billion in mid-July 2021. The profitability of banking sector has declined by 20.61 percent in the last year.

13. After the introduction of merger bylaws, 229 BFIs have undergone the process of mergers and acquisition, as of mid-July 2021. The licenses of 171 BFIs were revoked, thereby forming 58 BFIs. The total number of BFIs licensed by NRB decreased to 133 in mid-July 2021 from 155 in mid-July 2020.

14. As of mid-July 2021, the branch network of Commercial banks, Development banks, Finance companies and MFIs reached 4,753, 1023, 222 and 4,685 respectively.

15. On an average, branch of BFIs, excluding MFIs, has been serving around 5,065 people. The population served by the BFIs comes down to 2,844 people per branch, if the branches of MFIs are also included. Such population per branch was 5,255 and 3,072 respectively for fiscal year ending mid-July 2020.

Non-Bank Financial Institutions

16. As of mid-March July 2020, deposit of cooperatives totaled Rs.477.96 billion while their total credit stood at Rs.426.26 billion.

17. Total assets of insurance companies (excluding reinsurance companies) rose by 24.09 percent in a year, reached Rs.542.65 in mid-July 2021.

18. The total assets of EPF had increased by 14.35 in a year and reached to Rs. 444.47 billion in mid-July 2021. The total assets of CIT stood at Rs.197.67 billion with annual growth rate of 9.39 percent.

19. The total assets of SSF stood at 38.69 billion in mid-July 2021.

Financial Market

20. In FY 2020/21, Nepali Rupee appreciated by 0.75 percent against US dollar compared to a depreciation of 10.07 percent in the previous year. The exchange rate of one US dollar stood at Rs.119.04 in mid-July 2021 compared to Rs.119.94 in mid-July 2020.

21. NEPSE Index increased by 111.65 percent in a year and reached to Rs.2,883.41. Float index which was 95.47 in the FY 2019/20, increased by 109.85 percent to 200.34 in FY 2020/21.

Payments Systems

22. As of mid-July 2021, 38 institutions are licensed as payment institutions. Among them, 28 are PSPs and 10 are PSOs. Except them, all commercial banks (27), 13 development banks, and 11 finance companies are also licensed by NRB to operate as PSP.

CHAPTER - I

MACROECONOMIC DEVELOPMENT

1.1 Global Macroeconomic Situation

The global economy is in gradual recovery phase from the COVID-19 pandemic shock. Recurring waves of COVID-19 infection, the emergence of the Delta variant, and pandemic outbreaks have distorted global supply chains have further increased risks in the economic prospects. Though, vaccination has reduced the health risk the wide availability of the COVID-19 vaccine globally still remains a challenge.

1.1.1 Economic Growth

The world economic outlook (October 2021) published by IMF estimates contraction of world output by 3.1 percent in 2020 compared to an expansion of 2.8 percent in 2019. Advanced economies contracted by 4.5 percent in 2020 whereas the emerging and developing economies contracted by 2.1 percent.

Availability of the COVID-19 vaccine as well as the policy efforts undertaken by almost all economies across the world have positively impacted the world economy to normalcy. According to the IMF, the world output is projected to expand by 5.9 percent in 2021. Advanced economies are projected to expand by 5.2 percent and the emerging and developing economies are projected to expand by 6.4 percent. However, the speed of such recovery will depend on the wide availability of the COVID-19 vaccine.

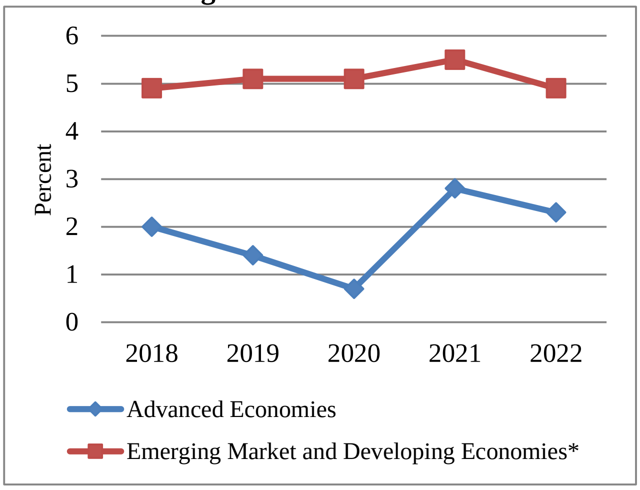
Ongoing pandemic and its recurring waves have affected both the Indian and Chinese economies. The Chinese economy grew by 2.3 percent in 2020 compared to a growth of 6.0 percent in 2019. The Indian economy, however, contracted by 7.3 percent in 2020 compared to the growth of 4.0 percent in 2019. China and India both are projected to grow by 8.0 percent and 9.5 percent respectively in 2021.

1.1.2 Inflation

Inflation has increased in advanced as well as emerging and developing economies. 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 5.1 percent in 2020 compared to 5.1 percent in 2019 (WEO, Oct 2021, IMF).

Figure 1.1: Consumer Price



The IMF projects inflation pressure in 2021. In advanced economies, consumer inflation is projected to increase by 2.8 percent and inflation in emerging and developing economies is projected to remain at 5.5 percent.

1.1.3 Trade

Word trade volume (goods and services) contracted by 8.2 percent in 2020 compared to a growth of 0.9 percent in 2019. In 2020, the advanced economies experienced a contraction in import volume by 9.0 percent, and emerging and developing economies experienced a contraction of 8.0 percent. Likewise, the exports volume of advanced economies declined by 9.4 percent, and such volume declined by 5.2 percent in emerging and developing economies.

Global trade activities are projected to recover in 2021. Import volume in advanced economies is expected to expand by 9.0 percent and import volume in emerging and developing economies is projected to expand by 12.1 percent. Similarly, exports of advanced economies is projected to grow by 8.0 percent, and such growth is projected 11.6 percent in emerging and developing economies.

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 59.1 percent in 2021.

1.1.5 Fiscal Balance and Public Debt

Fiscal policy continues to be accommodative since the COVID-19 pandemic which has resulted in the rise of deficit and public debt levels globally. As a result of the fiscal relief programs implemented by the governments globally, the overall fiscal balance is estimated to reach -10.8 percent in advanced economies, -9.6 percent in emerging market economies, and -5.2 percent in low-income developing economies. Likewise, public debt as a percent of GDP reached 98.6 percent in 2020 globally compared to 83.6 percent a year ago (Fiscal Monitor, Oct 2021, IMF).

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

Economies	Overall Fiscal Balance			Gross Debt		
	2019	2020	2021	2019	2020	2021
Advanced Economies	-3.0	-10.8	-8.8	103.8	122.7	121.6
Advanced Euro Area	-0.6	-7.2	-7.7	83.7	97.5	98.9
Emerging Asia	-5.9	-10.8	-7.9	57.3	67.3	70.1
Emerging Europe	-0.7	-5.6	-3.2	29.2	38.0	36.6
Low-Income Developing Countries	-3.9	-5.2	-5.4	44.2	49.9	50.2
World Economy	**-3.8**	**-10.2**	**-7.9**	**83.6**	**98.6**	**97.8**

Source: Fiscal Monitor, Oct 2021, IMF

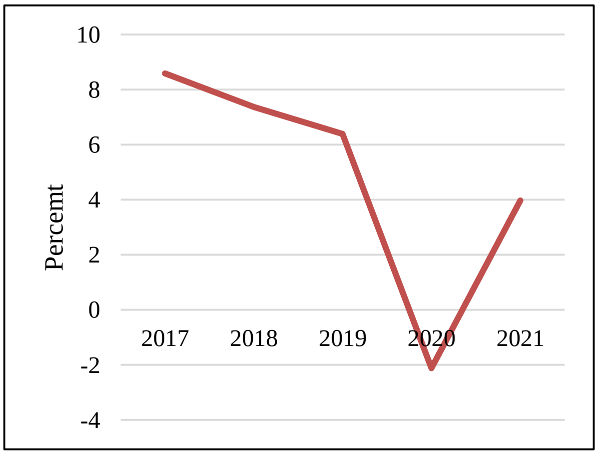
1.2 Domestic Macroeconomic Development

The growth of Nepalese economy remained moderate in 2020/21 despite the ongoing COVID-19 pandemic. Likewise, inflation also remained moderate and the external sector was resilient.

1.2.1 Economic Growth

According to the preliminary estimates of the CBS, growth rate of Nepalese economy stood at 4.0

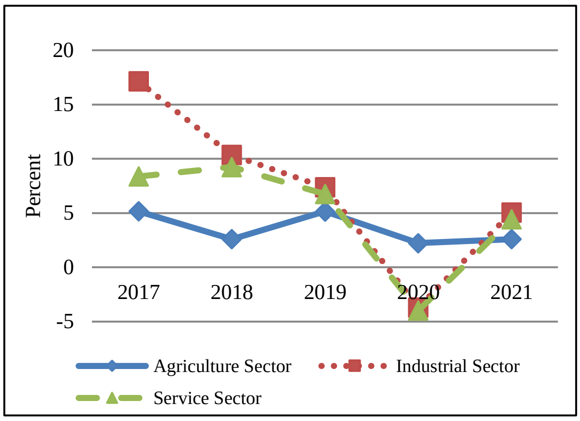
Figure 1.2: Real GDP Growth



percent in 2020/21 compared to -2.1 percent of 2019/20.

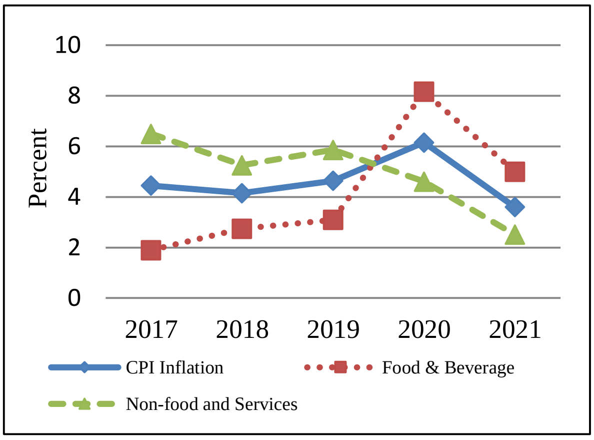
In the review year, the agriculture sector expanded by 2.6 percent compared to a growth of 2.23 percent in 2019/20. On the other hand, non-agricultural sector contracted by 4.57 percent compared to a growth of 3.91 percent in 2019/20. Under non-agriculture sector, industry sector increased by 5.05 percent and services sector by 4.43 percent. Such growth rates were -3.69 percent and -3.97 percent respectively in 2019/20.

Figure 1.3: Sectoral GDP Growth



1.2.2 Inflation

Figure 1.4: Changes in Consumer Price Index



Annual average consumer price inflation increased 3.6 percent in 2020/21 compared to 6.15 percent in the previous year.

Average food inflation increased 5.80 percent in 2020/21 compared 8.61 percent a year ago, the non-food inflation decreased 2.51 percent in the review year compared to 4.61 percent a year ago.

1.2.3 Government Finance

In 2020/21, government revenue increased by 18.2 percent to Rs.938.32 billion, compared to a decline of 4.3 percent in 2019/20. Of the total revenue, the share of tax revenue and non-tax revenue stood at 92.73 percent and 7.23 percent, respectively in the review year. In the previous year, such share was 88.2 percent and 11.8 percent, respectively.

Government expenditure increased by 8.2 percent to Rs.1,180.95 billion in 2020/21. In 2019/20, such expenditure had declined by 1.7 percent. During the review year, recurrent expenditure increased by 8.6 percent. The capital expenditure in 2020/21 increased by 20.7 percent to Rs.228.30 billion which had contracted by 21.7 percent in the previous year. The capital expenditure in the review year accounted as 64.7 percent of its allocation.

Figure 1.5: Government Expenditure and Revenue growth

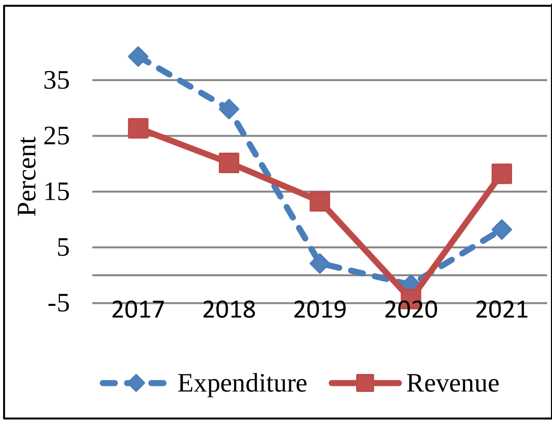
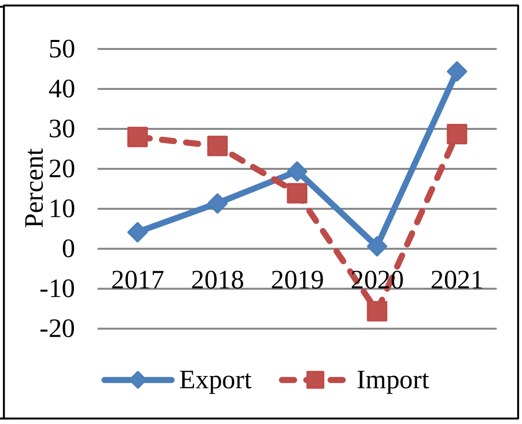


Figure 1.6: Export and Import Growth



1.2.5 External Sector

COVID-19 pandemic has affected both exports and imports in 2020/21. Merchandise exports grew by 44.4 percent to Rs.141.12 billion compared to a growth of 0.6 percent in the previous year. In the review year, while exports to India increased by 51.7 percent, exports to China decreased by 14.7 percent, and exports to other countries increased by 27.7 percent. Total merchandise exports as a percentage of GDP remained at 3.31 percent in the review year.

Merchandise imports increased by 28.7 percent to Rs.1,539.84 billion, in the review year as against the growth of 15.6 percent in the previous year. In the review year, imports from India, China and Other countries increased by 32.1 percent, 28.6 percent and 19.6 percent, respectively. Total import-to-GDP ratio increased to 36.1 percent in the review year from 30.57 percent of the previous year.

Merchandise trade deficit increased by 27.3 percent to Rs.1398.71 billion in 2020/21. The export-import ratio increased to 9.2 percent in the review year from

8.2 percent in the previous year. Total merchandise trade deficit as percentage of GDP increased to 32.78 percent in 2020/21 from 28.08 in the previous year.

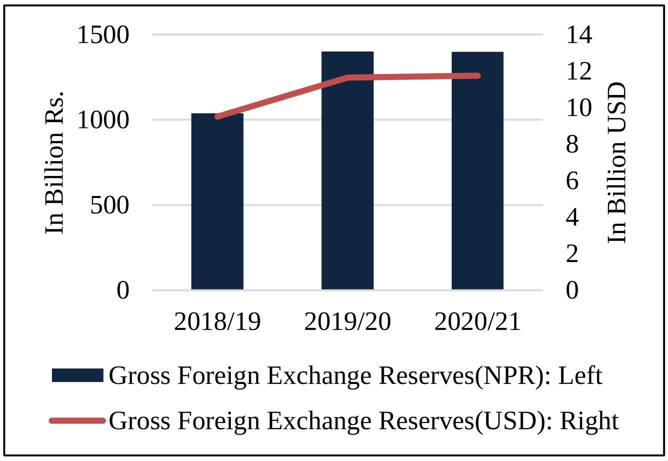
In the review year, total services receipts and expenses decreased by 49.4 percent and 3.4 percent respectively. As a result, net services account remained at a deficit of Rs.72.85 billion compared to a deficit of Rs.964.7 million in the previous year.

Workers' remittances increased by 9.8 percent to Rs.961.05 billion, compared to a decline of 0.5 percent in the previous year. The ratio of workers' remittances to GDP increased to 22.53 percent in 2020/21 from 22.35 percent in 2019/20. Net transfer receipts increased by 9.1 percent to Rs.1071.35 billion in 2020/21 compared to a decline of 1.5 percent in the previous year.

The inflows under capital transfer stood at Rs.15.26 billion and net foreign direct investment stood at Rs.19.51 billion in the review year. In the previous year, capital transfer and FDI inflows stood at Rs.14.21 billion and Rs.19.48 billion respectively.

Gross foreign exchange reserves decreased by 0.2 percent to Rs.1399.03 billion in mid-July 2021 from Rs.1401.84 billion in mid-July 2020. Such reserve is sufficient for financing the import of goods and services of 10.7 months. In US dollar terms, foreign exchange reserves stood at USD 11.75 billion in mid-July 2021 compared to USD 11.65 billion in mid-July 2020.

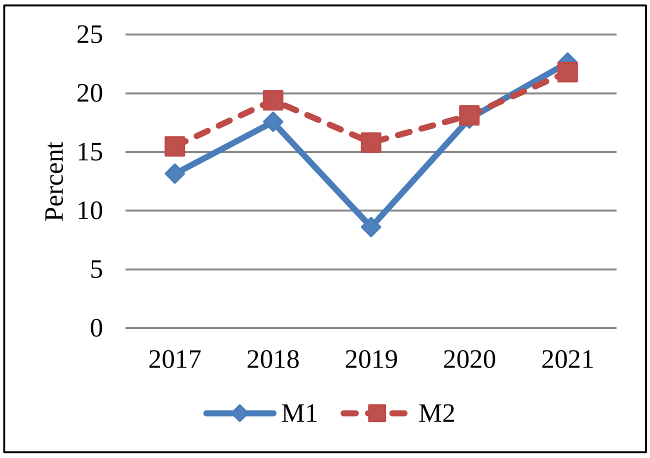
Figure 1.7: Foreign Exchange Reserve Situation



Foreign assets and liabilities of the country stood at Rs.1481.12 billion and Rs.1395.04 billion respectively in mid-July 2021. Accordingly, the net International Investment Position remained in a surplus of Rs.86.08 billion in mid-July 2021. Such surplus was Rs.248.67 billion in mid-July 2020.

1.2.4 Monetary Sector

Figure 1.8: Money Supply Growth



Broad money (M2) increased by 21.8 percent in 2020/21 compared to 18.1 percent growth in the previous year. Likewise, narrow money (M1) increased by 22.6 percent in the review year compared to 17.8 percent in the previous year.

In 2020/21, Net Foreign Assets (NFA) increased by 0.1 percent compared to 28.7 percent growth in the previous year. Reserve money increased by 5.2 percent in 2020/21 percent compared to an increase of 26.7 percent in the previous year.

In the review year, Rs.438.28 billion liquidity was injected through open market operations. Similarly, Rs.303.29 billion was mopped up through open market operations. The BFIs used Rs.370.34 billion standing liquidity facility (SLF) in 2020/21. Likewise, NRB injected net liquidity of Rs.428.54 billion through a net purchase of USD 3.62 billion from the foreign exchange market and purchased Indian Currency (INR) equivalent to Rs.535.23 billion through the sale of 4.54 billion USD.

Recent Macroeconomic Development

This box summarizes the recent macroeconomic development in the first eight months of the fiscal year 2021/22.

- The y-o-y consumer price inflation stood at 7.14 percent in the eighth month of 2021/22. Such inflation was 3.03 percent a year ago.
- During the eight-month of 2021/22, the total expenditure of the federal government stood at Rs.675.30 billion, which was Rs.571.02 billion during the same period of the previous year. The recurrent expenditure, capital expenditure, and financing expenditure amounted to Rs.538.44 billion, Rs.77.15 billion, and Rs.59.71 billion respectively in the review period. Such expenditures were Rs. 455.82 billion, Rs.79.70 billion, and Rs. 35.51 billion during the same period of the previous year.

- During this period, merchandise exports increased by 82.9 percent to Rs.147.75 billion whereas merchandise imports increased by 38.6 percent to Rs.1308.73 billion.
- Balance of Payments (BOP) remained at a deficit of Rs.258.64 billion in mid-March 2022 against a surplus of Rs.68.01 billion at the same time of the previous year.
- Gross foreign exchange reserves decreased by 18.5 percent and stood at USD 9578.7 million in mid-March 2022 from USD 11752.6 million in mid-July 2021. Based on the imports of eight months of 2021/22, the foreign exchange reserve is sufficient for the merchandise imports of 7.4 months, and merchandise and services imports of 6.7 months.
- Private sector credit from the BFIs increased by 12.8 percent during this period compared to an increase of 17.4 percent in the corresponding period of the previous year. Deposits of the BFIs increased by 4.1 percent in the review period compared to an increment of 11.0 percent in the corresponding period of the previous year.
- In this period, NRB mopped up Rs. 60 billion through reverse repo auction and deposit collection auction whereas Rs.5070.75 billion liquidity was injected through repo, outright purchase and standing liquidity facility (SLF). In the corresponding period of the previous year NRB mopped up Rs.303.29 billion and injected Rs.2.00 billion in the system.
- In the review period, the BFIs interbank transactions amounted Rs.2,367.91 billion out of which Rs.2,108.67 billion was among commercial banks.
- The average base rate of commercial banks stood at 8.98 percent in the eighth month of 2021/22 which was 6.84 percent a year ago. The weighted average deposit rate and lending rate of commercial banks stood at 6.93 percent and 10.60 percent respectively in the review month.
- During the fiscal year 2020/21 the NEPSE index ranged from a minimum 1381.38 to maximum 3025.83. In the current fiscal year 2021/22, the NEPSE index reached the highest level to 3198.60 on August 18, 2021 and with ups and downs, the index stood at 2668.1 in mid-March 2022. In mid-March 2022, stock market capitalization stood at Rs.3782.91 billion.

CHAPTER - II

PERFORMANCE OF FINANCIAL SYSTEM

2.1 Global Financial Stability Overview

The pandemic has created a new challenge in the world economies. The policy measures undertaken by the countries helped to contain the financial stability risk though the loss was massive. In Global Financial Stability Report, October, 2021 IMF has suggested to continue adoption of the fiscal and monetary measures in order to let economy refrain from the economic slowdown. Further, central banks are suggested to provide clear guidance about their future policy stance to prevent an abrupt tightening of financial conditions.

The IMF identified that policymakers are confronted with a challenging trade-off: maintaining near-term support for the global economy while preventing unintended consequences and medium-term financial stability risks. At the same time there is increased financial risk-taking and rising fragilities in the nonbank financial institutions sector. The report has warned that if left unchecked, these vulnerabilities may evolve into structural legacy problems, putting medium-term growth at risk and testing the resilience of the global financial system.

The IMF report also states that central banks should provide clear guidance about their future policy stance to prevent an abrupt tightening of financial conditions. If price pressures turn out to be more persistent than currently expected, monetary authorities should act decisively to prevent an unmooring of inflation expectations. Fiscal policy should continue to support vulnerable firms and individuals. Given policy space, fiscal measures should be targeted and tailored to country characteristics and needs. Policymakers should tighten selected macro prudential tools to tackle pockets of elevated vulnerabilities while avoiding a broad tightening of financial conditions. To foster the growth of the sustainable fund sector and mitigate potential financial stability risks stemming from the transition to a green economy, policymakers should urgently strengthen the global climate information architecture (data, disclosures, sustainable finance classifications).

2.2 Overview of Nepalese Financial System

2.2.1 Financial Ecosystem of Nepal

Nepalese financial ecosystem comprises different financial players who are closely interacting for fulfilling the financing needs of economy. The basic financial need of economy is to maintain adequate liquidity in the system to achieve financial stability. NRB is the regulator of banking sector which comprises Commercial Banks, Development Banks, Finance Companies, MFIs and Infrastructure Development Bank. The 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, Securities Dealers and depository participants. Likewise, insurance companies are under the purview of Insurance Board and cooperatives fall under the jurisdiction of Department of Cooperatives, GoN. 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 EPF, CIT, Postal Saving Banks and SSF.

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, it can be expected that gradual increment in the level of interconnectedness would have impact in domestic financial system however there are some areas which are relatively more vulnerable to such crisis, workers' remittance, merchandise export, foreign aid, foreign direct investment and tourism are the areas that are highly exposed to financial risk in Nepal. While there are benefits of deeper integration, it also possesses some risks. The domestic financial system is gradually connecting to international market players as they can borrow foreign loan, accept the foreign bank guarantee, invest in derivative instruments, involve in forward contract, etc. Nepalese financial regulators are 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.

The financial ecosystem can be considered sound if the players are performing well and risk are properly identified and managed. The efficient, effective, transparent and inclusive financial ecosystem is the desirable in the economy which are able to collect and mobilize the best available financial resources in an efficient manner. 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

Banking, in Nepal, started in 1937 AD with the establishment of Nepal Bank Limited. Following the financial liberalization policy, adopted since the mid-1980s and restoration of democracy in 1990 AD, there has been proliferation of the number of BFIs and insurance companies in the 1990s. In the current situations, regulators are focusing on establishment of new financial institutions as per need of economy. The number of BFIs has started to decrease after NRB started to promote merger and acquisitions to strengthen financial system. Likewise, other financial institutions licensed from SEBON, Insurance Board of Nepal and other entities marginally increased in last three years.

As of mid-July 2021, the total number of BFIs stood at 134 comprising 27 Commercial Banks, 18 Development Banks, 17 Finance Companies, 70 MFIs, 1 Infrastructure Development Bank and 1 HIDCL. There are 19 Life Insurance Companies, 20 Non-Life Insurance Companies and 2 Reinsurance Companies operating in mid-July 2021. Likewise, there are 1 Stock Exchange, 1 Central Depository Company, 50 Stock Brokers, 15 Mutual Funds, 2 Credit Rating Agencies, 76 Depository Participants, 87 Qualified Institutional Buyer and 1 Stock Dealer, in operation, licensed by SEBON as of mid-July 2021. Besides these financial institutions, NBFIs in the form of EPF, CIT, DCGF, SSF and a Postal Saving Bank are also in operation.

Table 2.1: Number of Financial Institutions

	2017	2018	2019	2020	2021
Commercial Banks	28	28	28	27	27
Development Banks	40	33	29	20	18
Finance Companies	28	25	23	22	17^{+}
Microfinance Financial Institutions	53	65	90	85	70
Infrastructure Development Bank	-	-	-	1	1
Hydroelectricity Investment and Development Company Ltd.	1	1	1	1	1
Sub-Total	**150**	**152**	**171**	**156**	**134**
Life Insurance Companies	9	18	19	19	19
Non-Life Insurance Companies	17	20	20	20	20
Reinsurance Company	1	1	1	1	2
Sub Total	**27**	**39**	**40**	**40**	**41**

Stock Exchange	1	1	1	1	1
Central Depository Company	1	1	1	1	1
Stock brokers	50	50	50	50	50
Merchant Bankers	24	25	30	32	30
Mutual Funds	9	9	9	14	15
Credit Rating Agencies	1	2	2	2	2
Depository Participants	65	70	72	76	79
ASBA BFIs	0	65	52	52	52
Qualified Institutional Investor	-	-	-	-	87
Stock Dealer	-	-	-	-	1
Sub-Total$	**86**	**88**	**93**	**100**	**187**
Employees Provident Fund	1	1	1	1	1
Citizen Investment Trust	1	1	1	1	1
Postal Saving Bank	1	1	1	1	1
Deposit and Credit Guarantee Fund	1	1	1	1	1
Credit Information Center Limited	1	1	1	1	1
Social Security Fund	-	-	-	1	1
Sub-Total	**5**	**5**	**5**	**6**	**6**
Total $	**268**	**284**	**309**	**302**	**333**

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

+ including 2 problematic finance companies

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

Institutions	*(Amount In Billion Rupees)*				
	2017	**2018**	**2019**	**2020**	**2021**
Commercial Banks	2,621.23	3,104.27	3,687.33	4,413.57	5420.35
Development Banks	305.07	374.70	486.31	413.42	521.95
Finance Companies	82.60	96.01	112.54	126.75	126.68
Microfinance Financial Institutions	133.91	175.61	273.02	325.16	445.50
Infrastructure Development Bank	-	-	13.15	13.97	24.42
Cooperatives	396.53	388.13	491.93	383.14	383.14
Employees Provident Fund	251.28	292.16	346.64	388.71	444.47

Citizen Investment Trust	99.10	114.06	148.90	180.71	197.67
Insurance Companies	185.89	260.31	347.15	437.32	542.65
Reinsurance Company	6.85	10.04	12.14	15.09	29.33
Social Security Fund				28.96	38.69
Total	**4,082.4***	**4,815.29***	**5,905.96***	**6,726.80**	**8174.85**
Market capitalization (NEPSE)	1,856.82	1,435.13	1,567.5	1,792.76	4010.96
Total (incl. market capitalization)	**5,939.28**	**6,250.42**	**7,473.43**	**8,515.30**	**12,185.81**
Percentage Share (Excluding NEPSE Market Capitalization)					
Commercial Banks	64.00	64.29	62.26	65.65	66.31
Development Banks	7.45	7.76	8.21	6.14	6.38
Finance Companies	2.02	1.99	1.90	1.83	1.55
Microfinance Financial Institutions	3.27	3.64	4.61	4.84	5.45
Infrastructure Development Bank	-	-	-	0.20	0.30
Cooperatives	9.68	8.04	8.30	5.70	4.69
Employees Provident Fund	6.14	6.05	5.85	5.79	5.44
Citizen Investment Trust	2.42	2.36	2.51	2.69	2.42
Insurance Companies	4.54	5.39	5.86	6.51	6.64
Reinsurance Company	0.24	0.21	0.20	0.22	0.36
Social Security Fund	-	-	-	0.43	0.47
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 FINGOs as well as licensing of* Infrastructure Development Bank.

The share of BFIs in total assets of the financial system stood at 79.99 percent in mid-July 2021 compared to 78.66 percent in the previous year. The commercial banks remained the key player in the financial system occupying 66.31 percent of the system's total assets followed by insurance companies (6.64 percent), development banks (6.38 percent), MFIs (5.45 percent) and Employee Provident Fund (5.44). The share of Infrastructure Development Bank stood at 0.30 percent.

In case of contractual saving institutions, insurance companies have largest shares of total assets of financial system having 6.64 percent share, followed by EPF (5.44 percent), CIT (2.42 percent), and Reinsurance Company (0.36 percent) as of mid-July 2021. These figure stood at 6.51 percent, 5.79 percent, 2.69 percent and 0.22 percent in the previous year. The share of cooperatives in total financial system stood at 4.69 percent in mid-July 2021 compared to 5.70 in mid-July 2020.

The market shares of commercial banks, MFIs and insurance companies in terms of total assets are in increasing trends in last five years whereas same has been in decreasing trend for development banks, finance companies, EPF and CIT.

Figure 2.1: Total Assets and Growth

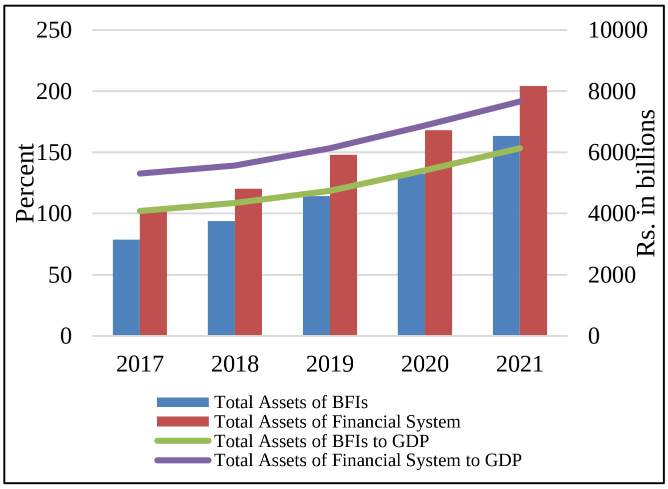
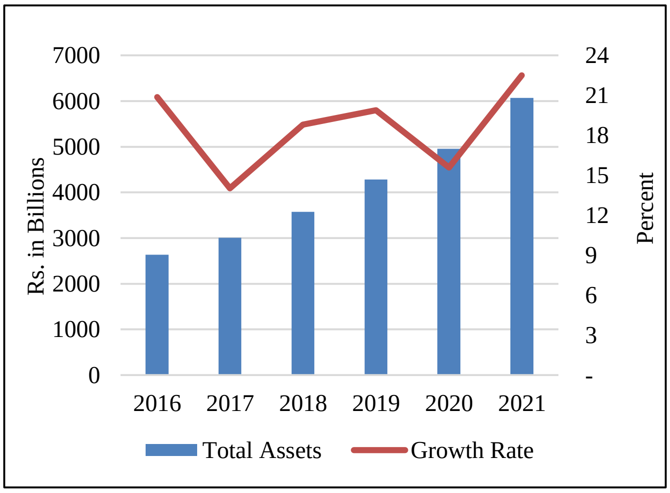


Figure 2.1 depicts the size of Nepalese financial system and BFIs compared to GDP. The ratio of total assets of the financial system to GDP, which has been continually rising, reached 191.61 percent in mid-July 2021. Total assets of BFIs remained at 142.25 percent of GDP where the ratio of commercial banks, development banks, finance companies, MFIs and cooperatives are 127.05 percent, 12.23 percent, 2.97 percent, 10.44 percent and 8.98 percent respectively. Further, such ratio for contractual saving institutions stood at 29.37 percent comprising 10.42 percent of EPF, 4.63 percent of CIT, and 12.72 percent of insurance companies in mid-July 2021.

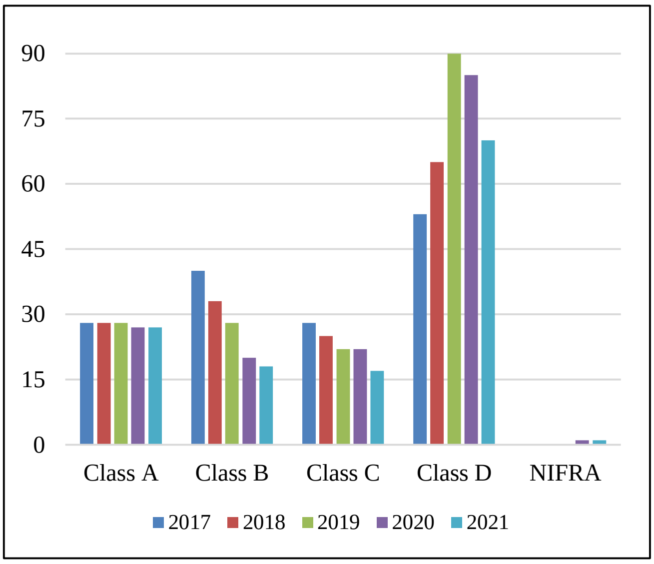
2.2.3 Size of the Bank and Financial Institutions

Figure 2.2: Total Assets and Growth of BFIs



The value of bank assets of Nepalese BFIs continuously increased in last one decade, despite some fluctuations. In 2021, the assets of BFIs amounted to Rs.6,068.98 billion, up from a value of 4,953.74 billion as of 2020. There has been significant expansion of the balance sheet of BFIs mainly due to the increment in deposit and credit. Increase in deposit is mainly driven by the increase in banking habits, expansion in banking outreach, supported by the wider adoption of information technology, and increasing remittance inflows. The increment in credit of the BFIs is driven by expansion of full-fledged banking services in the local bodies of nation, increase in financial literacy and awareness supported by BFIs.

Figure 2.3: Number of BFIs



The number of BFIs licensed from NRB has significantly decreased in last three years. The number of BFIs was 170 in mid-July 2019 and it is 133 in mid-July 2021. The number of development banks, finance companies and MFIs have significantly decreased in this period. The number of development banks, finance companies and MFIs stood at 18, 17 and 70 respectively in mid-July 2019. These numbers were 29, 23 and 90 respectively in mid-July 2021.

2.2.4 Sectoral Credit Distribution by the Banking Sector

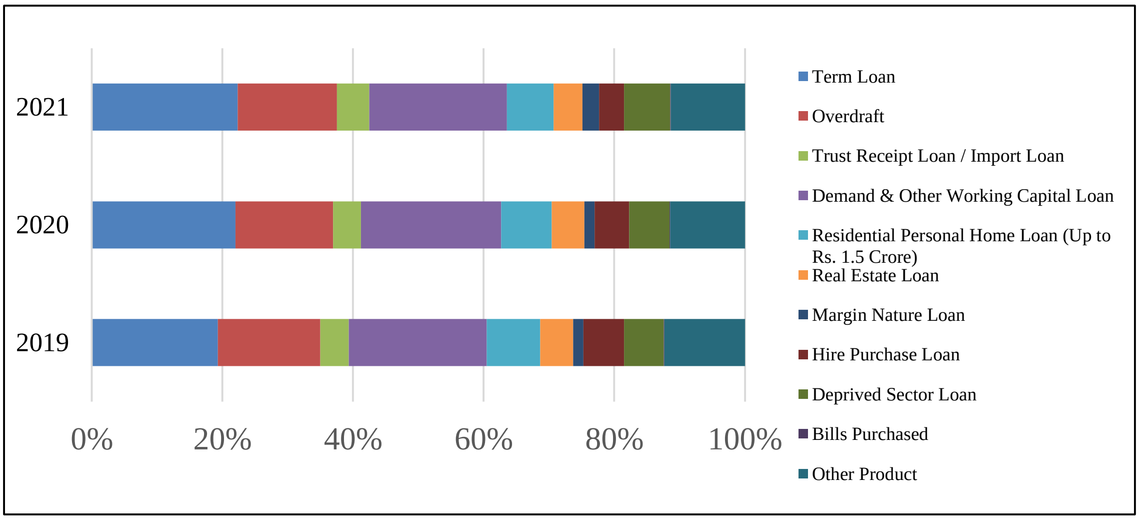
Economic activities of Nepal have been classified into fifteen sectors under SNA 1993. Of the total credit outstanding, as of mid-July 2021, the highest concentration was observed in wholesaler and retailer sector with 20.07 percent, followed by agriculture, forestry and beverage production related (16.45 percent), other services (15.38 percent), construction (9.92 percent) and finance, insurance and real estate (8.08 percent). Around 70 percent of total credit of BFIs concentrated in these five sectors. Concentration of lending to a certain sector exposes banks to credit concentration risk. Hence, NRB has made mandatory provision of lending to some specified sectors to bolster economic activities in those sectors. As a result, BFIs have been slowly diversifying their portfolios and are actively lending into these sectors.

Table 2.3: Credit Distribution in the Banking System (Mid July 2021)

Sector	Percent
Agricultural and Forest Related	6.56
Fishery Related	0.21
Mining Related	0.21
Agriculture, Forestry & Beverages Production Related	16.45
Construction	9.92
Electricity, Gas and Water	4.98
Metal Products, Machinery & Electronic Equipment & Assemblage	1.50
Transport, Communication and Public Utilities	2.34
Wholesaler & Retailer	20.07
Finance, Insurance and Real Estate	8.08
Hotel or Restaurant	4.41
Other Services	4.24
Consumption Loans	5.60
Local Government	0.04
Others	15.38
TOTAL	**100.00**

As per the product-wise portfolio, BFIs have made highest lending in term loan (22.34 percent) followed by demand and working capital loan (21.09 percent) and overdraft (15.20 percent). The real estate loan has come below the regulatory requirement of 10 percent, standing at 4.40 percent in mid-July, 2021. Figure 2.4 depicts the product-wise lending of BFIs as of mid-July 2021.

Figure 2.4: Product wise Lending of BFIs



2.2.5 Real Estate Lending and Residential Home Loan

The banking system has gradually reduced its high exposures in real estate after the introduction of some macroprudential measures. The real estate exposure amounted to Rs.183.54 billion which accounts for 4.40 percent of total loan outstanding in mid-July 2021. Such exposure was about Rs.163.48 billion (5.01 percent of the total outstanding loan) in mid-July 2020.

Figure 2.5: Real Estate Lending and Residential Home Loan of BFIs

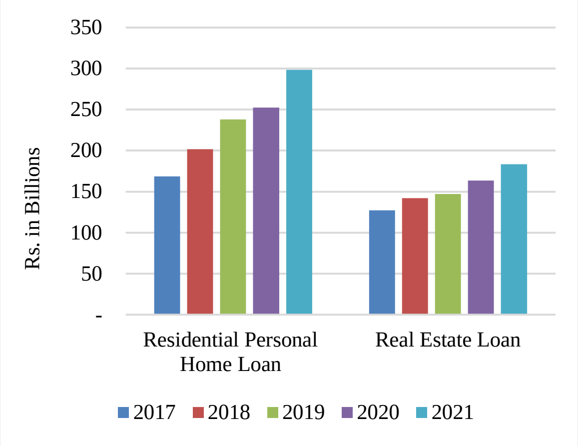
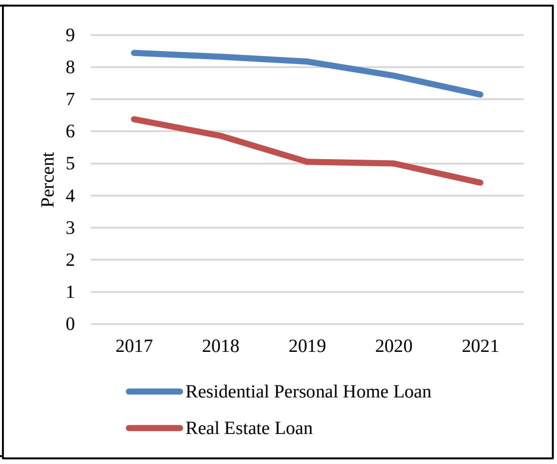


Figure 2.6: Real Estate Lending and Residential Home Loan of BFIs to Total Loan ratio

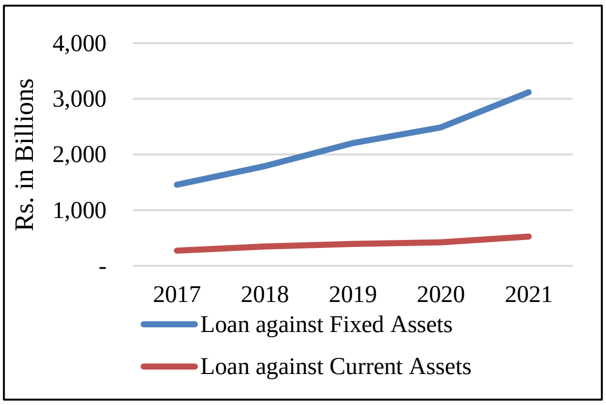


NRB has adopted some macroprudential measures to address real estate lending such as caps on real estate loans and loan-to-value ratio (LTV). NRB has directed BFIs to limit their real estate and housing loan exposure to 25 percent of their total loans and land purchase and development to 10 percent. The BFIs are also required not to provide loans exceeding 50 percent of fair market value of the collateral/project outside Kathmandu valley and 40 percent inside Kathmandu valley.

Commercial banks' exposure to real estate and housing loans has declined from 19.40 percent in mid-July 2010 to 4.28 percent in mid-July 2021. Development banks and finance companies have lent 4.55 percent and 9.61 percent, respectively of their total loan portfolios to real estate and housing in mid-July 2021.

2.2.6 Loan Against Collateral of Fixed Assets

Figure 2.7: Loan Classification based on Collateral



BFIs have lent 74.75 percent of their total loans against collateral of fixed assets in mid-July 2021. Commercial banks have lent 73.75 percent, development banks and finance companies have lent respectively 83.26 percent and 80.79 percent of their total loan portfolio against collateral of fixed assets in mid-July 2021. These ratios were 74.87 percent, 89.60 percent and 76.54 percent of Commercial banks, development banks and finance companies respectively in mid-July 2020.

2.3 Financial Soundness Indicators

2.3.1 Capital Adequacy

The capital position of the Nepalese BFIs seems resilient. Capital adequacy during the pandemic is also found satisfactory. The overall Capital Adequacy Ratio (CAR) of BFIs was above 14 percent in the last five years, which is above the regulatory requirement which 11 percent for commercial bank and 10 percent for development bank and finance company. The CAR of commercial banks, development banks, and finance companies was 14.13 percent, 13.14 percent, and 22.04 percent respectively in mid-July 2021. The CAR of commercial banks and finance companies increased marginally whereas the CAR of development banks decreased marginally in the last one-year period. The CAR of commercial banks, development banks, and finance companies were 14.01 percent, 14.42 percent and 19.59 percent, respectively, in mid-July 2020. The CAR of BFIs which remained well above the regulatory requirements indicates that the banking system's capital soundness is in a strong position.

In the review year, the capital fund of BFIs increased by 14.39 percent in a year and reached Rs.558.52 billion in mid-July 2021. Such increment was 9.38 percent in the previous year. The capital fund is composed of paid-up capital (Rs.365.82 billion), statutory reserves (Rs.105.95 billion), retained earnings (Rs.12.33 billion) and other reserves (Rs.74.22 billion). The paid-up capital has contributed around 65 percent of the capital fund whereas retained earning has contributed only around 2 percent in mid-July 2021.

Figure 2.8: Capital Adequacy Ratio-1

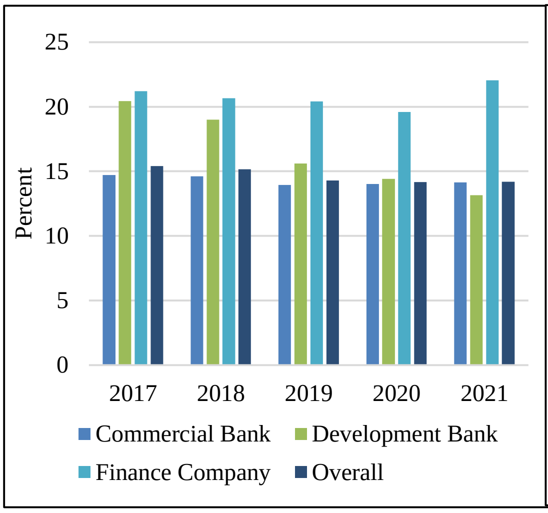
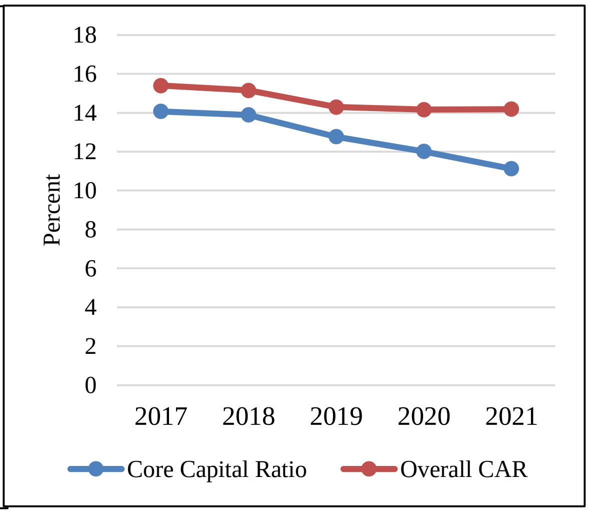


Figure 2.9: Capital Adequacy Ratio-2



2.3.2 Assets Quality

The loan and advances occupies around 70 percent of total assets of Nepalese BFIs (68.78 percent in mid-July 2021). The interest and other commission/charges on loan and advances are a key component of BFI's profit. Thus, the risk of the loan default is the main risk of BFIs.

Against the assumption that lockdown will badly hit the asset quality of BFIs, measured by NPL it remained stagnant in the review year compared to previous year. NPL of BFIs was recorded as Rs.61.59 million and Rs.61.65 million in mid-July 2020 and mid-July 2021 respectively. Timely and easy restructuring and rescheduling facility provided by NRB for COVID-19 impacted sectors helped to contain the NPL. The COVID-19 related restructuring and rescheduling stood at Rs.96.74 million which is around 1.5 times of NPL in the FY 2020/21. In addition to this, NRB had provided some reliefs in the form of deferral and discount on interest payments and they play a crucial role in maintaining the quality of the overall assets in the banking system. In terms of ratio of NPL to total loans, the banking sector showed improved assets quality indicating the banking sector's resilience toward vulnerable risk assets. NPL to total loans of BFIs decreased by 0.41 percentage points to 1.48 percent in the review year compared to 1.89 percent a year ago. NPL to total loans of commercial banks decreased by 0.4 percentage points on a y-o-y basis to stand at 1.41 percent in the review year.

Figure 2.10: Non Performing Loans

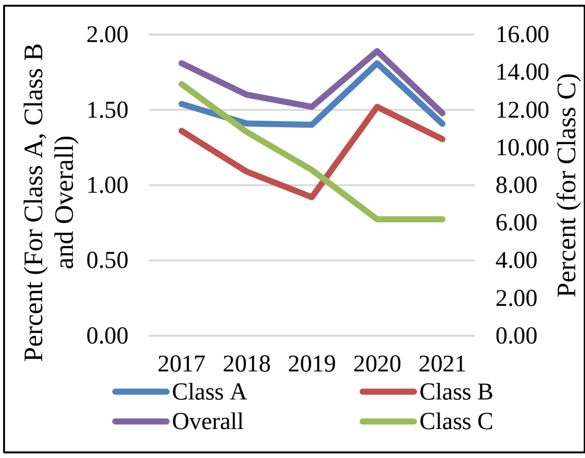
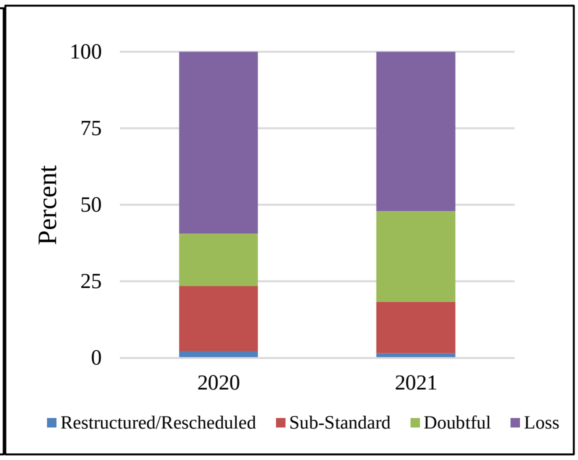


Figure 2.11: Composition of NPL



The growth rate performing loan is 28.24 percent in the review year on a y-o-y basis compared to 0.10 percent increment in non-performing loans. This has showed that the banking sector is maintaining high asset quality even during the pandemic. Although NPL remained stagnant in one year, if we see the composition of NPL, it became slightly better as the doubtful loans decreased and converted into sub-standard. However, bad loans Rs.31.71billion is more than half in total NPL.

2.3.3 Leverage Ratio

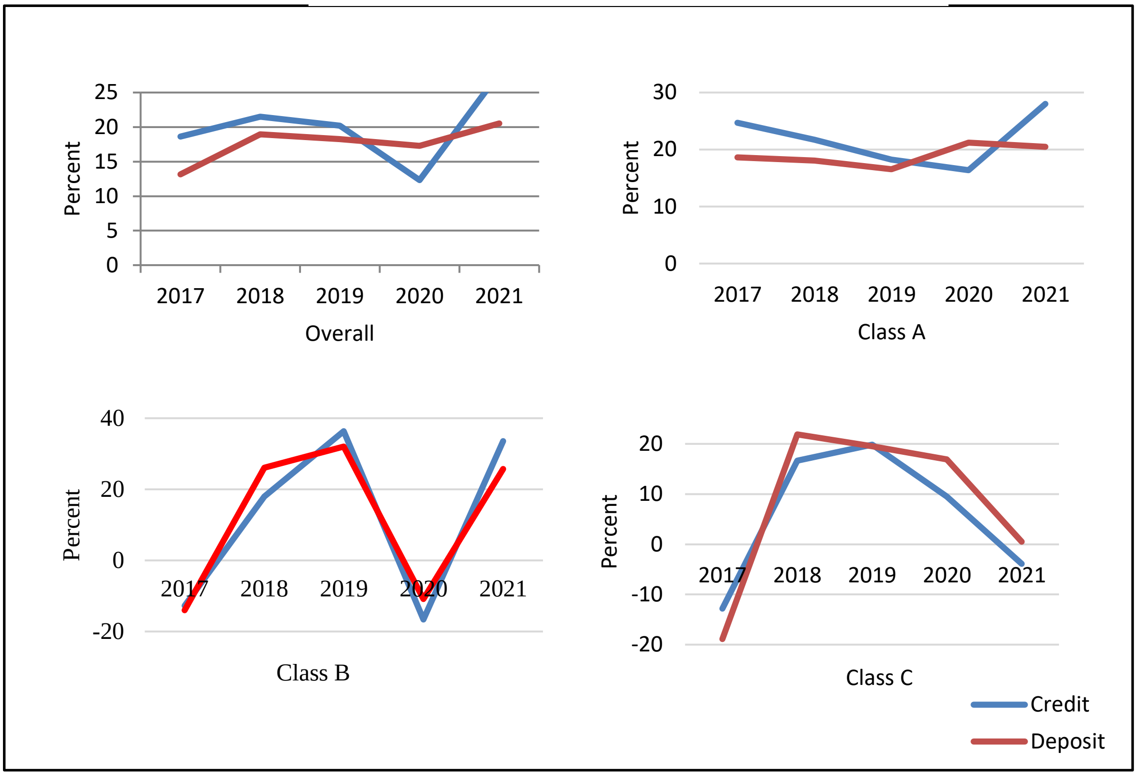
Basel Committee on Banking Supervision (BCBS) has introduced a leverage ratio that is complementary to the risk-based capital framework and aims to restrict the build-up of excessive leverage in the banking sector. Basel III has set a minimum leverage ratio of 3.0 percent at all times whereas NRB has set a leverage ratio of 4.0 percent for commercial banks. The leverage ratio of commercial banks stood at 7.36 percent and all commercial banks have the leverage ratio above the mandatory requirements in the review period.

2.3.4 Credit and Deposit Growth

Credit growth stood higher than deposit growth in four years out of the last five years. One exception has occurred in FY 2019/20, which may be due to COVID-19 pandemic and government-imposed restrictions. Credit flows from BFIs increased by 27.76 percent in the review year compared to a growth of 12.32 percent a year ago. The increase in the rate of growth can be mainly attributed to ease in business activities with the withdrawals of restrictions. Deposit mobilization of BFIs increased by 20.50 percent in the review year compared to a growth of 17.27 percent a year ago.

Credit and deposit are growing more rapidly as compared to GDP, in Nepal, in recent

Figure 2.12: Credit and Deposit Growth



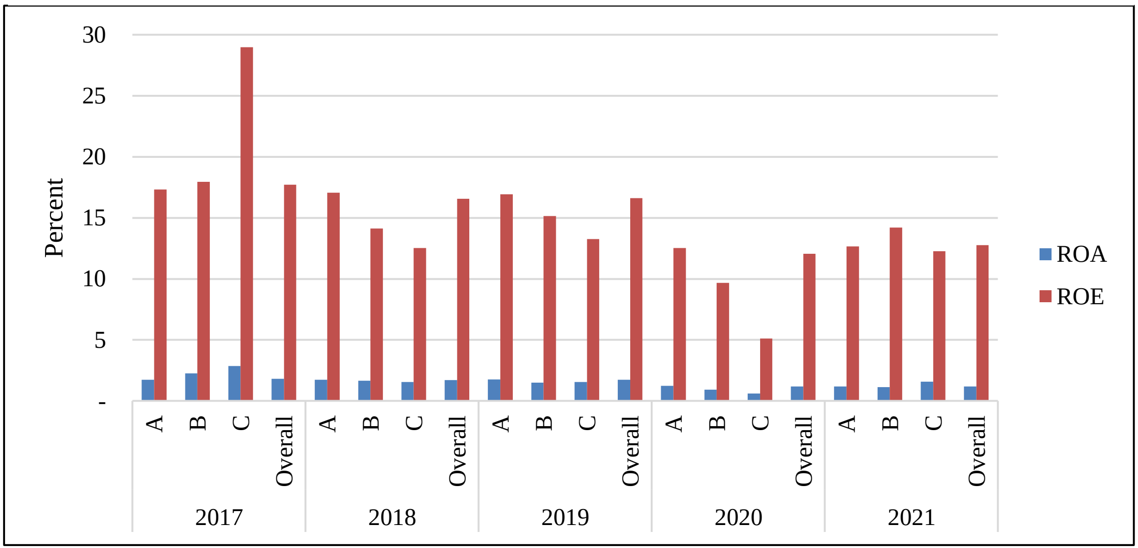
decades. The deposit has surpassed the GDP a year ago and the gap becomes higher in the review year. As of mid-July 2021, the ratio of total deposit to GDP reached 111.10 percent that was 104.43 percent in the previous year. Likewise, the ratio of total credit to GDP reached 97.85 percent, which was 86.88 percent in the previous year. The deposit to GDP ratio and credit to GDP ratio of commercial banks alone is 98.56 percent and 87.18 percent respectively in mid-July 2021.

Overall credit to deposit ratio in the review is at an all-time high in the last five years. The credit deposit ratio is 88.03 percent in mid-July 2021 from 83.21 percent in mid-July 2020.

2.3.5 Profitability

The overall profitability of the banking sector increased by 21.01 percent in the review year and reached Rs.71.30 billion from Rs.58.92 billion in the previous year. Credit

Figure 2.13: ROA and ROE



growth of the BFIs in the review year and the decline in profit seen in last year are the main reasons for this growth in net profit.

The interest margin to gross income stood at 81.18 percent in the review year which was 86.89 percent in the previous year. Interest on loan and advance constituted 91.81 percent in the total interest income in the review year which was 92.73 percent in the last year. Interest income from investment in government bond is the second largest contributor in total interest income. The contribution of interest income from government bonds becomes double in last three years and has reached to 6.26 percent in review year.

Interest income is the major source of income for the BFIs. The banking sector is still highly dependent on traditional activities of lending and deposit mobilization. The gain from exchange fluctuation was 2.38 percent in 2020/21.

Figure 2.14: Profitability ratio of BFIs

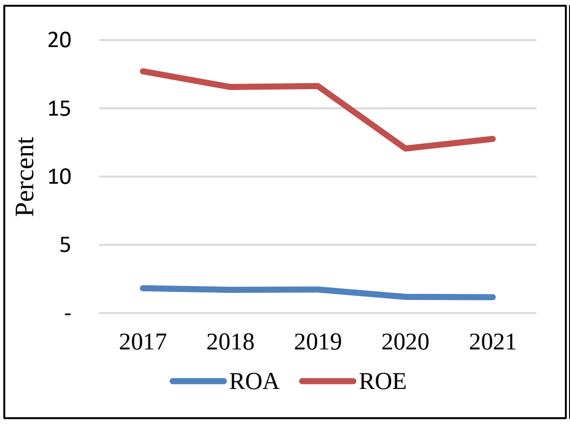
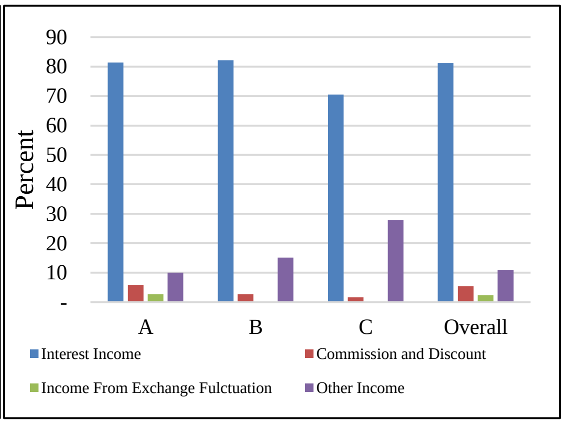


Figure 2.15: Income distributions

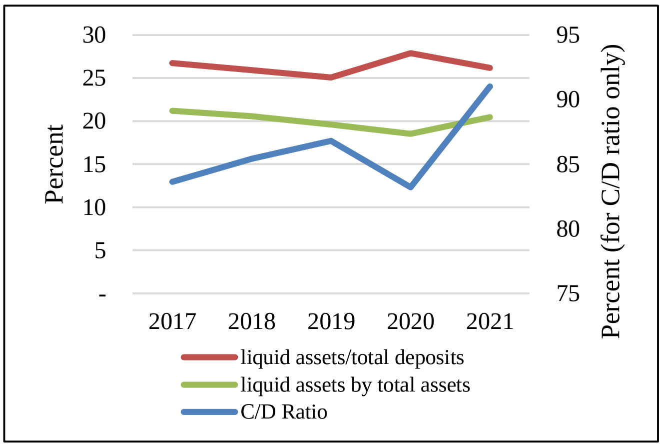


Return on Assets (ROA) also slightly decreased to 1.17 percent from 1.19 percent; whereas ROE increased to 12.76 percent in the review year, from 12.06 percent in the previous year. The Return on Assets (ROA) of commercial banks has slightly decreased in the review year. The ROA of commercial banks stood at 1.17 percent whereas those of development banks and finance companies stood at 1.14 percent and 1.57 percent respectively. Such ratio was 1.23 percent, 0.92 percent, and 0.60 percent respectively in the previous year. The Return on Equity (ROE) of commercial banks has slightly increased in the review year. The ROE of commercial banks stood at 12.66 percent whereas those of development banks and finance companies stood at 14.21 percent and 12.27 percent respectively. Such ratio was 12.52 percent, 9.68 percent, and 5.11 percent respectively in the previous year.

2.3.6 Liquidity

NRB has the mandate and responsibility to maintain adequate liquidity in the system and its timely regulatory interventions is crucial in maintaining the liquidity in the banking sector. The NRB has been using the credit to deposit (CD) ratio, net liquid assets to total deposit ratio, and liquid assets to total assets ratio as gross measures to monitor the liquidity condition in the financial system.

Figure 2.16: Liquidity Position



The total liquid assets to deposit ratio of BFIs stood at 26.18 percent in mid-July 2021 compared to 27.90 percent in the previous year. The total liquid assets to deposit ratios for "A", "B" and "C" class institutions were 25.96 percent, 25.16 percent, and 41.58 percent, respectively, in mid-July 2021. Such ratios were 27.52 percent, 29.49 percent, and 36.40 percent, respectively, in the previous year. Total liquid assets to total assets ratio of BFIs stood at 20.45 percent in mid-July 2021 compared to 18.51 percent in the previous year. The liquid assets to total assets ratio is just above the regulatory requirement of 20 percent level which shows that BFIs are just maintaining the regulatory minimum.

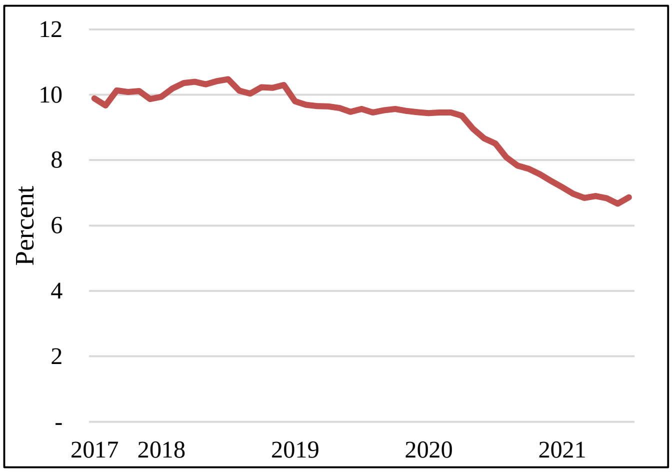
During the period of mid-July 2020 to mid-July 2021, NRB has injected liquidity of amount Rs.50 billion via regular repo, Rs.370.34 billion via statutory liquidity facility, Rs.17.94 billion via interest rate corridor related Repo and Rs.148.75 billion via refinance facilities and absorbed the liquidity of amount Rs.109.54 billion via reverse repo and Rs.193.75 billion via deposit collection.

Table 2.4: Financial Soundness Indicators of BFIs

Indicators	Class A		Class B		Class C		Overall	
	2020	2021	2020	2021	2020	2021	2020	2021
Credit and deposit related indicators								
Total deposit/GDP	92.65	98.56	9.42	10.45	2.36	2.09	104.43	111.10
Total credit/GDP	77.26	87.19	7.63	8.99	2.00	1.68	86.89	97.86
Total credit/ Total deposit	83.39	88.47	81.06	86.02	84.72	80.08	83.21	88.08
CCD Ratio	69.93	76.28	71.84	78.39	68.46	68.41	69.58	76.32
Fixed deposit/Total deposit	47.18	45.65	52.99	54.60	56.01	56.57	47.90	46.70
Saving deposit/Total deposit	31.16	33.92	31.80	31.37	26.85	29.03	31.12	33.59
Current deposit/Total deposit	11.17	11.31	2.61	3.12	2.44	1.44	10.20	10.35
Call Deposit /Total Deposit	9.53	8.05	12.42	10.86	12.03	11.13	9.85	8.37
Assets quality related indicators								
NPL/ Total loan	1.81	1.41	1.52	1.30	6.18	6.19	1.89	1.48
Total LLP/Total loan	2.44	2.42	13.71	2.21	9.00	6.63	3.58	2.48
Res. Per. H. Loan (Up to Rs. 15 mil.)/Total Loan	7.17	6.69	12.21	10.75	12.02	11.12	7.73	7.15
Real estate exposure/Total loan	4.87	4.28	5.09	4.55	9.85	9.60	5.00	4.40
Deprived sector loan/Total loan	6.25	7.43	9.95	14.90	7.86	13.05	6.61	8.25
Cash and bank balance/Total deposit	12.29	9.79	10.40	6.92	16.46	9.42	12.21	9.51
Investment in Gov. security/Total deposit	14.26	15.32	7.92	12.76	9.08	22.99	13.57	15.22
Total liquid assets/Total deposit	27.52	25.96	29.49	25.16	36.40	41.58	27.90	26.18
Capital adequacy related indicators								
Core capital/RWA (percent)	11.78	10.92	13.21	11.77	18.01	19.66	12.01	11.12
Total capital/RWA (percent)	14.01	14.13	14.42	13.14	19.59	22.04	14.16	14.19
Wt. Avg. interest rate on deposit	6.01	8.43			-		-	
Wt. Avg. interest rate on credit	10.11	4.76			-		-	

2.3.7 Base Rate of BFIs

Figure 2.17: Base Rate

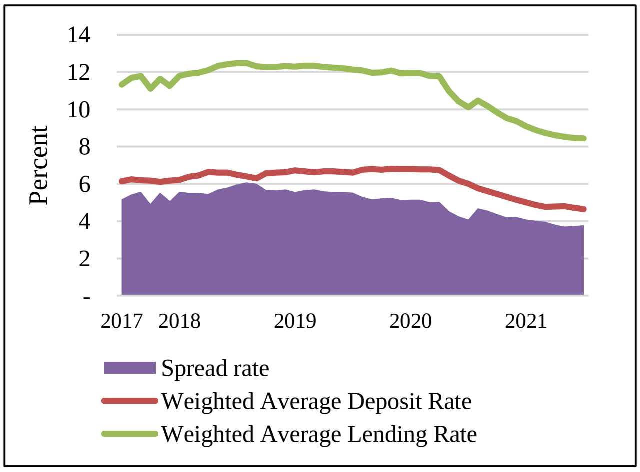


NRB introduced the principle of base rate for commercial banks in 2013 and for development banks and finance companies in 2014 advising the BFIs not to lend, below such rate. The base rate system facilitates BFIs in pricing their adjustable interest rates. Base rate is believed to enhance transparency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

The industry average base rate is lowest in the review period compared to last three fiscal years. The annual average base rate for the review year is 7.23 percent which was 9.86 percent and 9.28 percent in FY2018/19 and FY2019/20 respectively. The monthly average base rate came down and stood at 6.86 percent in mid-July 2021. This can be primarily attributed to the decreased credit demand during the pandemic compared to the increase in deposit mobilization.

2.3.8 Interest Rate Spread

Figure 2.18: Lending, Deposit and Spread Rate



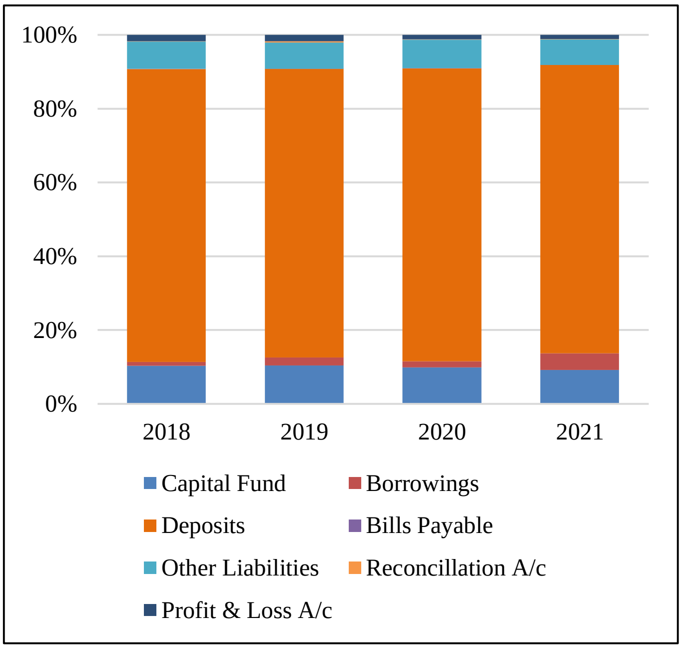
Interest rate spread shows the cost of financial intermediation in a period. The spread, in Nepal, is a function of interest expenses on deposit and interest income from the domestic loan. This also shows the general level of competition in the banking sector, the extent of credit risk, and the managerial efficiency of the concerned bank. 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 monthly.

The overall interest spread of commercial banks gradually decreased in last three years and It stood at 3.78 percent in mid-July 2021. As evident from Figure 2.23, the weighted average lending rate of commercial banks decreased more sharply than weighted average deposit rate in last three years and as a result the interest spread rate decreased. The sharp decline in interest rate has started from the last quarter of the last fiscal year and continued in the FY 2020/21 as well.

2.4 Liability Structure of the Banking Sector

The share of deposit is dominant in the liability structure of BFIs. However, the share of deposit in the liability structure of BFIs in mid-July 2021 has marginally decreased compared to mid-July 2020. The deposit is around 78 percent of the total liabilities as of mid-July 2021. Capital fund has the second-largest share in the liability structure of BFIs. It is around 9 percent of the total liability which has also marginally decreased compared to mid-July 2019. This marginal decrease of deposit and capital funds is contributed by NRB policy to encourage debenture. BFIs borrowing's (mainly in the form of debentures) share is around 5 percent in total liability of BFIs in mid-July 2021 which was around 2 percent in mid-July 2020. Borrowing has increased by more than two folds (237 percent) in the last year.

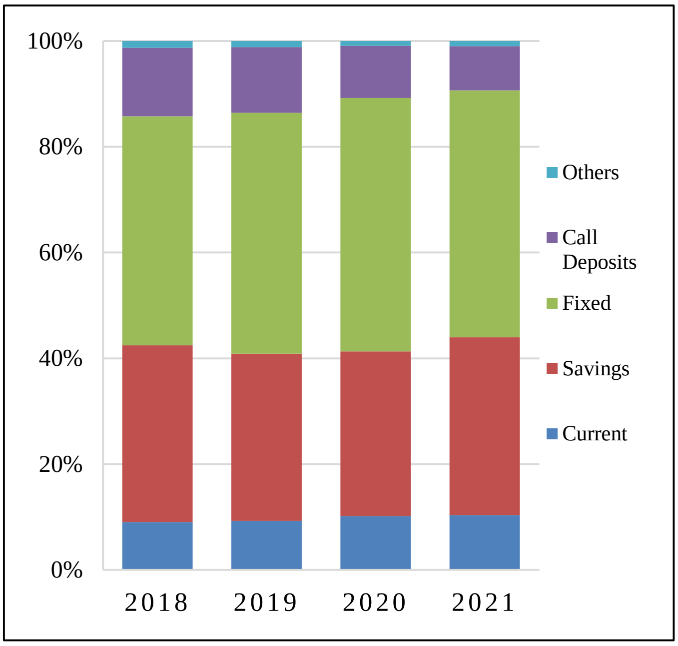
Figure 2.19: Liabilities Structure of BFIs



The share of saving deposit, fixed deposit, call deposit, current deposit, and other deposit in mid-July 2021 stood at 33.59 percent, 46.70 percent, 8.37 percent, 10.35 percent, and 0.99 percent respectively. The relative proportions of such deposit in mid-July 2020 were 31.12 percent, 47.90 percent, 9.85 percent, 10.20 percent and 0.93 percent respectively.

The total deposit of BFIs increased to Rs.4,740.06 billion in mid-July 2021 from Rs.3,933.74 billion a year ago. The share of commercial banks, development banks, and finance companies, in total deposit, stood at 88.71 percent, 9.41 percent, and 1.88 percent respectively in mid-July 2021.

Figure 2.20: Deposit Structure



The share of the top five BFIs in total deposit of banking system stood at 26.64 percent deposit depicting a sizeable concentration of deposit in these institutions. Such a concentration ratio of deposit was 26.23 percent in the previous year. Three state-owned banks hold 12.50 percent of such deposit.

2.5 Banking Sector Consolidation: Merger & Acquisition

Banking sector consolidation is viewed as one of the tools to enhance the capital base, achieve operational efficiency, strengthen the resilience of BFIs and improved cultural exchange. NRB, over the past few years, has been proactive in terms of consolidating BFIs 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 offer opportunities for customer 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.

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.

After the introduction of Merger and Acquisition Bylaw 2073 (B.S.) 229 BFIs have undergone merger and acquisition process, as of mid-July 2021, resulting the decrease in number of BFIs by 171 and forming 58 BFIs. The total number of BFIs licensed by NRB decreased to 133 in mid-July 2021 from 155 in mid-July 2020.

2.6 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.

2.6.1 Efforts of NRB in Expanding Financial Inclusion

Recognizing the need and importance of inclusive growth, NRB has taken several 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 body, expanding the size of deprived sector lending requirement for licensed BFIs, mandatory requirements for them to invest a certain percentage of their total credit in the prioritized sectors, special refinance facility to the 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 2.5: Number of Branches of BFIs

Financial Institutions	Number of Branches		Share (in percent)	
	2020	2021	2020	2021
Commercial Banks	4,436	4,753	45.42	44.49
Development Banks	1,029	1,023	10.53	9.58
Finance Companies	243	222	2.48	2.08
MFIs	4,057	4,685	41.54	43.85
Total	**9,765**	**10,683**	**100**	**100**

Financial access has been increasing with the expansion of the branch network of financial institutions. As of mid-July 2021, the number of a branch of commercial banks has reached 4,753. This was followed by Development Banks (1,023), Finance Companies (222), and MFIs (4,685). In mid-July 2020, the number of such branches of the respective categories of BFIs stood at 4,436; 1,029; 243, and 4,057 respectively. With the direction of the NRB to open at least one commercial bank branch at the local level, along with the increase in branches of BFIs, the total number of BFIs' branches increased by 317 (7.15 percent) in the review year. Consequently, the number of people per BFI branch (excluding MFIs) came down from 5,255 in mid-July 2020 to 5,065 in mid-July 2021. Including MFIs per branch, this number comes further down to 2,844 in mid-July 2021.

An increase in the 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 the 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 2.6: Provincial Distribution of BFI's Branches

Province	A	B	C	D	Total (A+B+C)	Total (A+B+C+D)	Share (in %)	Population (per branch)*
1	728	177	25	783	930	1,713	16.03	5261
Madhesh	549	79	25	954	653	1,607	15.04	9725
Bagmati	1,664	295	95	681	2,054	2,735	25.60	3,184
Gandaki	577	182	33	574	792	1,366	12.79	3,193
Lumbini	726	227	35	1,085	988	2,073	19.40	5,226
Karnali	192	17	3	200	212	412	3.86	8.661
Sudur Paschim	317	46	6	408	369	777	7.27	8,057
Total	**4,753**	**1,023**	**222**	**4,685**	**5,998**	**10,683**	**100.00**	**5,065**

*Excluding MFIs

Looking upon the province-wise distribution, the majority of branches are situated in Bagmati Province, totaling 2,735 (25.60 percent). The second biggest BFI branch density is in Lumbini Province with a total of 2,073 (19.40 percent).

Kathmandu is a highly concentrated district in terms of a number of BFIs' presence, followed by Rupandehi and Kaski. Kathmandu alone has 995 BFIs' branches which are around 17 percent of the total branch. Despite continuous efforts from the NRB in increasing the outreach of financial services in remote areas, the result is still not satisfactory in terms of branch expansion in Karnali Province. As of mid-July 2021, Rukum East and Mugu districts had only 8 branches while Humla and Manang districts had 10 and 12 such branches respectively. 30 low dense BFIs' branch district has only 10 percent of total branches whereas 10 large dense BFIs' branch district has 50 percent of total branches in mid-July 2021.

Investment in Information Technology (IT) 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 the number of internet banking and mobile banking customers.

Table 2.7: Use of Financial Services

Particulars	Class A	Class B	Class C	Total
No. of Deposit Accounts	32,927,622	4,332,374	510,989	37,770,985
No. of Loan Accounts	1,366,442	300,631	35,122	1,702,195
No. of Branchless Banking Centers	1,706	-	-	1,706
No. of Branchless Banking Customers	230,154	-	-	230,154
No. of Mobile Banking Customers	12,638,366	1,500,050	56,423	14,194,839
No. of Internet Banking Customers	1,115,532	37,063	7,726	1,160,321
No. of ATMs	3,983	301	41	4,325
No. of Debit Cards	8,459,435	348,411	32,009	8,839,855
No. of Credit Cards	192,370	-	-	192,370
No. of Prepaid Cards	65,786	-	-	65,786

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 a banking system that can be operated in remote districts while phone-based payment systems have been introduced to enhance convenience in making payments at merchandise outlets. In mid-July 2021, branchless banking centers numbered 1,706. BFIs are encouraged to serve through branchless banking in remote areas.

2.7 Financial Literacy

Financial Literacy is taken as one of the key enablers of financial inclusion. 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 FY 2020/21 as well. Similarly, The NRB and AFI have collaborated efforts in formulating and implementing Financial Literacy Framework, 2020. As a milestone initiative regarding financial literacy the framework prioritizes financial literacy programs to be implemented through BFIs. The NRB had also celebrated global money week, 2021 on request of OECD. The campaign was celebrated by providing awareness interviews in national level televisions and 'NRB with Students' programs.

As financial literacy initiatives, the NRB organizes the programs 'NRB with Students', facilitates the awareness programs through non-governmental organizations to provide awareness about the importance of saving, banking system, risks of fraudulent activities, clean note policies and financial digitalization in regular basis. The 'NRB with Students' has been initiated by the NRB since FY 2013/14. In this program, a team of NRB visits a school to organize a brief presentation on financial literacy, focusing on financial awareness and personal finance and distributes the financial literacy materials to the students.

The NRB has developed various knowledge materials, books and audio visual materials, to promote financial literacy. The NRB has also been working closely with the Ministry of Education to incorporate the issues of financial literacy in formal educational curriculum.

2.8 Financial Consumer Protection

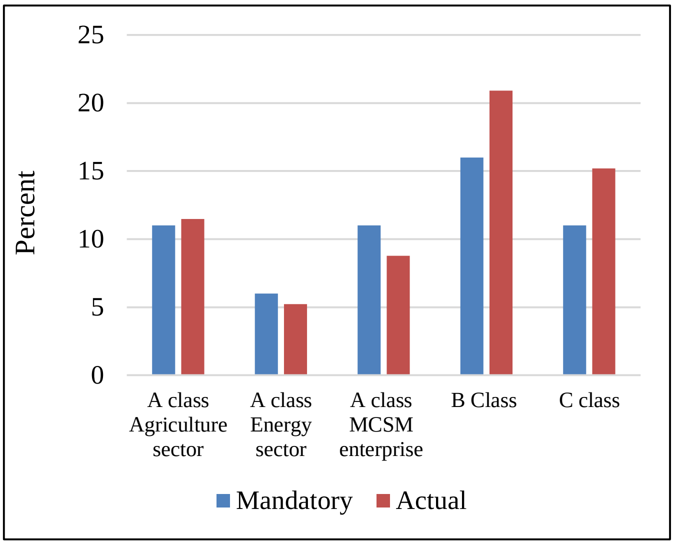
In the fiscal year 2020/21, a total of 214 grievance applications were received through written application and grievance portal. As envisioned by Monetary Policy 2020/21, a separate portal was launched on April 02, 2021, to obtain queries, grievances and suggestions from the general public related to banking services. Grievance portal is accessible from the NRB website, the URL for the same is http://gunaso.nrb.org.np/. A total of 187 grievances were received and solved from the launch of portal till the end of fiscal year 2020/21. Around 350 grievance applications received through telephone, email and *HELLO SARKAR*, were resolved in a year.

2.9 Directed Lending

2.9.1 Specified Sector Lending

It is very essential to channelize the loanable fund to a prioritized sector of the economy, specified by NRB, to promote and support the sustainable economic growth. The monetary policy issued by NRB is designed to ensure adequate credit for the productive sector to support the inclusive economic growth. NRB has mandated the minimum level of loan to be disbursed in the agriculture sector, energy sector, and micro, cottage, small and medium enterprises.

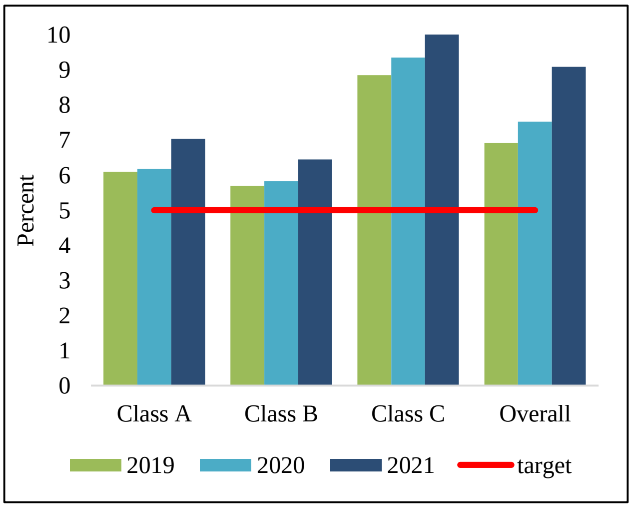
Figure 2.21: Specified Sector Lending



As of mid-July 2021, commercial banks had provided 25.48 percent of their total loan to the agriculture, energy, and micro, cottage, small and medium enterprises sector. Development bank and finance company had provided 20.90 and 15.19 percent respectively of their total loan in these specified sectors.

2.9.2 Deprived Sector Lending

Figure 2.22: Deprived Sector Lending



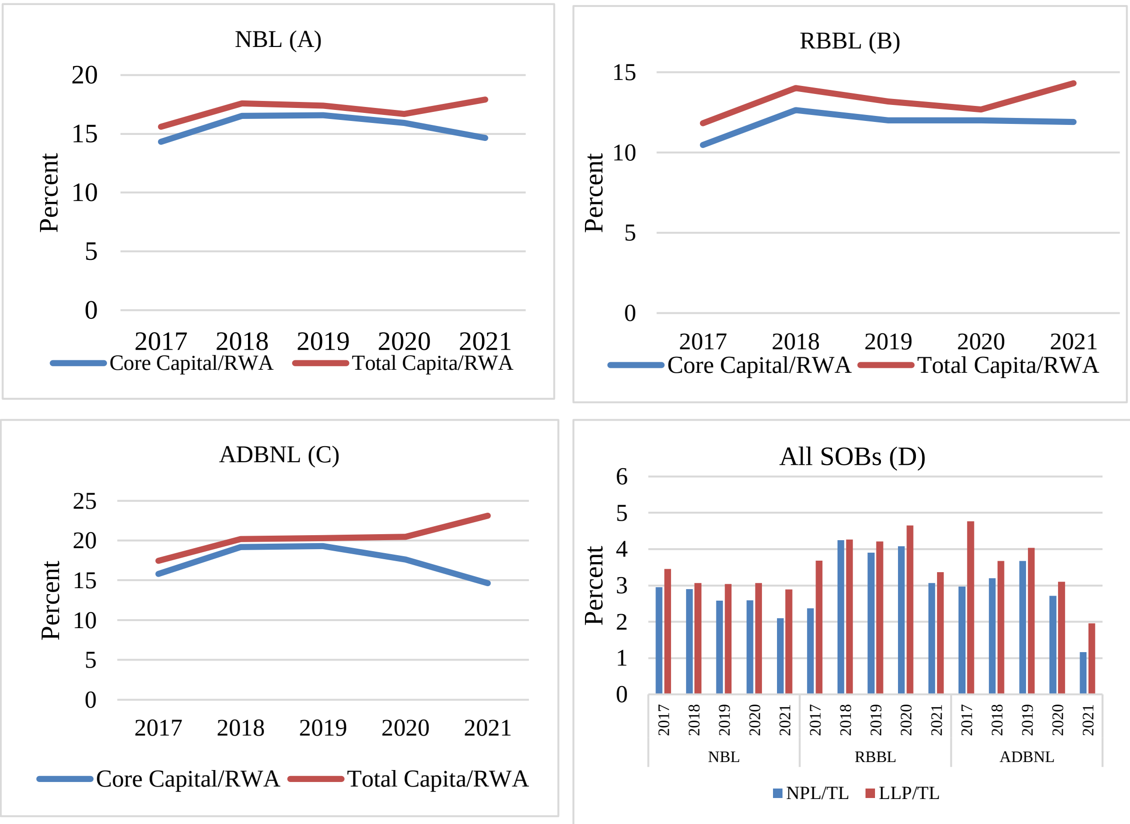
NRB has specified BFIs to disburse a minimum of 5 percent of their total loan portfolio to the deprived sector. This policy is designed to meet the microcredit demand of a poorer and weaker section of the economy and increase access to finance by ensuring adequate funds for micro-financing. The overall deprived sector lending by BFIs as of mid-July 2021 remained 9.08 percent comprised of 7.03 percent, 6.45 percent, and 12.29 percent of total lending of commercial banks, development banks, and finance companies respectively. Though NRB's policy remains unchanged, for the last three years, the portion of deprived sector lending has increased.

2.10 Performance of State-Owned Banks (SOBs)

Nepal Bank Limited (NBL), Rastriya Banijya Bank Limited (RBBL), and Agriculture Development Bank Limited (ADBL) are the three SOBs, whose total assets in mid-July 2021 were equivalent to 18.71 percent of GDP. The total share of SOBs in total assets of commercial bank stood at 14.73 percent in mid-July 2021.

The SOBs represent 14.09 percent share in total deposit of commercial banks and 12.50 percent share in total deposit of BFIs in mid-July 2021. Similarly, their market shares in terms of loan and advances stood at 13.15 percent for commercial banks and 11.71 percent for all BFIs in same time.

Figure 2.23: Capital Adequacy ratios of SOBs



The core-capital to risk-weighted-assets NBL, ADBL and RBBL are 14.64 percent, 11.90 percent and 14.63 percent respectively in mid-July 2021. Likewise, the total capital to risk-weighted-assets NBL, ADBL and RBBL are 17.91 percent, 14.31 percent and 23.13 percent respectively in mid-July 2021. Total capital adequacy ratios of all the SOBs have increased in the review year compared to last year. All these SOBs have maintained required capital base and capital adequacy prescribed by NRB in the review time. The loan quality measured by NPL ratio of SOBs has improved in mid-July 2021 compared to in mid-July 2020. As on mid-July 2021, the NPL ratio of NBL, RBBL and ADBL stood at 2.10 percent, 3.07 percent and 1.84 percent respectively. Such ratios of NBL, RBBL and ADBL were 2.59 percent, 4.08 percent and 2.71 percent respectively in mid-July 2020. Although NPL ratios of SOBs are slightly worse than overall commercial banks which stood at 1.48 percent in mid-July 2021, non-performing loan ratio is below the regulatory requirement.

2.11 Infrastructure Development Bank

In the review year the only Infrastructure Development bank managed to collect total deposit of Rs.301.64 million including fixed deposit of Rs.250 million from institutional depositors and approved loans amounting of Rs.17.715 billion with outstanding balance of Rs.2.27 billion. This bank has earned the net profit of Rs.658.55 million while the Bank’s total assets stood at Rs.22.42 billion in the review year.

CHAPTER – III

PERFORMANCE OF BANK AND FINANCIAL INSTITUTIONS

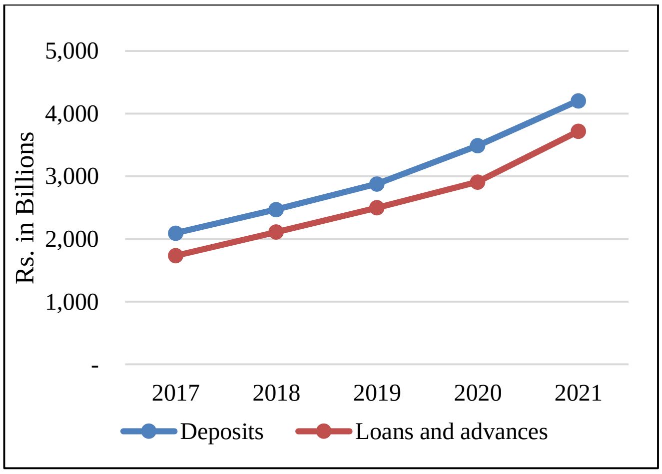
3.1 Performance of Commercial Banks

Nepalese financial system comprises dominant share of BFIs. Moreover, among the BFIs, commercial bank holds significant share in total assets (Rs. 5,420.35 billion as of mid-July 2021). In mid-July 2021, share of commercial banks in total assets and liabilities of BFIs increased to 89.31 percent from 89.09 percent in mid-July 2020. Similarly, ratio of total assets and liabilities of commercial banks to GDP increased to 127.05 percent in mid-July 2021 from 117.16 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 22.81 percent to Rs. 5,420.35 billion in mid-July 2021 from Rs. 4,413.57 billion in mid-July 2020.

3.1.1 Deposit and Credit

Total deposit and credit of commercial banks stood at 98.56 percent and 87.19 percent of GDP, respectively, in mid-July 2021 compared to 92.64 percent and 77.25 percent respectively, in mid-July 2020. Total deposit grew by 20.48 percent to Rs. 4,204.91 billion in mid-July 2021 compared to a growth of 21.18 percent in the previous year. Total credit flow grew by 27.81 percent and reached to Rs. 3,719.60 billion in mid-July 2021 compared to a growth of 16.40 percent in the previous year.

Figure 3.1: Deposit and Loan Trends of Commercial Banks



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 29.45 percent, on y-o-y basis, to Rs. 644.20 billion in mid-July 2021.

3.1.2 Capital

The capital fund of commercial banks rose by 15.36 percent to Rs. 500.57 billion in mid-July 2021 from Rs. 433.94 billion a year ago. Of the total capital fund, paid up capital was Rs. 320.63 billion and statutory reserves were Rs. 96.91 billion. Moreover, in mid-July 2021, all the commercial banks have maintained the mandatory Capital Adequacy Ratio. Total capital fund to risk weighted exposure of commercial banks has increased to 14.13 percent in mid- July 2021 from 14.01 percent in mid-July 2020 (Table 3.1).

3.1.3 Assets

The aggregate NPL to total loan ratio of commercial banks decreased to 1.40 percent in mid-July 2021 from 1.81 percent in mid-July 2020. The 3 state-owned banks in total have a combined NPL ratio of 2.41 percent whereas that of private commercial banks is 1.25 percent in mid-July 2021. As of mid-July 2020, average NPL ratio of 3 state owned commercial banks was 3.48 percent, whereas such a ratio for private commercial banks was 1.55 percent.

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

Indicators	2020	2021
Tier 1 & Tier 2 Capital /RWE	14.01	14.13
Tier 1 Capital/RWE	11.78	10.92
NPL/Total Loan	1.81	1.40
Return on Equity	12.52	13.07
Net Interest Spread	4.10	3.67
Total Credit to Total Deposit	83.39	88.47
Total Liquid Assets/Total Deposit	27.52	25.96
Base Rate	8.50	6.88

The total loans of commercial banks under priority sector in agriculture, energy and SME sector accounts for 13.16 percent, 6.00 percent and 10.13 percent respectively.

Product-wise loan comparison with the previous year reveals that commercial banks were lending less in real estate and margin nature loan as they represented 4.28 percent and 2.44 percent, respectively, of the total loan in mid-July 2021. Similarly, product wise loans in terms of term loan, overdraft loan, demand and other working capital loan and hire purchase loan represent 21.53 percent, 14.76 percent, 23.04 percent and 3.63 percent respectively, of the total loan in mid-July 2021. Such ratios were 21.46 percent, 14.50 percent, 23.57 percent and 4.99 percent, respectively, in mid-July 2020. There was noticeable growth in term loan and overdraft loan and slight decline in demand and working capital loan and hire purchase loan. As of mid-July 2021, commercial banks have disbursed 6.45 percent of their total loan in the deprived sector. Loan against collateral of properties (fixed and current Assets) have shown decreasing trend in the review period. Out of total loan, 87.97 percent are backed by collateral of properties in mid-July 2021 compared to 89.50 percent a year ago.

3.1.4 Profitability

Compared to a significant reduction of 16.66 percent in the previous year, net profit of the commercial banks increased by 16.60 percent to Rs. 63.37 billion in mid-July 2021. All commercial banks registered profit during the review period. Contribution of interest income was 81.39 percent of the total income in the review year which was 86.52 percent in the last year.

3.1.5 Base Rates and Spread Rates

The average base rate of commercial banks decreased by 19.19 percentage points to 6.40 percent during FY 2020/21. Similarly, interest rate spread of commercial banks are 3.67 in the review period which was 4.86 percent in the last year This drop off in base rate is largely attributed to 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 of spread rates.

3.2 Stress Testing of Commercial Banks

3.2.1 Credit Shock

Stress testing results based on data of mid-July 2021 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 deteriorate to loss categories would push down the capital adequacy ratio of 24 commercial banks below the minimum regulatory requirements (including conservation buffer) of 11 percent. Only 3 (out of 27) commercial banks will comply this category of credit shocks in the regulatory requirement. 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, capital adequacy ratio of 3 commercial banks will come below the required level. The result showed that majority of commercial banks maintained their resilience towards real estate sector during the fiscal year.

In another credit shock test, under the scenario of top two large exposures (loans) downgraded from performing to substandard category, the capital adequacy ratio of 4 commercial banks would fall below the regulatory minimum.

3.2.2 Liquidity Shock

The liquidity stress test, in mid-July 2021, under scenario of withdrawal of deposits by customers by 2, 5, 10, 10 and 10 percent for five consecutive days showed that 19 out of 27 commercial banks are vulnerable towards liquidity crisis. 5 banks were prone to liquidity shock of withdrawal of 5 percent of deposits in a single day, while 20 banks' liquidity ratio would drop below 20 percent after withdrawal of 10 percent deposits in a single day. The number of banks seeing their liquidity ratio drop below 20 percent would grow to 22 if the single day deposits withdrawal increased to 15 percent. In mid-July 2020, the number of banks prone to liquidity shock under single day deposits withdrawal of 5, 10 or 15 percent were 5, 13 and 22, respectively.

With the shock of withdrawal of deposits by top 2, 3 or 5 institutional depositors, liquid assets to deposit ratio of 12, 17 and 21 commercial banks would be below 20 percent in review year. The numbers were 8, 13 and 19 in mid-July 2020. Likewise, the shock of withdrawal of deposits by top 2, 3 or 5 individual depositors, liquid assets to deposit ratio of 1, 2 and 2 commercial banks would be below 20 percent. Such number was null in mid-July 2020.

3.2.3 Market and Combined Credit and Market Shock

The stress testing result under market shock revealed that 27 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 deposit and credit interest rates from one percent to two 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, two commercial banks had fall in equity prices by 50 percent.

When going through market shock, all commercial banks could maintain their capital adequacy ratio 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 two 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 nine 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 of Commercial Bank

		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	13	14
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	20	7
C-2	All NPLs under substandard category downgraded to doubtful. All NPLs under doubtful category downgraded to loss.	0 0	0 0	27 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	3	24
C-5	Top 2 Large exposures down graded: Performing to Loss category	0	4	23
Market Shocks				
Interest Rate Shocks				
IR-1a	Deposit interest rate change (+,-) by 1% on an average.	0	0	27
IR-1b	Deposit interest rate change (+,-) by 1.5% on an average.	0	0	27
IR-1c	Deposit 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	2	25
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	2	25

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	18	9
Liquidity Shocks				
-		Number of Banks becoming illiquid after shock of		
		3 days	4 days	5 days
L-1	Withdrawal of customer deposit by 2% 5% 10% 10% and 10% for five consecutive days respectively.	0	4	19
		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 deposit by 5%	0	7	20
L-2-b	Withdrawal of deposit by 10%	0	20	7
L-2-c	Withdrawal of deposit by 15%	0	22	5
L-2-c	Withdrawal of deposit by 20%	0	22	5
L-3a	Withdrawal of deposit by top 2 institutional depositors.	0	12	15
L-3b	Withdrawal of deposit by top 3 institutional depositors.	0	17	10
L-3c	Withdrawal of deposit by top 5 institutional depositors.	0	21	6
L-3d	Withdrawal of deposit by top 2 individual depositors.	0	1	26
L-3e	Withdrawal of deposit by top 3 individual depositors.	0	2	25
L-3f	Withdrawal of deposit by top 5 individual depositors.	0	2	25
		< 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

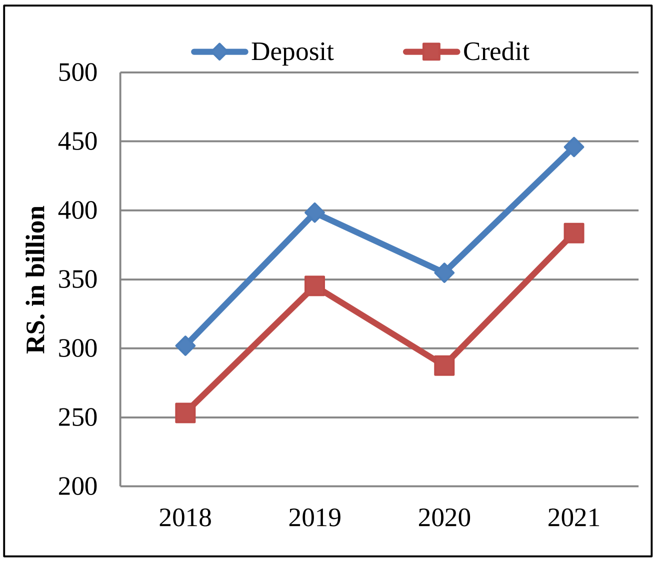
3.3 Performance of Development Banks

Development banks' performance remained satisfactory amidst the adverse impacts brought by COVID-19. Development banks were able to maintain buffers of capital and liquidity over current regulatory requirements. Continuation of relaxations by NRB regarding restructuring, time extension, enhancement of loan etc. has supported banks to remain in comfortable position in terms of liquidity and profitability. In the review year, share of development banks in total assets and liabilities of BFIs (A, B & C) has been slightly increased to 8.95 percent from 8.65 percent in mid-July 2021. There has been slight decrease in base rate and interest rate spread as compared to the previous. Such decline is a reflection of high liquidity, decrease in policy rate and relaxations in mandatory regulatory requirements.

As growth of remittance came back to normal in the review period, industry has witnessed significant increase in deposit and credit growth rate. Due to relaxation in restrictions and start of normal business activities there has been substantial increase in credit demand. Due to high demand of credit, the growth rate of credit surpassed the growth rate of deposit leading to pressure on liquidity and lending capacity of developments banks.

Mergers and acquisitions continued during 2020/21. Regional development banks went into consolidation process, as a result, the number of development banks reduced and reached to 18 from 20 in 2020/21. In the review year, 2 regional development banks got acquired by commercial bank and 1 regional development bank went into an agreement for acquisition. Kanchan Development Bank Ltd. got acquired by NMB Bank Ltd. and Tinau Mission Development Bank Ltd. got acquired by Citizens Bank International Ltd. Similarly, Sahara Bikas Bank Ltd. signed an agreement with Garima Bikash Bank Ltd. for acquisition.

Figure 3.2: Deposit and Credit Trends of Development Banks



3.3.1 Deposit and Credit

In the review year, total deposit of development bank increased by 25.67 percent to Rs. 445.83 billion, compared to Rs. 354.78 billion during 2019/20, while gross loan also increased by 33.53 percent to Rs. 383.42 billion, compared to Rs. 287.13 billion in the previous year. Such significant increases can be attributed to the increment in remittance inflows and aggressive business growth during the review period. Credit to deposit ratio (CD) stood at 86 percent in mid-July 2021 while CCD was 79.94 percent. Such ratios were 80.94 and 71.81 percent respectively in mid-July 2020.

3.3.2 Assets

In 2020/21 total assets of development banks increased by 26.81 percent to Rs.543.31 billion from Rs.428.45 billion. The NPL which stood at Rs.5.01 billion as of mid-July 2021, accounted for 1.3 percent of total loans. The NPL as a percentage of total loans decreased by 0.30 percentage points during 2020/21. The NRB's COVID-19 measures have played major role to uphold banks' asset quality despite the impact of pandemic on various economic sectors.

3.3.3 Capital

In the review year, the core capital increased by 9.32 percent to Rs. 43.21 billion, compared to a decrease of 26.85 percent in the previous year. Core capital to Risk Weighted Assets (RWAs) ratio declined to 11.70 percent as on mid-July 2021 from 13.15 percent on mid-July 2020 while capital fund to RWA declined to 13.21 percent from 14.37 percent.

The regulatory requirement for 2020/21 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 regulatory requirements. The contraction in capital adequacy was largely driven by an increase in business volume via credit growth of development banks in the year 2020/21.

3.3.4 Profitability

Total net profit of development banks increased by 152.68 percent (increased by 59.74 percent as per NFRS) during 2020/21 as compared to decrease of 66.45 percent (44.97 percent as per NFRS) in the previous year. The increment in profit during 2020/21 is mainly due to the continued regulatory relaxations, reversal of loan impairment, excessive credit growth, gain from sale of investments and ease of government imposed restrictions.

Table 3.3 : Major Financial Indicators of Development Banks
(Ratio in Percentage)

Indicators	2020	2021
Core Capital Ratio	13.21	11.70
Capital Adequacy Ratio	14.42	13.21
C/D Ratio	81.06	86.00
CCD Ratio	71.84	79.94
Non-Performing Assets (NPA)	1.52	1.30
Net Liquidity	29.49	24.93
Statutory Liquidity Ratio	15.74	18.17
Spread Rate	4.86	4.52
Base Rate	9.91	8.09
Priority Sector Lending	23.88	24.63
Deprived Sector	9.95	14.61
Total Real Estate exposure	5.09	4.55
Return on Assets (ROA)	0.57	1.14
Return on Equity (ROE)	6.07	13.72

ROE and ROA of development banks as on mid-July 2021, stood at 13.72 and 1.14 percent respectively. ROE and ROA stood 6.07 and 0.57 percent respectively in previous year. Aggressive increase in credit as well as increment in profit was the major contributors for wide expansion on returns.

3.3.5 Base Rates and Spread Rates

The average base rate of development banks decreased by 1.82 percentage points to 8.09 percent during 2020/21. This drop off in base rate is largely attributed by the decrease in deposit rate due to excess liquidity. Similarly, interest rate spread decreased from 4.86 to 4.52 percent in review year.

3.4 Stress Testing of Development Banks

For stress test purpose, only 18 development banks are taken into analysis. The Stress test results, as of mid-July 2021, 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, 5 development banks' CAR falls below 10 percent. Similarly, in the same criteria, where 5 percent of performing loan deteriorated into bad loan, 9 development banks' including 7 national level and 2 regional level development banks' CAR fall below the regulatory requirement of 10 percent. Likewise, if 25 percent of performing real estate and housing sector loan directly downgraded to loss category, one development bank will have CAR lower than regulatory requirement. The result reveals that in absence of regulatory relaxations, banks will not be able to withstand the shocks.

3.4.2 Liquidity Shock

Standard liquidity shock test results suggested that few development banks would fall below mandatory liquidity ratio in stress scenarios. Stress tests results indicate that eleven development banks including 5 national level development banks would see its liquidity ratio dip below minimum level in case if there were withdrawal of deposit by 2 percent first day, 5 percent second day and 10 percent for three consecutive days.

Five percent withdrawal of deposit would push 3 national level development banks liquidity ratio to fall below the regulatory requirement of 20 percent. In case if 10 percent of depositors withdrew their deposit, 8 national level development banks' liquidity position falls below 20 percent. Similarly, 2 national level development banks would go below 20 percent if one institutional depositor withdraws the deposit. Likewise, 2 national level development banks would reach below 20 percent if top 2 institutional depositors withdraw their deposit. No adverse impact on liquidity observed if 5 top individual depositors withdraw their deposit.

The stress test result indicates that concentration of institutional deposit has increased the liquidity risk.

3.4.3 Other Shocks

All development banks were found to be resilient to standard interest rate, exchange rate and equity price shocks as 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 3.4: Summary Results of Stress Testing of Development Banks

As of 2021				
		Number of Banks with CAR		
Events		**< 0%**	**0% - <10%**	**>=10%**
Pre Shock		0	0	18
		Post Shocks		
A. After Credit Shock		**< 0%**	**0% - <10%**	**>=10%**
C1	15 Percent of Performing loans deteriorated to substandard	0	5	13
	15 Percent of Substandard loans deteriorated to doubtful loans	0	0	18
	25 Percent of Doubtful loans deteriorated to loss loans	0	0	18
	5 Percent of Performing loans deteriorated to loss loans	0	9	9
C2	All NPLs under substandard category downgraded to doubtful.	0	0	18
	All NPLs under doubtful category downgraded to loss.	0	0	18
C3	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to substandard category of NPLs.	0	0	18
C4	25 Percent of performing loan of Real Estate & Hosing sector loan directly downgraded to Loss category of NPLs.	0	1	17
C5	Top 2 Large exposures downgraded: Performing to Substandard	0	0	18
B. After Market Shocks				
(a) Interest Rate Shocks		**< 0%**	**0% - <10%**	**>=10%**
IR-1a	Deposit interest rate changed by 1.0 percent point on an average.	0	0	18
IR-1b	Deposit interest rate changed by 1.5 percent point on an average.	0	0	18
IR-1c	Deposit interest rate changed by 2.0 percent point on an average.	0	0	18
IR-2a	Loan interest rate changed by -1.0 percent point on an average.	0	0	18
IR-2b	Loan interest rate changed by -1.5 percent point on an average.	0	0	18
IR-2c	Loan interest rate changed by -2.0 percent point on an average.	0	0	18
IR-3	Combine Shocks (IR-1a & IR-2a)	0	0	18
(b) Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by 20%	0	0	18
ER-1b	Appreciation of currency exchange rate by 25%	0	0	18
(c) Equity Price Shocks				
EQ-1	Fall in the equity prices by 50%	0	0	18
C. After Liquidity Shocks				
	Events			
L-1a	Number of BFIs illiquid after on 1st day while withdrawal of deposit by 2%		0	
	Number of BFIs illiquid after on 2nd day while withdrawal of deposit by 5%		0	
	Number of BFIs illiquid after on 3rd day while withdrawal of deposit by 10%		0	
	Number of BFIs illiquid after on 4th day while withdrawal of deposit by 10%		0	
	Number of BFIs illiquid after on 5th day while withdrawal of deposit by 10%		11	
Number of Banks with Liquid Assets to Deposit Ratio		**< 0%**	**0% - <20%**	**>=20%**
Pre-shocks		0	0	18
		After Shocks		
L-2a	Withdrawal of deposit by 5%	0	4	14
L-2b	Withdrawal of deposit by 10%	0	11	7
L-2c	Withdrawal of deposit by 15%	0	12	6

L-2d	Withdrawal of deposit by 20%	0	13	5
L-3a	Withdrawal of deposit by top 1 institutional depositor.	0	2	16
L-3b	Withdrawal of deposit by top 2 institutional depositors.	0	3	15
L-3c	Withdrawal of deposit by top 3 institutional depositors.	0	4	14
L-3d	Withdrawal of deposit by top 4 institutional depositors.	0	5	13
L-3e	Withdrawal of deposit by top 5 institutional depositors.	0	5	13
L-4a	Withdrawal of deposit by top 1 individual depositors.	0	0	18
L-4b	Withdrawal of deposit by top 2 individual depositors.	0	0	18
L-4c	Withdrawal of deposit by top 3 individual depositors.	0	0	18
L-4d	Withdrawal of deposit by top 4 individual depositors.	0	0	18
L-4e	Withdrawal of deposit by top 5 individual depositors.	0	0	18

3.5 Performance of Finance Companies

The size of finance companies or 'C' class financial institutions is smallest in the banking industry in Nepal. The share of the total assets of finance companies is 1.92 percent in mid-July 2021 compare to 2.36 percent in mid-July 2020. The total assets and liabilities of finance companies have increased by 1.75 percent to Rs.116 billion in mid-July 2021 compared to that of mid-July 2020. The aggregate deposit of finance companies remained Rs.88 billion in mid-July 2021, which is 1.12 percent less than a year ago.

During the review period, all finance companies recorded a positive return, with ROA (1.85 percent) and ROE (13.11 percent). The profit and Credit to Deposit and Core Capital (CCD) ratio of all finance companies are in verge of recovery from the COVID-19 pandemic, successive lockdowns and slow recovery of economic activities and low utilization of the fund in comparison with the previous year.

3.5.1 Assets and Assets Quality

Gross loan and advances of finance companies stood at Rs.68 billion in mid-July 2021. The gross loan and advances is 1.61 percent of total GDP of Nepal which was 2 percent in the previous year. The investment of finance companies increased by 116.40 percent and reached Rs.23.09 billion in mid-July 2021 compared to Rs.10.67 billion in mid-July 2020. Investment in government securities accounted for 89.22 percent of total investment while investment in shares and other investments accounts 10.78 percent.

The credit to deposit and core capital ratio of finance companies remained below the regulatory ceiling of 85 percent; it stood 67.31 percent in mid-July 2021 whereas such ratio was 66.11 percent in mid-July 2020. Total NPL of finance companies increased to 3.16 percent (excluding problematic finance companies) in mid-July 2021 from 2.97 percent in mid-July 2020. The non-banking asset of finance companies is recorded as

Rs.0.45 billion in mid-July 2021 which was Rs.0.51 billion a year ago. The amount of loan loss provision decreased to Rs.2.51 billion in mid-July 2021 from that of Rs.2.79 billion in mid-July 2020.

3.5.2 Capital

Capital fund of finance companies stood at Rs.17.15 billion in mid-July 2021 which was Rs.16.31 billion in mid-July 2020. The ratio of capital fund with risk weighted exposure of all national level finance companies is 21.33 percent in mid-July 2021 which was 20.24 percent previous year. Finance companies maintained at least 2 percent capital buffer above regulatory requirements in mid-July 2021.

3.5.3 Liquidity

Finance companies remained in comfortable liquidity position, as net liquid assets to total deposit of finance companies stood at 39.76 percent in the review period.

3.5.4 Sectoral Loan Classification

Sectoral lending shows, others category comprises the highest share (21.88 percent), in mid-July 2021, followed by wholesaler and Retailer (17.78 percent), finance, insurance and real estate sector (15 percent), and construction sector (13.99). The share of consumption loan is 7.26 percent. Likewise, in the product-wise category, term loan's share stood highest at 21.83 percent and share for demand and other working capital loan, including overdraft loan, stood at 18.33 percent in total loan portfolio. The portion of loan in deprived sector stood at 9.54 percent, which is above the regulatory requirement of 5 percent. In mid-July 2021 the share of real estate loan stood at 6.96 percent of total loans and advances.

3.5.5 Merger/Acquisition and Problematic Bank Resolution

Total number of finance companies was 22 in mid-July 2020 which decreased to 17 in mid-July 2021 as three finance companies were acquired by 3 commercial banks and 1 finance company is acquired by another finance company in the review year. As of mid-July 2020, 3 finance companies were in problematic status and under resolution process, among them 1 company got liquidated through court process and license has been revoked in the review period.

Table 3.5: Major Indicators of Finance Companies

Particulars	Ratios (in percent)
Core Capital to RWA	18.86
Capital Fund to RWA	21.33
Credit to Deposit (LCY) Ratio	77.80
Credit to Deposit (LCY) & Core Capital	67.31
Non-Performing Loan to Total Loan	3.16
Liquid Assets to Total Deposit	41.79
Weighted Average Interest Rate on Credit	11.37
Weighted Average Interest Rate on Deposit	6.93
Weighted Average Interest Rate on Government Securities	3.53

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 15 finance companies stress testing result of the 13 national-level finance companies remained less vulnerable to individual credit shocks and liquidity shocks in aggregate. However, for 1 finance company, CAR decreased to less than 10 percent after combined credit shocks. In the same way 3 finance companies will have liquidity ratio less than 20 percent after withdrawal of deposit by 20 percent. Position of finance companies after stress testing scenarios is shown in the Table 3.6.

Table 3.6: 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	1
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 deposit by 5 percent	0
Withdrawal of deposit by 10 percent	0
Withdrawal of deposit by 15 percent	2
Withdrawal of deposit by 20 percent	3
Withdrawal of deposit by top 1 institutional depositor	0
Withdrawal of deposit by top 2 institutional depositors	0
Withdrawal of deposit by top 3 institutional depositors	1
Withdrawal of deposit by top 4 institutional depositors	1
Withdrawal of deposit by top 5 institutional depositors	1
Withdrawal of deposit by top 1 individual depositor	0
Withdrawal of deposit by top 2 individual depositors	0
Withdrawal of deposit by top 3 individual depositors	0
Withdrawal of deposit by top 4 individual depositors	0
Withdrawal of deposit by top 5 individual depositors	0

Note: Above mentioned data does not include data of 2 Problematic Finance Companies which are under resolution process

3.7 Performance of Microfinance Financial Institutions

As of mid-July 2021, there are 70 MFIs operating as "D" class licensed institutions. Among them, 4 are wholesale lending MFIs. Out of 66 Retail lending MFIs, 2 are public deposit takers.

Table 3.7: Capital Adequacy & Assets Quality of MFIs

			In Billion Rs.
Particulars	**2020**	**2021**	**Change %**
Total Capital Fund of MFIs (Rs.)	38.21	39.09	2.34
Capital Fund of Retail MFIs (Rs.)	31.15	31.77	1.99
Capital Fund of Wholesale MFIs (Rs.)	7.05	7.32	3.86
Total Paid-up Capital of MFIs (Rs.)	21.49	24.74	15.12
Paid-up Capital of Retail MFIs (Rs.)	18.12	20.85	15.04
Paid-up Capital of Wholesale MFIs (Rs.)	3.37	3.89	15.56
Total Assets of MFIs (Rs.)	325.15	445.50	37.01
Assets of Retail MFIs (Rs.)	279.94	391.85	39.98
Assets of Wholesale MFIs (Rs.)	45.2	53.65	18.69

Total Loan and Advances of MFIs (Rs.)	262.73	365.55	39.14
Loans and Advances of Retail MFIs (Rs.)	224.79	317.36	41.18
Loans and Advances of Wholesale MFIs (Rs.)	37.93	48.19	27.06
Total Overdue (Loan & Interest) of MFIs (Rs.)	49.05	72.82	48.46
Overdue (Loan & Interest) of Retail MFIs (Rs.)	47.68	72.52	52.10
Overdue (Loan & Interest) of Wholesale MFIs (Rs.)	1.37	0.30	(78.28)
Total Loan Loss Provision of MFIs (Rs.)	7.64	10.76	40.84
Loan Loss Provisions of Retail MFIs (Rs.)	6.9	9.79	41.89
Loan Loss Provisions of Wholesale MFIs (Rs.)	0.72	0.97	34.68

3.7.1 Capital Adequacy & Assets Quality

The total outstanding loan of MFIs as of mid-July 2021 increased by 39.14 percent and reached Rs.365.55 billion as compared to Rs.262.73 billion in previous year. As of mid-July 2021, total capital fund of MFIs increased by 2.34 percent and reached Rs.39.09 billion. Total capital fund comprises Rs.7.32 billion and Rs.31.77 billion capital fund of wholesale and retail MFIs respectively. The total paid-up capital of MFIs increased by 15.12 percent and reached Rs. 24.74 billion. The ratio of paid-up capital to total capital fund stood at 63.29 percent which was 56.26 percent in previous fiscal year. The paid-up capital of wholesale MFIs is increased by 15.56 percent in compare to previous fiscal year and stood at Rs.3.89 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 2021, the number of branches of all MFIs reached 4621, creating employment for 20,872 employees. Compared to previous year, the total members of MFIs increased by 10.77 percent and reached 5,191,363 in mid-July 2021.

In review period, total asset of MFIs increased by 37.01 percent and reached Rs.445.50 billion. The share of wholesale MFIs' total assets stood at 12.04 percent only. Loan and advances registered a massive growth rate of 39.14 percent and reached Rs. 365.55 billion. Out of the total loans and advances; the wholesale loans shared only 13.18 percent while, retail loans shared the rest 86.82 percent. The ratio of loan and advances to the total assets stood at 82.06 percent which was 80.80 percent at the end of previous fiscal year.

The total amount of overdue loan, including interest, of these institutions increased by 48.46 percent and reached Rs.72.82 billion as compared to the same period of the last year. The overdue of wholesale MFIs stood at Rs. 0.30 billion and retail MFIs stood at Rs.72.52

billion. Likewise, the amount of loan loss provision of these MFIs increased by 41.03 percent and reached to Rs.10.76 billion during the review period.

3.7.2 Profitability and Liquidity

Total savings mobilized by the MFIs increased by 22.87 percent and reached Rs. 130.43 billion in the review period. Out of the total liabilities of these institutions, the share of savings remained at 29.28 percent. Out of total savings, public deposits shared only 1.49 percent which was collected by only 2 public deposit taker MFIs, and the rest being collected from the members of 64 retail MFIs. Total borrowings of these MFIs during the review period increased by 45.93 percent and reached Rs.207.35 billion. Out of the total borrowings, wholesale MFIs borrowed Rs. 41.37 billion, which comprises only 19.95 percent of total borrowing. As compared to total liabilities of MFIs, the share of borrowed amount remained at 46.54 percent.

Table 3.8: Profitability and Liquidity

			Rs. In Billion
Particulars	**2020**	**2021**	**Change %**
Total Savings in MFIs (Rs.)	106.15	130.43	22.87
Total Borrowings of MFIs (Rs.)	142.09	207.35	45.93
Borrowings of Retail MFIs (Rs.)	107.75	165.97	54.04
Borrowings of Wholesale MFIs (Rs.)	34.33	41.37	20.52
Public deposit	2.37	1.94	(18.22)

Table 3.9: Outreach and Impact of Microcredit

Particulars	2020	2021	Change %
No. of MFIs	84	70	(16.67)
No. of Retail MFIs	80	66	(17.50)
No. of Wholesale MFIs	4	4	-
No. of Branches of MFIs	3,946	4,621	17.11
No. of Branches of Retail MFIs	3,931	4,606	17.17
No. of Branches of Wholesale MFIs	15	15	-
Total Members of MFIs	4,686,609	5,191,363	10.77
No. of Members of Retail MFIs	4,685,463	5,191,363	10.80
No. of Members of Wholesale MFIs	1,146	0	(100.00)
Total Capital Fund of MFIs (In Billion Rs.)	38.2	39.09	2.34
Capital Fund of Retail MFIs (In Billion Rs.)	31.15	31.77	1.99
Capital Fund of Wholesale MFIs (In Billion Rs.)	7.05	7.32	3.86
Total Paid-up Capital of MFIs (In Billion Rs.)	21.49	24.74	15.12
Paid-up Capital of Retail MFIs (In Billion Rs.)	18.12	20.85	15.04
Paid-up Capital of Wholesale MFIs (In Billion Rs.)	3.37	3.89	15.56
Total Assets of MFIs (In Billion Rs.)	325.15	445.50	37.01
Assets of Retail MFIs (In Billion Rs.)	279.94	391.85	39.98
Assets of Wholesale MFIs (In Billion Rs.)	45.2	53.65	18.69

Total Loan and Advances of MFIs (In Billion Rs.)	262.73	365.55	39.14
Loans and Advances of Retail MFIs (In Billion Rs.)	224.79	317.36	41.18
Loans and Advances of Wholesale MFIs (In Billion Rs.)	37.93	48.19	27.06
Total Savings in MFIs (In Billion Rs.)	106.15	130.43	22.87
Total Borrowings of MFIs (In Billion Rs.)	142.09	207.35	45.93
Borrowings of Retail MFIs (In Billion Rs.)	107.75	165.97	54.04
Borrowings of Wholesale MFIs (In Billion Rs.)	34.33	41.37	20.52
Total Overdue (Loan & Interest) of MFIs (In Billion Rs.)	49.05	72.82	48.46
Overdue (Loan & Interest) of Retail MFIs (In Billion Rs.)	47.68	72.52	52.10
Overdue (Loan & Interest) of Wholesale MFIs (In Billion Rs.)	1.37	0.30	(78.28)
Total Loan Loss Provision of MFIs (In Billion Rs.)	7.63	10.76	41.03
Loan Loss Provisions of Retail MFIs (In Billion Rs.)	6.9	9.79	41.89
Loan Loss Provisions of Wholesale MFIs (In Billion Rs.)	0.72	0.97	34.68
Public deposit (In Billion Rs.)	2.37	1.94	(18.22)
No of Total Staff	19017	20872	9.75

CHAPTER - IV

NON-BANK FINANCIAL INSTITUTIONS

4.1 Cooperatives

As the cooperative regulation has been shared between the three levels of Government (Federal, Provincial and Local), the Department of Cooperative, as a federal agency, has a leading role to play in terms of providing provincial and local governments with the necessary regulatory, promotional and training. The Department has jurisdiction for 145 cooperatives in direct supervision, among them only 125 are primary cooperatives. The department had conducted latest survey on FY 2019/20 covering whole nation cooperatives. Thus, this report presents performance indicators of mid-July 2019 and mid-July 2020 in table 4.1.

Table 4.1: Key indicators of Cooperatives

Indicators	2019	2020
No. of Cooperatives	34737	29,886
Members (Nos.)	6.51 Million	7.30 Million
Total Staff (Nos.)	63,500	88,309
Total Capital (in Rs.)	76.34 Billion	94.10 Billion
Deposit (in Rs.)	345.58 Billion	477.96 Billion
Credit (in Rs.)	332.71 Billion	426.26 Billion
Credit to Deposit Ratio	96.27%	89.18%
Credit to Capital and Deposit Ratio	78.85%	74.51%

Source: Department of Cooperatives

4.2 Other Financial Institutions

4.2.1 Insurance Companies

There are altogether 41 (19 Life insurance and 20 Non-Life Insurance and 2 Reinsurance) insurance companies as of mid-July 2021. Total assets/liabilities of insurance companies rose by 24.09 percent in a year and reached Rs.542.65 billion in Mid-July 2021. Total assets of life insurance companies and non-life insurance companies expanded by 25.88 percent and 13.74 percent respectively in same period.

Table 4.2: Key Indicators of Insurance Companies

Rs. In Billion

Sources	Life				Non-Life			
	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21
Paid-up Capital	25.56	30.84	32.79	38.91	10.41	13.91	17.61	19.84
Reserve Funds	180.12	248.75	323.50	409.81	23.62	35.15	40.22	46.52
Other Liabilities	10.92	12.63	16.13	20.13	9.67	5.86	7.04	7.44
Total	**216.60**	**292.22**	**372.44**	**468.85**	**43.70**	**54.93**	**64.88**	**73.80**
Uses			**Life**				**Non-Life**	
Cash and Bank	3.75	6.69	7.34	6.67	3.15	2.63	3.67	4.13
Investment	196.23	263.88	335.59	420.00	31.54	38.05	44.46	48.52
Fixed Assets	2.20	2.47	2.59	2.59	1.42	1.79	1.81	2.26
Other Assets	14.42	19.19	26.90	39.49	7.59	12.46	14.93	18.89
Total	**216.60**	**292.22**	**372.44**	**468.85**	**43.70**	**54.93**	**64.88**	**73.80**

Source: Beema Samiti (Insurance Regulatory Authority of Nepal)

Though 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 9.88 million (2.70 million non-life and 7.18 million life) in the mid-July 2021.

4.2.2 Reinsurance Companies

As on mid-July 2021, there are two reinsurance companies in Nepal. The details of total assets/liabilities of Reinsurance Company has presented in table below:

Table 4.3: Key Indicators of Nepal Reinsurance Company Ltd.

In Billion Rs.

	FY 2020/21		
	Life	**Non-Life**	**Total**
Sources			
Paid-up Capital	10.00	0.00	10.00
Reserve Funds	5.18	0.64	5.82
Other Liabilities	12.23	1.29	13.52
Total	**27.40**	**1.93**	**29.33**
Uses			
Cash and Bank	1.13	0.01	1.14
Investment	16.87	0.13	17.00
Fixed Assets	0.41	0.00	0.41
Other Assets	8.99	1.79	10.78
Total	**27.40**	**1.93**	**29.33**

Source: Beema Samiti (Insurance Regulatory Authority of Nepal)

Note: Second Reinsurance company of Nepal (Himalayan Reinsurance Limited) has started operation from last day of fiscal year (July 15, 2021). Hence, the data of Himalayan Reinsurance Limited is not included in the above table.

4.2.3 Employees Provident Fund (EPF)

The total assets of EPF increased by 14.35 percent in a year and reached to Rs.444.47 billion in mid-July 2021. Likewise, the funds collected by the EPF grew by 12.32 percent to Rs.398.06 billion in mid-July 2021. Similarly, it has general reserve and other reserve worth of Rs.40.16 billion.

On utilization side, 45.07 percent of the fund is used in lending to contributors, whereas, 29.50 percent is used in investment in fixed deposit. EPF has been utilizing almost all of its total resources. The loan and investment to total fund ratio stands at 98 percent. Its cash and bank balance stood at Rs.3.60 billion, compared to Rs.0.98 billion of last year.

Table 4.4: Key Indicators of EPF

Indicators	**Amount (Billion Rs.)**	
Sources of Fund	**mid- July 2020**	**mid- July 2021**
Provident Fund	354.41	398.06
Pension Fund	0.48	1.58
General Reserve and Other Reserve	29.06	40.16
Liabilities	1.45	1.18
Provisions	3.31	3.49
Total		444.47
Uses of Fund		
Cash and Bank	0.98	3.60
Investment in Government Savings Bonds	-	-
Investment in Government Debt Bonds	0.32	0.32
Investment in Fixed Deposit	107.76	131.14
Investment in Equity Shares	21.33	34.44
Investment in Debentures	0.23	1.11
Project Loan	63.90	68.54
Lending to Contributors	190.09	200.32
Staff Loan and Advances	1.64	2.08
Investment Properties	0.71	0.67

Property, Plant and Equipment	0.52	0.74
Asset Under Construction	0.03	0.14
Miscellaneous Assets	1.2	1.37
Total	**388.71**	**444.47**
Loan and Investment to Total Fund Ratio	0.99:1	0.98:1
Loan and Investment to Provident Fund Ratio	1.08:1	1.1:1

Source: Employee Provident Fund

4.2.4 Citizen Investment Trust (CIT)

Citizen Investment Trust is an institutional fund mobilizer which operates and manages various types of retirement schemes / programs as well as various unit schemes and mutual fund program for both domestic and foreign investors to encourage the people for saving in order to expand fund and increase the investment opportunities along with the dynamic development of the capital market to contribute economic development of the nation. As of mid-July 2021, net fund collections of CIT stood at Rs.197.67 billion, recording a growth of 9.38 percent from Rs.180.71 billion in mid-July 2020. Regular fund collection from members is the major source of fund for CIT which is 81.28 percent of total fund available.

CIT has been mainly dependent on BFIs and loan to members for its fund mobilization. CIT has placed 52.27 percent of total funds in fixed deposit in the BFIs and 26.87 percent in loan and advances to members in mid-July 2021.

Table 4.5: Key Indicators of CIT

Indicators		**Figures (Billion Rs.)**
Sources of Funds	**mid- July 2020**	**mid- July 2021**
Paid up Capital	1.64	3.27
Share Premium	0.13	1.26
Reserve Fund	12.84	16.08
Fund Collection	140.59	160.67
Other Liabilities	22.51	16.39
Total	**180.71**	**197.67**

Uses of Fund		
Cash and Bank Balances	5.12	2.24
Investments	**106.75**	**122.66**
a) Fixed Deposit	89.03	103.32
b) Governments Bonds	0.60	1.05
c) Shares and Debentures	16.72	18.29
Loan and Advances	46.12	53.12
Fixed Assets& Assets in WIP	1.84	2.09
Other Assets	20.88	17.56
Total	**180.71**	**197.67**

Source: Citizen Investment Trust

4.2.5 Social Security Fund (SSF)

The Social Security Fund (SSF) is an institution which executes social insurance policy to its members. SSF consists of mainly three types of funds as its sources; contribution collected for social security schemes from its members, national welfare fund and social security tax. Contribution based social security schemes are based on individual and organizations' contribution. This fund provides various benefits such as 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 4.6: Key Indicators of SSF

Indicators	
Sources of Fund	**Figure (Billion Rs.)**
Employees Facility Related Liability	0.0038
Social Security Related Liability	0.0045
Loan	0.1500
Other Liability	0.0792
Medical, Health and Maternity Protection Fund	0.2327
Accident and Disability Protection Fund	0.3867
Dependent Family Protection Fund	0.0699
Old Age Protection Fund	7.8439
National Level Welfare Fund	22.4454
Social Security Tax Fund	0.4700
Accumulated Profit/ (loss)	7.0017

Total Sources of Fund	**38.6876**
Uses of Fund	
Cash and Cash Equivalents	5.3271
Placement with Bank and Financial Institutions	30.7547
Loan and Advances to Employees	0.0000
Other Assets	1.6220
Investment on Securities	0.9417
Property, Plant and Equipment	0.0420
Intangible Assets	0.0001
Total Uses of Fund	**38.6876**

Source: Social Security Fund

As of mid-July 2021, National Welfare Fund of SSF stood at Rs.22.44 billion. SSF funds are concentrated in investment in fixed deposit.

CHAPTER - V

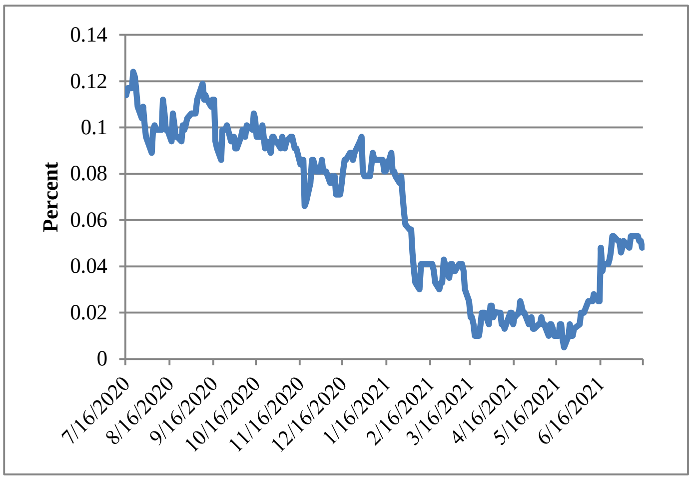
FINANCIAL MARKETS

5.1 Global Financial Market Perspectives

5.1.1 US Government Treasuries

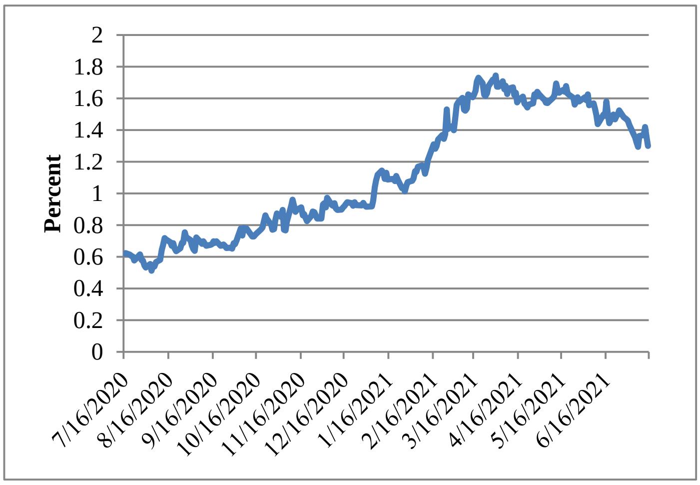
Yield on three months US Treasury Bills have decreased in the review period. The yield was 0.11 percent per annum on 16 July 2020, which has come down to 0.05 percent per annum on 15 July 2021. The average yield on three months T-bills was 0.06 percent per annum, which was 1.14 percent per annum in the same period of the previous year. The highest yield of 0.12 percent per annum has been recorded on 21 July 2020 and the lowest yield of 0.01 percent per annum on 21 May 2021.

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



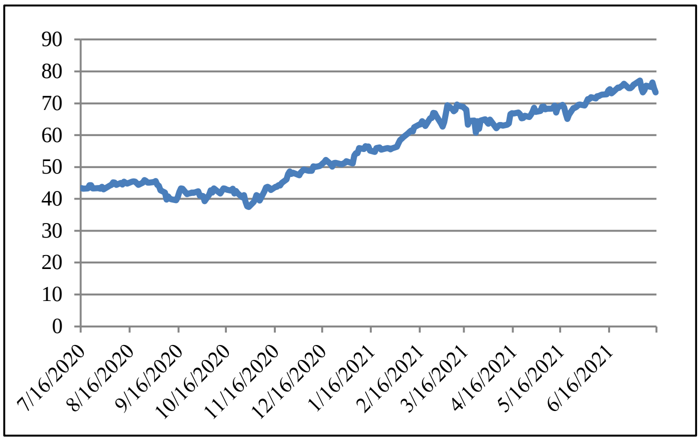
Contrary to the yield on short term security, yield on long term securities has increased. During the review period, 10-year US Government Bond has reached highest yield of 1.74 percent per annum on 31 March 2021 and lowest yield of 0.51 percent per annum on 4 August 2020. The average yield was 1.13 percent per annum, which was 1.35 percent per annum in the same period of the previous year.

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



5.1.2 Crude Oil

Figure 5.3: Brent Crude Oil Price

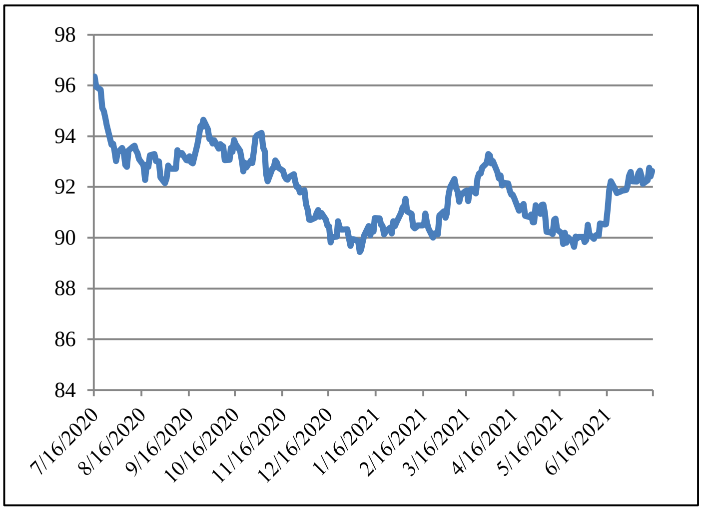


Brent crude oil price, the international benchmark, which was trading at USD 43.37 per barrel on mid-July 2020 has plunged to US Dollar 73.47 per barrel on mid-July 2021. During the review period, it traded between US Dollar 37.46 to 77.16 per barrel. Crude oil price reached the highest level of US Dollar 77.16 per barrel on 5 July 2021 and the lowest level being US Dollar 37.46 on 30 October 2020.

Oil price has plunged due to roll-out of COVID-19 vaccines, ease of restrictions, and subsequently surge in demand from emerging economies like China and India.

5.1.3 Dollar Index

Figure 5.4: Movement of U.S. Dollar Index



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

During the review period, the index recorded the highest value of 96.35 on 16 July 2020 and lowest value of 89.44 on 5 January 2021. Volatility in the index is attributable to factors like yield in US Treasury bond, more specifically the 10-year bonds, the performance of US economy, global economic prospects, among others.

5.1.4 Dollar-Rupee Exchange Rate

Nepali currency appreciated by 0.75 percent against US Dollar during FY 2020/21 compared to the depreciation by 10.07 percent in the same period of the previous year. The exchange rate of one US Dollar stood at Rs.119.04 in mid-July 2021 compared to Rs. 119.94 in mid-July 2020.

Figure 5.5: Movement of Nominal Exchange Rate

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, investors have been participating in Initial Public Offerings (IPOs) online through Mero Share, ASBA and C-ASBA platforms. SEBON has also facilitated for the services of merchant banking and securities broking business outside of the Kathmandu valley. The mutual fund and corporate bond issuance are also increasing, the fund mobilization through these instruments occupies a significant portion in the total issue amount in the public offerings. The reduction of the settlement cycle from T+3 to T+2 has increased the securities transaction significantly. Furthermore, the SEBON has implemented book building directives for the free pricing of public issues and licensed to 87 Qualified Institutional Buyers (QIB). Likewise, CIT started working as only Stock Dealer.

The securities markets in the first half of FY 2020/21 remained promising despite of the effect of the COVID-19 pandemic. Most of the secondary market indicators such as NEPSE index, market capitalization, market turnover grew significantly throughout the year as compared with the previous year. During review period the fund mobilization has increased by more than two times, in which the mutual fund segment observed the highest growth. Similarly, the number of securities market participant increased marginally during the review period, QIB has been new type of market participant added in the list, which has increased the total number of the market participants. 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	2017	2018	2019	2020	2021
1	Stock Exchange	1	1	1	1	1
2	Central Depository Company	1	1	1	1	1
3	Stock broker	50	50	50	50	50
4	Merchant Banker	24	25	30	32	30
5	Mutual Funds	9	9	11	14	15
6	Credit Rating Agency	1	2	2	2	2
7	Listed Companies	208	196	215	212	219
8	Depository Participant	66	70	72	76	79
9	ASBA BFIs	-	65	53	59	52
10	Qualified Institutional Buyer	-	-	-	-	87
11	Stock Dealer	-	-	-	-	1
	Total	**360**	**419**	**435**	**447**	**538**

5.2.2 Primary Market

Corporate sectors mobilize funds through IPOs, right offerings, debentures and mutual fund schemes. In FY 2020/21, funds amounting to Rs. 15.19 billion were mobilized through IPOs, Rs 14.05 billion through right shares, Rs. 69.6 billion through debentures and Rs. 9.9 billion through mutual fund schemes. Thus, a total of Rs. 108.74 billion was mobilized in the FY2020/21 which is a significant increase of 223 percent as compared to the previous year. For the first time in the history of the Nepalese capital markets, the annual fund mobilization through the primary market exceeded Rs. 100 billion. The total fund mobilization through the primary market in the previous year accounted Rs. 33.65 billion. Instrument-wise, there was an increase in all types of instruments, however in terms of number there is decline in the number of right issues in FY 2020/21, the number of all other types of instruments has increased significantly. Fund mobilization through further public offering has been absent in the Nepalese capital market for the last three years. The status of the primary market for the past three fiscal years is presented in Table 5.2.

Table 5.2: Primary Market

SN	Particulars	Fiscal Year (Amount in billion)						Percentage Change			
		2018/19		2019/20		2020/21		Number		Amount	
		Number	Amount	Number	Amount	Number	Amount	2019/20	2020/21	2019/20	2020/21
1	IPOs	28	7.35	9	3.99	22	15.19	-67.86	144.44	-45.71	280.70
2	Right Offerings	19	5.88	11	4.41	7	14.05	-42.11	-36.36	-25.00	218.59
3	FPOs	0	0	0	0	0	0	0.00	0.00	0.00	0.00
4	Debenture	12	29.98	12	23.45	23	69.6	0.00	91.67	-21.78	196.80
5	Mutual Fund	6	6.55	2	1.8	9	9.9	-66.67	350.00	-72.52	450.00
	Total	**65**	**49.76**	**34**	**33.65**	**61**	**108.74**	-47.69	79.41	-32.38	223.15

Source: Securities Board of Nepal

5.2.3 Secondary Market

In FY 2020/21 despite of the pandemic, the major indicator of the secondary market reached new height. Secondary market trading in FY 2019/20 was closed for a significant number of days due to COVID-19 pandemic and opened up for only 182 days, however, there was no abnormal closure of the stock exchange in FY 2020/21 so the market days for the year was 246.

The number of listed companies increased marginally and reached 219 from 212, slow growth on number of listed companies has been observed because of merger and acquisition among banks and financial institutions. In FY 2020/21, total annual turnover of the listed securities remained at RS. 1454.44 billion, which is an extremely impressive growth of 869 percent as compared to Rs. 150.04 billion of FY 2019/20. Average daily turnover was Rs. 5.91 billion, a significant increase of 620 percent as compared to Rs. 0.82 billion of FY 2019/20.

The market capitalization reached Rs 4,010.96 billion on FY 2020/21year end with an increase of 123.73 percent as compared to previous fiscal year. Similarly, float market capitalization also reached to Rs. 1409.38 billion on year end with an increment of 120.87 percent over previous year. In FY 2020/21, NEPSE Index also plunged by 111.65 percent over previous year to 2883.41 points. Float Index which was 95.47 points in the FY 2019/20, increased by 109.85 percent to 200.34 points in FY 2020/21. The trend in secondary market during last three fiscal years is presented in Table 5.3.

Table 5.3: Secondary Market

SN	Indicators	Unit	2018/19	2019/20	2020/21	Percentage Change 2019/20	Percentage Change 2020/21
1	No. of Listed Companies	Number	215	212	219	-1.4	3.30
2	No. of listed Securities	Million	4206.6	4827.58	5826	14.8	20.68
3	Turnover	Rs. in billion	110.07	150.04	1454.44	36.3	869.37
4	Average Daily Turnover	Rs. in billion	0.45	0.82	5.91	83.2	620.73
5	Trading Days	Days	246	182	246	-26	35.16
6	No. of Scripts Traded	Number	277	268	332	-3.2	23.88
7	No. of Securities Traded	Million	387.51	428.52	3404.5	10.6	694.48
8	No. of Transactions	Number	1,422,791	1848773	15417668	29.9	733.94
9	Total Paid up Value of Listed Shares	Rs. in billion	412.28	473.39	573.24	14.8	21.09
10	Market Capitalization	Rs. in billion	1567.5	1792.76	4010.96	14.4	123.73
11	Float Market Capitalization	Rs. in billion	558.25	638.1	1409.38	14.3	120.87
12	Turnover/Market Capitalization (Annualized)	Percentage	7	8.37	36.26	19.6	333.23
13	Turnover/Float Market Capitalization (Annualized)	Percentage	19.7	23.51	103.20	19.4	338.95
14	NEPSE Index	Points	1259.02	1362.35	2883.41	8.2	111.65
15	NEPSE Sensitive Index	Points	271.25	288.25	541.41	6.3	87.83
16	NEPSE Float Index	Points	92.43	95.47	200.34	3.3	109.85

Source: Nepal Stock Exchange Ltd.

There are around 3.7 million investors participating through their own Dematerialized (DEMAT) accounts. According to the CDSC, a total of 7015.80 million securities has been dematerialized and there are more than 2.8 million users of *Meroshare*, which is an online service for primary and secondary market provided by CDSC. The branch of securities brokerage has expanded to Myagdi and Nawalpur district in the FY 2020/21. There are 49 branches of the securities brokers outside of the Kathmandu valley.

Table 5.4: Activities Related to Central Depository

SN	Particulars	2017	2018	2019	2020	2021
1	Number of DP (approved by CDSC)	60	68	72	76	78
2	Total Demat account	8,66,936	12,86,943	15,70,572	17,53,000	37,89,000
3	No. of Registered Companies	187	194	198	198	207
4	Dematerialized securities (In million)	2,369.55	3,677.99	46,47.70	50,70.00	7,015.80
5	Meroshare users	40,246	3,03,130	564,243	742,049	28,55,000

Source: CDS and Clearing Ltd.

CHAPTER - VI

PAYMENT SYSTEM

6.1 Payment Systems Overview

NRB has been entrusted with the responsibility of establishing and promoting the system of payments, clearing and settlement and to regulate these activities in order to develop a *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. The traditional payment system is being gradually replaced by electronic payment system. In line with the global trend, NRB aims at gradually moving towards less cash society by facilitating various instruments of electronic payments.

Payment System modernization effort in Nepal was started with the formulation of "Nepal Payment System Development Strategy, 2014". Currently, NRB is performing regulatory, catalytic, operator, and overseer role in the payment systems. "Payment and Settlement Act, 2019", "Payment and Settlement Bylaw, 2020", Payment Systems Inspection and Supervision Bylaw, 2021 and "Licensing Policy for Payment Related Institutions 2016" provide a strong legal basis for the development of national payment system.

6.2 Legal, Regulatory and Oversight Framework of Payment Systems

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. This act gives powers to NRB to regulate, inspect, and supervise payment, clearing, and settlement arrangements.

Payment and Settlement Act, 2019

Payment and Settlement Act, 2019 is one of the most important legal documents in the field of payment systems of Nepal. Act has made the provision of National Payment Board with the main functions of maintaining financial sector stability by making payment system secured, managed and capable; minimizing risks inherent in the payment system; enhancing trust on payment system and preparing policies regarding modernization of payment system.

NRB has been tasked with the responsibility of issuance, revoke or refusal of license to an entity to work as a payment service provider or payment system operator as well as is empowered to supervise and inspect the licensed institutions on a regular basis.

Besides, Payment and Settlement Bylaw, 2020 and Payment System Inspection and Supervision Bylaw, 2021 provides further basis and clear roadmap to the NRB with the authority to regulate, supervise, inspect and oversee payment services provided by payment related institutions.

6.2.2 Regulatory Framework

Licensing Policy for Payment Related Institutions, 2016 aims at regulating institutions that operate payment related activities.

NRB issues license to operate as a PSO and PSP. With the objective of promoting innovation in digital financial services, NRB permits to add additional instruments/services to licensed PSO and PSP.

As of mid-July 2021, all commercial banks (27), 13 development banks, and 11 finance companies are licensed to operate as payment service provider (PSP). Similarly, 38 non-bank financial institutions are licensed to operate as payment institutions. Among them, 28 are Payment Service Providers (PSPs) and 10 are Payment System Operators (PSOs).

Table 6.1: Licensed Institution to Operate as PSO/PSP

S.N.	Category	Nature of License	Number
1	Commercial Banks	PSP	27
2	Development Banks	PSP	13
3	Finance Companies	PSP	11
4	Other than BFIs	PSO	10
5	Other than BFIs	PSP	28

6.2.3 Unified Directives

NRB issues payment related directives and also continuously updates existing directives to ensure safety and efficiency of the payment systems. Altogether, fourteen directives related to payment services are issued by the NRB till mid- July 2021.

6.2.4 Oversight Framework

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", "Payment Systems Inspection and Supervision Bylaw, 2021" and "Payment System Oversight Manual, 2021".

6.3 Payment Systems, Reports and Indicators

6.3.1 Payment Systems

NRB is committed to the safety and efficiency of Payment Systems of Nepal and taking the leading role in formulating and implementing the strategy for the modernisation of payment systems.

Payment systems' development in Nepal has been guided by the Nepal Payments System Development Strategy (NPSDS), 2014. The NPSDS has outlined the steps that would be taken by NRB to implement the strategy across the following nine pillars:

i. Legal Framework,
ii. Large Value and Time-Critical Payment,
iii. Retail Payment Systems,
iv. Government Transactions,
v. Securities Depository, Clearing and Settlement,
vi. Interbank Money Market,
vii. International Remittances and Other Cross Border Payments,
viii. Oversight and Supervisory Framework, and
ix. Effective, Structured and Fruitful Co-operative within the National Payment Systems.

Retail Payment Systems (RPS)

The Retail Payment Systems in Nepal consist of cheque clearing, electronic funds transfer, card payment systems, e-money and remittances, which are typically a low value payment system. The Retail Payment Systems in Nepal are mainly operated by a NCHL, which provides image-based cheque clearing solution and electronic fund transfers. There are other operators in the cards payment space, mobile wallets and QR payments. Internationally recognized institutions like VISA Worldwide Pvt. Ltd., Union Pay International Company

Ltd., and Master Card Asia/Pacific Pvt. Ltd. are also operating as PSO in the Nepalese payment industry. The e-money and remittance service providers complement the retail payment infrastructure. The retail payment infrastructure in Nepal, such as the automated clearing house and the payment switches are operated by PSOs. The scenario of retail payment has changed rapidly in these years. connectIPS, IPS, Mobile Banking, Internet Banking, Wallets, QR Code etc. are the major developments in the field of retail payments and are providing fast/instant payment services.

As an effort for payment systems modernization, NRB formulated a Retail Payment Strategy (RPS), 2019. RPS focuses on following key pillars:

(i) Strengthening the legal and regulatory framework,
(ii) Deepening digital retail payment systems,
(iii) Government and remittances payment to transaction account,
(iv) Settlement in central bank money,
(v) Financial awareness, literacy and access
(vi) Oversight, and
(vii) Co-operation between authorities.

Large Value Payment Systems

NRB has installed and is operating Real Time Gross Settlement (RTGS) System for large value and critical payment. RTGS System is an electronic fund transfer system in which the transfer of funds between one bank/financial institution 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 Rules, 2019 regulates the membership criteria, members' responsibilities, settlement rules, operating procedures of the RTGS system. Transactions can be settled in five different currencies i.e. Nepalese Rupees (NPR), US Dollar (USD), Euro (EUR), Pound Sterling (GBP) and Japanese Yen (JPY). As of mid-July 2021, all Commercial Banks (27), 8 Development Banks, 2 Finance Companies and Nepal Infrastructure Bank Limited are involved in RTGS system as direct participants.

RTGS operation has eased the large value and critical payment process which was earlier based on manual clearing in NRB's GL System. Further, it is expected that the RTGS System will enhance the trust and confidence towards the payment system as it significantly reduces settlement risk in payment mechanism. It helps to increase the velocity of money and boost up the economic activities.

Table 6.2: Number of Transaction and Amount through RTGS

Currency	FY 2019/20		FY 2020/21	
	No. of Transaction	Amount (in million)	No. of Transaction	Amount (in million)
NPR	1,89,554	9714580.87	5,22,174	20445704.04
USD	8,928	637.2	10,364	688.04
EUR	1,186	511.17	702	161.09
GBP	698	7.63	426	3.23
JPY	246	4078.46	175	1891.12

Instant Payment

There are two types of instant payment, namely, high value and retail. Currently, there are two major networks (NCHL and Fonepay) that provide instant payment. Mobile banking app-fund transfer can be done through QR Code. By linking mobile wallets with bank account, customers can deposit or withdraw funds and pay for services instantly. RTGS System operated by NRB also offers instant payment for high and critical payment.

ConnectIPS

ConnectIPS is one of the most popular products, at public level. This system allows the bank customers to make instant payments. In FY 2020/21, total number of connectIPS transactions increased significantly by 560.8 percent and reached to 1,88,33,752.

Table 6.3: Count/Number of connectIPS Transaction

FY	Total Transaction Presented Count	Growth (Percent)
2018/19	1,86,041	-
2019/20	28,49,964	1431.9
2020/21	1,88,33,752	560.8

Source: Nepal Clearing House Limited

QR Code based payment

QR Code based payment system is one of the cheapest and easy payment platforms for instant payment. Customer can pay to a merchant after scanning QR code plate through mobile phone. NRB is encouraging QR code-based payment. Nepal QR Standardization Framework and Guidelines, 2020 has been issued.

Mobile Banking and Internet Banking

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

Table 6.4: Number of Customer using Mobile and Internet Banking

Time	Mobile Banking		Internet Banking	
	Number	Growth (Percent)	Number	Growth (Percent)
2017	26,69,732	52.2	7,83,751	52.0
2018	50,86,069	90.5	8,34,302	6.4
2019	83,47,187	64.1	9,17,344	9.9
2020	1,13,06,797	35.5	10,31,227	12.4
2021	1,41,94,839	25.5	11,60,321	12.5

In FY 2020/21, number of mobile banking users increased by 25.5 percent and reached to 1,41,94,839. Similarly, number of internet banking users increased by 12.5 percent and reached to 11,60,321.

Figure 6.1: Internet banking

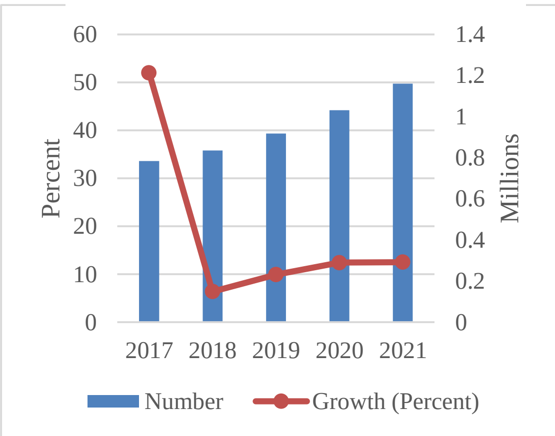
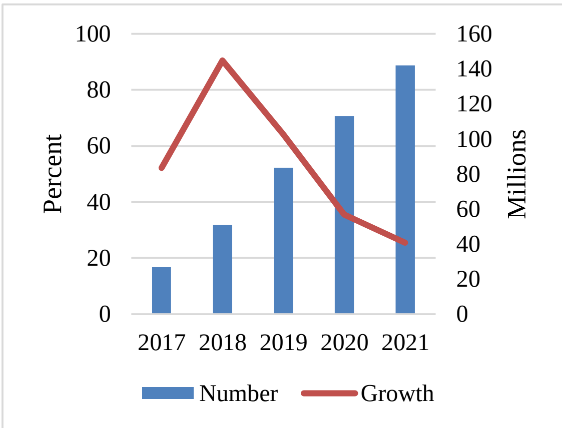


Figure 6.2: Mobile Banking



e-money (wallets)

Use of emoney (wallets) provided by PSPs is increasing significantly in Nepal. Both number of e-money users and transaction amount are in increasing trend.

6.3.2 Reporting Arrangement

Licensed institutions are required to submit periodic reports to NRB in prescribed formats. Such reports are used in oversight of the institutions as well as in publication of indicators.

6.3.3 Payment Systems Indicators

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.

Table 6.5: Access on Payment Systems

Particulars	Number
PSPs Agent	9,279
Wallet Users	88,85,914
ATM Machines/Terminals	4,325
Debit Cards	88,39,855
Credit Cards	1,92,370
Prepaid Cards*	68,265
Branchless Banking (BLB) Centers	1,718
ConnectIPS Users	5,34,615
ECC Members	60
IPS Members	103

*Also includes cards issued by PSPs

Table 6.6: Usage of Payment Systems

Particular	Number of Transaction	Total Amount (In Rs. Million)
RTGS	533841	20552212
ATM-Cash Withdrawal	74479681	648268
ECC	12295926	8056449
IPS	10841023	2369108
ConnectIPS	18833752	1356742
Debit Cards	81648703	679353
Credit Cards	1717397	9986
Prepaid Cards	130867	853
Internet Banking	3179362	98656
Mobile Banking	111923386	460014
Branchless Banking	639338	12869

Wallet	124945099	114432
QR-Based Payments	5581779	20282
Point of Sales (POS)	7547405	31725
E-Commerce	1345364	9101

6.3.4 Challenges to Digital Payment System

It is believed that well-developed payment systems ultimately contribute in strengthening the domestic financial system. The emergence of FinTech has led rapid advancement in digital payment systems causing higher speed, higher efficiency and lower cost. Many challenges and threats remain in digital payment services, such as creating public awareness on opportunities and risks of digital payment including cyber threats. Joint and effective effort of regulators, operators, overseer and other stakeholders is sine qua non to overcome these challenges in the days to come

CHAPTER - VII

FINANCIAL SECTOR POLICIES DEVELOPMENT

7.1 Global Policy Developments

The waves of COVID-19 pandemic frequently occurred in different forms in different parts of the world during this period. The authorities and central bank around the world are more focused to neutralize the impact of pandemic. The advanced economies further eased the policies to counter the pandemic but developing economies started to tighten the policies in response to inflation pressure occurred globally.

7.2 Measures undertaken by NRB to maintain financial stability

The additional measures undertaken by NRB to maintain financial stability in review year are outlined below:

a. NRB has directed BFIs to cap the loan without purpose to Rs. 5 million per person. Loan to value (LTV) ratio for these loans is restricted to 40 percent for Kathmandu valley and 50 percent for outside valley.

b. Energy and infrastructure related loans with a grace period of more than a year are allowed to maintain general loan loss provisions for loans in proportion, during the construction period of project. Similar relaxations on provisioning has been provided to silk, jute, cotton and other agriculture based projects.

c. Banks were required to sanction at least 500 or 10 per branch of subsidized loan mentioned in the subsidized loan manual (except agriculture and livestock loans) up until mid-July 2021. The same provision was set at an aggregate of at least 300 or 5 per branch for national level development bank, 200 and 100 for development banks and finance companies respectively.

d. Agricultural Development Bank Limited is allowed to issue Agriculture Bonds and similarly other BFIs are allowed to issue Energy Bonds.

e. BFIs are required to assess environment and climate risks while sanctioning or renewing loans.

f. BFIs were directed to provide an option of fixed interest rate products for the personal loans (home loan/ housing loan, auto loan/ vehicle loan / hire purchase loan, and loans with a tenure of more than a year).

g. Provisions of countercyclical buffer has been suspended until FY 2021/22 for commercial banks.

h. The balance of employee training and capacity development fund, Corporate Social Responsibility Fund, Regulatory Reserve and other funds that are restricted for distribution and Fair Value Reserve, Actuarial Loss (positive figure from OCI) should not be included in Other Free Reserve.

i. BFIs must deposit the 20 percent of income from Statement of Other Comprehensive Income and distributes the remaining 80 percent in General Reserve.

j. NFRSs has been implemented in all commercial banks, development banks, finance companies and MFIs which are taking public deposit and doing wholesale banking.

k. BFIs are not allowed to distribute more than 30 percent as a cash dividend from the distributable income of FY 2020/21.

l. BFIs are restricted to declare and distribute cash dividend and bonus share unless released from PCA.

m. If the proposed dividend of MFIs is more than 20 percent, then 50 percent of additional dividend should be deposited in General Reserve.

n. Loan loss provision has been increased by 0.3 basis point and reached to 1.3 percent for good loan.

7.3 Policy Response to COVID-19 During FY 2020/21

NRB has been pro-active in terms of response to mitigate the impact of COVID-19. These actions have targeted to support smooth economic activities through uninterrupted flow of financial services. Some of the steps in this regard are listed below:

- Liquidity Related
  The cash reserve ratio (CRR) requirement was reduced by 100 basis points (4 percent to 3 Percent) and it was continued in the review year too to maintain the adequate liquidity in the banking system.

- Capital Adequacy Related
  The countercyclical buffer which was waived for the fiscal year 2019/20, was further waived for the fiscal year 2020/21 to facilitate liquidity needs.

- Grace Period Related
  Banks and financial institutions are allowed to extend the grace period for the projects which cannot come into operation. Such additional grace period was limited at 1 year for highly affected sector, 9 months for moderately affected,6 months for least affected sectors and 2 years for hotels.

- Restructuring/Rescheduling Related
  Banks and financial institutions were allowed to restructure/reschedule loans for the projects which are highly affected, provided that the borrower pays 10 percent (which was later lowered to 5 percent) of the payable amount. The timeline for this was given till mid Jan 2021.

- Additional Loan Facility Related
  Internalizing that the firms and business were short of cash and funds, NRB allowed BFIs to increase the limit of working capital loans by 20 percent. For the firms and business which were not availing working capital loans, the terms loans were extended with an additional 10 percent of the existing limits. This extension of loans could only be used in activities such as paying staff salaries, procurement of inventories and giving continuity to business.

- Time extensions Related
  The repayment date of short-term loans (demand loan, cash credit loans) were allowed to be extended by 6 months (up to mid-January 2021 from mid-July end 2020). Likewise, the NRB had directed BFIs to allow a time extension of 9 months and six months for the installment-based loans based on the severity impact of the COVID-19. The business which were highly affected had their repayment time extended till 2021 July end, this tenure was extended to Mid-April 2021 and Mid-January 2021 for moderately affected and less affected business respectively. Such extension should be done without any penal charges.

- Relaxation on interest capitalization
  The provision of interest capitalization was relaxed and for those borrowers who have already received approval from NRB, the interest capitalization could be extended till the period of mid Jan 2021.

- Business continuity loan related
  The pandemic halted most of the business and industries and the cash flows were affected greatly. Hence, realizing the need of business and firm to pay for the wages and salaries during the time of lockdown, GoN took an innovative approach and introduced business continuity scheme (under business continuity manual, 2077). Under this the business and firms can get funds to cover for their business continuity at a lower interest rate. Business and firms of highly affected sectors can avail loans up to Rs.100 million, while such amount was Rs.70 million and Rs.50 million for moderately affected and least affected sectors, respectively.

- Deferred foreclosures

  For Businesses and individuals who were not able to fulfill their financial commitments due to the effects of the pandemic, the foreclosure processes were withheld till 2021 July end.

CHAPTER - VIII

CONCLUSION

Nepalese economy is in the recovery phase from the COVID-19 pandemic shock. Economic activities have been expanding along with the easing of COVID-19 related restrictions and availability of vaccines in recent months. As a result, credit to the private sector has surged in recent months, resulting in the expansion of money supply, and upward pressure on the asset prices. Increase in domestic demand amidst rising prices of petroleum products is likely to put pressure on inflation.

External sector scenarios under pressure due to the surges in imports in recent months, disruption in the tourism sector, and the slowdown in workers' remittances. The current account deficit has been widening, resulting in the pressure on the overall balance of payments, and foreign exchange reserves. Thus, the risk built up in the external sector, especially the pressure on the balance of payments and declining foreign exchange reserves, may have implications for the overall financial sector stability in the medium term, owing to creating tightening liquidity condition.

Financial sector development has been encouraging, especially in terms of size/depth, and access/inclusion. The total asset of the financial system has increased significantly to more than double of the size of GDP, indicating high degree of financialization. However, the system is highly bank-dominated, with more than two-thirds covered by commercial banks. There has been encouraging improvement in access to finance more recently, with bank branch expansion in most of the local levels, and the use of other innovative methods such as electronic banking tools, and branchless banking. However, there remain a few concerns about the financial access, considering the rural-urban gap, province-wise high concentration of services in Bagmati, and other factors such as the access of the poor to financial services.

Despite the COVID-19 pandemic, financial sector remains sound. Capital adequacy of the BFIs remained resilient and above the current regulatory requirements. Non-performing loan ratio has remained stagnant despite the pandemic, indicating the high asset quality of the BFIs. However, such a low NPL may partly be contributed by the regulatory relaxations and other measures by the NRB amidst the pandemic such as loan restructuring and rescheduling. Rewinding of regulatory relaxation in post-COVID period may pose some risk of increasing NPL of the banking system.

Commercial banks have maintained regulatory leverage ratios and sufficient liquid assets. However, credit growth of the BFIs surpassed the deposit growth in recent months, resulting in the pressure on the regulatory limit of the credit to deposit (CD) ratio, and liquidity of the banking system. Considering the sector-wise allocation of the credit, most of the credit has remained in the wholesale and retail sector, and agriculture, forestry, and beverage production. The BFIs have reduced the real estate exposure within the regulatory limits. However, more than two-thirds of the loan has been against the collateral of the fixed assets such as land and building which pose risk in the time of assets price volatility.

The likely pressure on external sector may cause tight liquidity condition, resulting in the upward pressure on interest rates. About four-fifths of the liabilities of the BFIs represents by deposits, indicating traditional banking. Only recently, commercial banks have started issuing debentures as an alternative source of funds. The BFIs have been in a profitable situation despite the ongoing pandemic. However, the repercussion of the pandemic is not over which may pose downside risk on the banking sector profitability.

Stress testing shows the resiliency of the BFIs to the liquidity, credit, and market shocks so far. Despite the sound indicators, there seems some level of vulnerability in the BFIs balance sheet if the shocks are very large and occur simultaneously. For instance, a large credit shock can push the capital of the banks below the regulatory minimum. Likewise, the BFIs are resilient to the interest rate shock, exchange rate shock, and fluctuation of the equity prices. This is because of the low level of foreign exchange exposure, nominal equity investments, and tendency to pass interest rate change to clients. Moreover, the risks of transmission from large external sector shocks to the financial system cannot be ruled out.

Non-bank financial sector has been expanding, especially the insurance and cooperative sector. The size of both life and non-life insurance has increased significantly in recent years. The Social Security Fund has been introduced. One of the challenges in the non-bank financial sector is the lack of regularly updated data on the cooperative sector and its prudential regulation. Given its growing size, the risk in the largely unregulated cooperative sector may pose vulnerability to overall financial stability through direct and indirect linkage with the regulated financial system.

Reform efforts to modernize the stock market have been gaining momentum in recent years, resulting in a large investor base, introduction of new technology, and significant market capitalization. Along with the expansion of economic activity and easing liquidity conditions, stock market expanded in FY 2020/21. However, the volatility in the stock market has also increased. The rapid growth in stock prices after the first wave of the COVID-19 pandemic may be an indication of a potential boom fueled by policy loosing. If such stock price growth continues for a longer period, it will ultimately bust, resulting in spillover to the overall financial sector and a potential threat to financial stability.

There has been encouraging development of the payment system in recent years, especially in terms of modernization, infrastructure, policy initiatives, and regulation. Several new payment tools such as QR payment, e-money, and internet banking have been introduced and expanded. To ensure the safety, and stability of the payment system, NRB has also adopted regulatory measures such as an oversight framework, inspection bylaws, and payment system strategy. There remains a potential concern of cybersecurity risk along with an increased adoption of digital payment system which may have implications for financial stability.

To maintain financial stability and support economic recovery after the pandemic, NRB has implemented monetary, macroprudential, and other regulatory measures. Such key measures include lowering of the monetary policy rate, tightening of LTV ratio, restructuring, and rescheduling of the loan to hard-hit sector by the COVID-19, suspension of countercyclical capital buffer, increase in the limit of the working capital loan, relaxation of interest capitalization, provision of the business continuity loan, and deferred foreclosure for the pandemic affected businesses. However, in the post-COVID period, policy normalization needs to be in place.

Financial system has remained stable despite the recurring waves of the COVID-19 pandemic. There remain some potential challenges going forward to the stability of the financial system. First, the likely trend of widening current account deficit, and the pressure on the external sector may pose an overall macroeconomic risk, and thus financial system. Second, the recurring wave of COVID-19 pandemic despite the availability of vaccines may create further uncertainty and contain ongoing economic recovery. Third, ongoing asset price growth may turn into a boom, driven by expectation, which needs to bust at some point. The larger boom and asset price crash may have implications for both financial stability and overall macroeconomic activity.

It is important for the NRB to continuously assess these potential risks to financial stability and adopt policy measures accordingly. Several monetary, macroprudential and other regulatory measures have to be adopted in response to changing situation.

Considering overall macroeconomic development and risks, it is important to assess the role of existing regulatory measures, and the appropriate timing of the unwinding of current regulatory concessions and measures. Since the continuity of existing regulatory measures taken against pandemic for a long time and then reversals may have potential financial stability implications, it is important to be cautious in this regard and assess the overall development in the macroeconomy and financial sector. Likewise, other financial regulators, especially Insurance Board, SEBON and Department of Cooperatives should also monitor the health of the institutions under their regulation. Most importantly, it is important to strengthen the monitoring and regulation of the saving and credit cooperatives in order to minimize the risk to overall financial stability.

Annexure

Annex-I

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

		Mid-July						
		2018	2019	2020	2021	% Change		
	Liabilities	1	2	3	4	2/1	3/2	4/3
1	Capital Fund	370,014.44	446,402.47	488,276.68	558,524.98	20.64	9.38	0.14
	a. Paid-Up Capital	282,196.04	305,884.91	330,875.79	365,819.74	8.39	8.17	0.11
	b. Statutory Reserves	63,755.69	76,174.07	94,149.87	105,951.44	19.48	23.60	0.13
	c. Retained Earning	(1,931.93)	4,538.02	4,312.03	12,331.44	(334.90)	(4.98)	1.86
	d. Others Reserves	25,994.64	59,805.48	58,938.99	74,422.36	130.07	(1.45)	0.26
2	Borrowing	35,452.57	90,729.26	81,609.57	275,088.70	155.92	(10.05)	2.37
	a. NRB	12,121.92	22,927.12	7,991.88	118,779.11	89.14	(65.14)	13.86
	b. "A" Class Licensed Institution	8,582.53	34,285.55	5,392.12	28,829.15	299.48	(84.27)	4.35
	c. Foreign Banks And Fin. Ins.	-	3,298.50	14,809.97	25,778.84	-	348.99	0.74
	d. Other Financial Ins.	2,435.75	3,283.23	1,736.80	1,266.98	34.79	(47.10)	(0.27)
	e. Bonds And Securities	12,312.37	26,934.86	51,678.80	100,434.63	118.76	91.87	0.94
3	Deposit	2,836,930.01	3,354,427.87	3,933,737.54	4,740,065.55	18.24	17.27	0.20
	a. Current	256,808.59	311,505.36	401,129.83	490,764.94	21.30	28.77	0.22
	b. Savings	947,024.22	1,060,515.82	1,224,189.47	1,592,151.63	11.98	15.43	0.30
	c. Fixed	1,229,730.70	1,526,497.38	1,884,401.91	2,213,503.20	24.13	23.45	0.17
	d. Call Deposit	367,596.88	417,390.12	387,287.41	396,692.52	13.55	(7.21)	0.02
	E. Others	35,769.62	38,519.20	36,728.92	46,953.27	7.69	(4.65)	0.28
4	Bills Payable	3,108.92	2,309.25	2,052.75	3,067.30	(25.72)	(11.11)	0.49
5	Other Liabilities	263,876.38	303,249.45	385,596.32	418,432.37	14.92	27.15	0.09
	1. Loan Loss Provision	55,008.99	54,893.33	78,604.13	89,593.67	(0.21)	43.19	0.14
	2. Interest Suspense A/C	37,704.55	20,271.09	27,581.70	20,034.97	(46.24)	36.06	(0.27)
	3. Others	171,162.84	228,085.03	279,410.48	308,803.74	33.26	22.50	0.11
6	Reconciliation A/C	4,265.20	15,556.11	3,427.13	4,050.18	264.72	(77.97)	0.18
7	Profit & Loss A/C	61,337.97	73,518.78	59,044.90	69,757.43	19.86	(19.69)	0.18
	Total	3,574,985.48	4,286,193.20	4,953,744.89	6,068,986.51	19.89	15.57	0.23
	Assets							
1	Liquid Funds	439,298.52	466,278.56	563,629.66	519,339.57	6.14	20.88	(0.08)
	a. Cash Balance	74,892.95	92,563.12	110,726.17	116,799.19	23.59	19.62	0.05
	Nepalese Notes & Coins	72,207.99	84,640.15	98,161.03	99,422.33	17.22	15.97	0.01
	Foreign Currency	2,684.96	7,922.98	12,565.14	17,376.86	195.09	58.59	0.38
	b. Bank Balance	298,098.38	295,862.06	369,615.27	334,151.81	(0.75)	24.93	(0.10)
	1. In Nepal Rastra Bank	218,135.41	215,138.12	294,779.99	273,552.75	(1.37)	37.02	(0.07)
	2. "A" Class Licensed Institution	41,054.74	29,035.70	27,140.72	17,905.39	(29.28)	(6.53)	(0.34)
	3. Other Financial Ins.	7,556.64	13,009.76	3,372.09	3,274.72	72.16	(74.08)	(0.03)
	4. In Foreign Banks	31,351.59	38,678.47	44,322.47	39,418.96	23.37	14.59	(0.11)
	c. Money At Call	66,307.19	77,853.38	83,288.22	68,388.56	17.41	6.98	(0.18)
2	Investments	331,231.04	375,402.17	534,611.11	732,619.01	13.34	42.41	0.37
	a. Govt. Securities	295,853.80	374,262.09	533,827.15	721,611.59	26.50	42.63	0.35
	b Others	35,377.25	1,140.08	783.96	11,007.41	(96.78)	(31.24)	13.04
3	Share & Other Investment	109,664.75	186,189.49	171,682.93	214,312.66	69.78	(7.79)	0.25
4	Loans & Advances (Including Bills Purchased)	2,422,797.75	2,913,969.79	3,273,095.57	4,174,616.04	20.27	12.32	0.28
	4.1 Loans & Advances	2,419,841.87	2,910,510.65	3,270,132.99	4,170,584.21	20.28	12.36	0.28
	a. Private Sector	2,355,915.45	2,819,278.66	3,156,509.39	4,014,771.22	19.67	11.96	0.27
	b. Financial Institutions	58,055.79	86,055.92	110,944.67	152,817.56	48.23	28.92	0.38
	c. Government Organizations	5,870.64	5,176.07	2,678.93	2,995.44	(11.83)	(48.24)	0.12
	4.2 Bills Purchased	2,955.87	3,459.14	2,962.58	4,031.82	17.03	(14.36)	0.36
5	Loans Agt. Collected Bills	128.63	-	-	412.39	(100.00)	-	-
6	Fixed Assets	47,763.06	71,419.84	78,567.61	82,988.98	49.53	10.01	0.06
7	Other Assets	206,833.99	253,948.55	312,752.28	331,101.08	22.78	23.16	0.06
	a. Accrued Interests	43,308.52	46,171.39	152,797.02	171,036.41	6.61	230.93	0.12
	b. Others	163,525.47	207,777.17	159,955.27	160,064.67	27.06	(23.02)	0.00
8	Expenses Not Written Off	264.06	26.42	188.57	342.13	(89.99)	613.61	0.81
9	Non-Banking Assets	4,614.27	5,715.65	7,076.21	7,693.40	23.87	23.80	0.09
10	Reconciliation Account	12,388.71	13,167.24	11,715.01	5,153.91	6.28	(11.03)	(0.56)
11	Profit & Loss A/C	0.72	75.47	425.93	407.35	10,417.22	464.35	(0.04)
	Total	3,574,985.49	4,286,193.19	4,953,744.88	6,068,986.51	19.89	15.57	0.23

Annex-II

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

	Mid-July				% Change		
	2018	2019	2020	2021			
	1	2	3	4	2/1	3/2	4/3
1. Interest Expenses	167,966.94	212,129.40	232,950.82	224,341.00	26.29	9.82	(3.70)
1.1 Deposit Liabilities	165,253.99	208,274.00	227,204.92	215,182.71	26.03	9.09	(5.29)
1.1.1 Saving A/c	39,005.05	48,101.58	53,626.82	43,601.10	23.32	11.49	(18.70)
1.1.2 Fixed A/c	112,317.02	143,530.33	157,021.08	166,935.06	27.79	9.40	6.31
1.1.2.1 Upto 3 Months Fixed A/c	8,397.90	8,211.49	7,334.55	6,630.97	(2.22)	(10.68)	(9.59)
1.1.2.2 3 to 6 Months fixed A/c	6,798.97	10,805.65	18,168.40	18,574.35	58.93	68.14	2.23
1.1.2.3 6 Months to 1 Year Fixed A/c	57,784.49	72,244.36	74,620.45	69,134.73	25.02	3.29	(7.35)
1.1.2.4 Above 1 Year	39,335.65	52,268.83	56,897.68	72,595.01	32.88	8.86	27.59
1.1.3 Call Deposit	13,817.98	16,374.37	16,291.30	4,442.63	18.50	(0.51)	(72.73)
1.1.4 Certificate of Deposit	113.93	267.72	265.72	203.92	134.99	(0.75)	(23.26)
1.2 Others	2,712.96	3,855.40	5,745.90	9,158.28	42.11	49.04	59.39
2. Commission/Fee Expense	612.76	1,668.49	1,695.02	1,735.07	172.29	1.59	2.36
3. Employees Expenses	31,472.44	39,311.85	42,145.26	48,173.68	24.91	7.21	14.30
4. Office Operating Expenses	25,516.90	29,456.13	32,395.04	33,543.54	15.44	9.98	3.55
5. Exchange Fluctuation Loss	125.33	35.14	5.66	1.43	(71.96)	(83.89)	(74.82)
5.1 Due to Change in Exchange Rates	102.33	26.26	4.76	1.23	(74.34)	(81.86)	(74.17)
5.2 Due to Foreign Currency Transactions	23.00	8.88	0.89	0.19	(61.39)	(89.93)	(78.28)
6. Non-Operating Expenses	58.45	163.71	462.54	89.23	180.08	182.54	(80.71)
7. Provision for Risk	15,147.02	19,851.73	33,869.34	39,013.51	31.06	70.61	15.19
7.1 Loan loss Provision	12,874.70	19,032.37	33,521.92	38,873.56	47.83	76.13	15.96
7.1.1 General Loan loss Provision	6,484.42	8,358.44	17,256.91	25,113.08	28.90	106.46	45.52
7.1.1.1 Pass Loan Loss Provision	5,678.68	6,457.38	10,920.75	21,235.37	13.71	69.12	94.45
7.1.1.2 Watch List Provision	805.74	1,901.07	6,336.16	3,877.71	135.94	233.29	(38.80)
7.1.2 Special Loan Loss Provision	6,216.13	9,622.67	15,093.89	13,439.62	54.80	56.86	(10.96)
7.1.3 Additional Loan Loss Provision	174.15	1,051.26	1,171.12	320.85	503.65	11.40	(72.60)
7.2. Provision for Non-Banking Assets	1,255.16	481.16	123.99	48.48	(61.67)	(74.23)	(60.90)
7.3. Provision for Loss on Investment	715.51	146.75	91.99	3.32	(79.49)	(37.32)	(96.39)
7.4. Provision for Loss of Other Assets	301.66	191.45	131.44	88.15	-	-	(32.93)
8. Loan Written Off	971.19	917.47	411.14	813.94	(5.53)	(55.19)	97.97
9. Provision for Staff Bonus	7,981.80	8,856.79	7,498.98	9,238.47	10.96	(15.33)	23.20
10. Provision for Income Tax	24,582.73	30,504.93	24,783.15	30,912.85	24.09	(18.76)	24.73
11. Others	28.87	20.50	35.82	248.44	(28.98)	74.69	593.60
12. Net Profit	61,337.25	74,229.60	58,924.35	71,305.54	21.02	(20.62)	21.01
TOTAL EXPENSES	335,801.69	417,145.74	435,177.12	459,416.67	24.22	4.32	5.57
Income							
1. Interest Income	283,227.23	359,819.98	378,136.31	372,972.19	27.04	5.09	(1.37)
1.1. On Loans and Advance	265,445.85	335,598.08	350,654.04	342,440.33	26.43	4.49	(2.34)
1.2. On Investment	10,903.10	13,247.48	19,023.42	25,973.90	21.50	43.60	36.54
1.2.1 Government Bonds	9,359.75	11,868.28	17,634.60	23,335.02	26.80	48.59	32.33
1.2.2 Foreign Bonds	186.01	194.68	108.53	214.51	4.66	(44.25)	97.64
1.2.3 NRB Bonds	1,030.65	620.00	1,038.43	589.07	(39.84)	67.49	(43.27)
1.2.4 Deventure & Bonds	326.70	564.52	241.85	1,835.29	72.80	(57.16)	658.86
1.3 Agency Balance	987.51	1,063.54	639.85	168.97	7.70	(39.84)	(73.59)
1.4 On Call Deposit	3,927.59	6,393.62	4,458.78	1,193.41	62.79	(30.26)	(73.23)
1.5 Others	1,963.17	3,517.26	3,360.22	3,195.59	79.16	(4.46)	(4.90)
2. Commission & Discount	13,569.38	18,693.73	19,439.24	24,942.07	37.76	3.99	28.31
2.1 Bills Purchase & Discount	117.08	217.80	193.76	228.02	86.03	(11.04)	17.68
2.2 Commission	11,380.96	15,684.71	15,924.59	20,920.28	37.82	1.53	31.37
2.3 Others	2,071.34	2,791.22	3,320.89	3,793.77	34.75	18.98	14.24
3. Income From Exchange Fluctuation	7,849.70	10,506.14	10,780.49	10,912.65	33.84	2.61	1.23
3.1 Due to Change in Exchange Rate	1,536.71	1,181.65	1,319.88	1,343.30	(23.10)	11.70	1.77
3.2 Due to Foreign Currency Trans.	6,312.99	9,324.49	9,460.61	9,569.35	47.70	1.46	1.15
4. Other Operating Income	13,392.38	15,375.80	11,433.52	16,788.63	14.81	(25.64)	46.84
5. Non-Operating Income	2,491.29	792.37	2,352.84	8,175.93	(68.19)	196.94	247.49
6. Provision Written Back	14,545.42	10,302.46	12,605.66	24,835.06	(29.17)	22.36	97.02
7. Recovery from Written off Loan	672.99	994.82	448.89	759.77	47.82	(54.88)	69.26
8. Income from Extra Ordinary Expenses	53.31	634.55	(98.33)	11.52	1,090.25	(115.50)	(111.72)
9. Net Loss	-	25.89	78.51	18.86	-	203.28	(75.98)
TOTAL INCOME	335,801.70	417,145.73	435,176.92	459,416.68	24.22	4.32	5.57

Annex-III

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

		Mid-July						
		2018	2019	2020	2021	% Change		
	Liabilities	1	2	3	4	2/1	3/2	4/3
1	Capital Fund	17,420.21	25,503.40	33,423.54	39,092.26	46.40	31.06	0.17
	a. Paid-Up Capital	11,159.07	17,077.80	21,495.34	24,739.79	53.04	25.87	0.15
	b. Statutory Reserves	2,450.93	3,531.26	4,813.65	5,802.80	44.08	36.32	0.21
	c. Retained Earning	1,378.95	1,750.02	2,790.30	3,434.37	26.91	59.44	0.23
	d. Others Reserves	2,431.26	3,144.31	4,324.25	5,115.30	29.33	37.53	0.18
2	Borrowing	87,706.95	126,378.12	142,094.63	207,349.06	44.09	12.44	0.46
	a. NRB	2,069.52	1,701.16	8.19	8,220.44	(17.80)	(99.52)	1,002.36
	b. Others	85,637.43	124,676.96	142,086.44	199,128.62	45.59	13.96	0.40
3	Deposit	49,548.56	85,606.23	106,150.20	130,425.41	72.77	24.00	0.23
4	Bills Payable	1.32	75.28	41.04	10.67	5,591.09	(45.48)	(0.74)
5	Other Liabilities	13,551.50	23,664.48	29,558.02	37,482.79	74.63	24.90	0.27
	a. Loan Loss Provision	2,390.75	4,013.07	7,631.05	10,760.37	67.86	90.16	0.41
	b. Interest Suspense A/C	1,121.40	1,800.17	4,002.88	4,175.63	60.53	122.36	0.04
	c. Others	10,039.35	17,851.24	17,924.09	22,546.78	77.81	0.41	0.26
6	Reconciliation A/C	3,480.31	5,192.15	8,481.86	19,298.35	49.19	63.36	1.28
7	Profit & Loss A/C	4,038.70	6,608.23	5,419.38	11,838.63	63.62	(17.99)	1.18
	Total	175,747.57	273,027.90	325,168.67	445,497.16	55.35	19.10	0.37
	Assets							
1	Liquid Funds	16,314.24	19,246.27	30,381.57	28,288.44	17.97	57.86	(0.07)
	a. Cash Balance	147.32	214.46	379.46	521.10	45.57	76.94	0.37
	b. Bank Balance	9,189.76	13,398.03	16,871.95	17,507.11	45.79	25.93	0.04
	c. Money At Call	6,977.16	5,633.79	13,130.16	10,260.24	(19.25)	133.06	(0.22)
2	Investment In Securities Except Shares	42.73	311.89	467.56	559.34	629.98	49.91	0.20
3	Share & Other Investment	2,564.66	2,261.72	9,731.83	14,153.18	(11.81)	330.28	0.45
4	Loans & Advances	145,943.77	235,101.47	262,732.25	365,554.02	61.09	11.75	0.39
	Institutional	30,596.92	38,954.85	39,720.69	54,127.79	27.32	1.97	0.36
	Individual	115,346.85	196,146.62	223,011.56	311,426.23	70.05	13.70	0.40
5	Fixed Assets	1,471.88	2,106.88	2,222.72	2,565.38	43.14	5.50	0.15
6	Other Assets	5,735.32	8,552.06	11,063.23	15,031.02	49.11	29.36	0.36
7	Expenses Not Written Off	7.10	10.88	11.08	7.20	53.11	1.87	(0.35)
8	Non-Banking Assets	-	1.34	1.34	1.34	-	-	-
9	Reconciliation A/C	3,608.95	5,390.65	8,469.06	19,324.72	49.37	57.11	1.28
10	Profit & Loss A/C	56.58	44.73	88.03	12.51	(20.95)	96.81	(0.86)
	Total	**175,745.23**	**273,027.90**	**325,168.67**	**445,497.16**	**55.35**	**19.10**	**0.37**
Profit & Loss A/C								
	Expenses							
1	1. Interest Expenses	11,759.20	17,021.80	21,964.54	18,279.40	44.75	29.04	(0.17)
	1.1 Deposit Liabilities	3,486.18	5,111.28	8,068.62	8,526.84	46.62	57.86	0.06
	1.2 On Borrowing	8,273.02	11,910.52	13,895.91	9,752.55	43.97	16.67	(0.30)
2	2. Commission/Fee Expenses	3.12	6.69	38.32	16.16	114.61	472.63	(0.58)
3	3. Employee Expenses	4,735.39	6,299.32	8,757.23	9,378.52	33.03	39.02	0.07
4	4. Office Operating Expenses	1,594.42	2,358.20	2,907.40	3,352.72	47.90	23.29	0.15
5	5. Non-Operating Expenses	9.27	62.89	140.05	35.69	578.43	122.70	(0.75)
6	6. Provision For Risk	1,048.32	1,920.61	6,648.25	17,302.77	83.21	246.15	1.60
	6.1 Loan Loss Provision	1,047.14	1,899.13	6,631.69	17,265.36	81.36	249.20	1.60
	6.1.1 General Loan Loss Provision	699.50	1,016.77	3,363.69	4,556.48	45.36	230.82	0.35
	6.1.2 Special Loan Loss Provision	326.45	856.92	3,090.53	11,628.86	162.50	260.66	2.76
	6.1.3 Additional Loan Loss Provision	21.19	25.44	177.47	1,080.02	20.05	597.58	5.09
	6.2. Provision For Non-Banking Assets	-	-	-	-	-	-	#DIV/0!
	6.3. Provision For Loss On Investment	1.17	8.09	0.51	-	589.80	(93.64)	(1.00)
	6.4. Provision For Loss Of Other Assets	0.01	13.38	16.05	37.41	133,712.77	19.92	1.33
7	7. Loan Written Off	0.82	4.64	5.31	31.08	464.16	14.51	4.85
8	8. Extraordinary Expenses	-	1.30	17.96	9.12	-	1,279.00	(0.49)
9	9. Provision For Staff Bonus	546.76	861.36	835.98	1,847.74	57.54	(2.95)	1.21
10	10. Provision For Income Tax	1,663.47	2,544.76	2,353.35	5,069.25	52.98	(7.52)	1.15
11	11. Net Profit	4,013.38	6,248.96	5,393.83	11,829.12	55.70	(13.68)	1.19
	Total Expenses	**25,374.17**	**37,330.52**	**49,062.22**	**67,151.57**	**47.12**	**31.43**	**0.37**
	Income							
1	Interest Income	22,236.28	31,647.10	41,259.05	45,304.11	42.32	30.37	0.10
	1.1 On Loans And Advances	20,302.80	29,153.65	39,362.01	43,760.30	43.59	35.02	0.11
	1.2 On Investment	2.52	4.13	12.36	13.19	63.75	199.16	0.07

	1.5 Others	1,930.96	2,489.32	1,884.67	1,530.61	28.92	(24.29)	(0.19)
2	Commission & Discount	546.27	804.88	717.96	1,419.69	47.34	(10.80)	0.98
	2.1 Bills Purchase & Discount	-	0.02	0.03	0.01	-	64.47	(0.70)
	2.2 Commission	314.29	511.54	414.59	717.54	62.76	(18.95)	0.73
	2.3 Others	231.98	293.33	303.34	702.14	26.44	3.41	1.31
3	Other Operating Income	2,048.87	3,738.78	3,726.39	5,025.34	82.48	(0.33)	0.35
4	Non-Operating Income	142.21	176.22	152.82	270.43	23.91	(13.28)	0.77
5	Provision For Written Back	364.35	935.81	3,133.85	15,072.16	156.84	234.88	3.81
6	Recovery For Write Back	5.18	2.08	2.22	8.69	(59.94)	6.73	2.92
7	Income For Extra Ordinary Expenses	0.00	0.03	18.12	48.35	712.18	53,203.70	1.67
8	Net Loss	31.00	25.63	51.82	2.81	(17.32)	102.16	(0.95)
	Total Income	**25,374.17**	**37,330.52**	**49,062.22**	**67,151.57**	**47.12**	**31.43**	**0.37**
	Miscellaneous Information							
	No. of Total Staffs	11,552	17,361	19,017	20,757	50.29	9.54	0.10
	No. of Total Branches	2,448	3,629	4,057	4,637	48.24	11.79	0.15
	No. of Total Centers	172,788	274,186	310,895	354,918	58.68	13.39	0.17
	No. of Total Groups	562,425	926,625	1,039,696	1,190,653	64.76	12.20	0.14
	No. of Total Passive Groups	5,762	9,565	9,398	13,508	66.00	(1.75)	2.64
	No. of Total Members	2,856,380	4,327,991	4,686,659	5,182,394	51.52	8.29	0.11
	No. of Total Passive Members	51,516	118,044	195,311	326,574	129.14	65.46	0.69
	No. of Total Borrowers	1,853,417	2,679,016	2,783,222	3,006,528	44.54	3.89	0.08
	No. of Total Overdue Borrowers	56,824	165,984	1,001,407	1,273,193	192.10	503.32	(0.24)
	No. of Total Saving Members	3,010,166	4,323,957	4,679,987	5,137,060	43.65	8.23	0.11
	Total Saving Amount (Rs million)	49,548.56	101,910.06	106,150.20	130,471.71	105.68	4.16	0.23

Annex-IV

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

	Mid-July 2018	Mid-July 2019	Mid-July 2020	Mid-July 2021	% Change		
Sector wise	1	2	3	4	2/1	3/2	4/3
Agricultural and Forest Related	115,385.84	157,905.31	189,981.19	273,900.75	36.85	20.31	44.17
Fishery Related	2,725.01	4,215.51	5,490.27	8,956.19	54.70	30.24	63.13
Mining Related	5,033.27	7,313.23	6,453.75	8,685.24	45.30	-11.75	34.58
Agriculture, Forestry & Beverage Production Related	415,538.69	510,037.65	563,969.11	686,582.06	22.74	10.57	21.74
Construction	253,186.93	309,417.48	347,419.77	414,030.33	22.21	12.28	19.17
Electricity, Gas and Water	86,863.05	126,593.91	161,972.16	207,796.52	45.74	27.95	28.29
Metal Products, Machinery & Electronic Equipment & Assemblage	33,148.29	37,075.90	46,073.16	62,562.17	11.85	24.27	35.79
Transport, Communication and Public Utilities	83,254.65	93,129.08	97,602.70	97,504.98	11.86	4.80	-0.10
Wholesaler & Retailer	532,010.61	615,309.45	662,828.20	837,582.03	15.66	7.72	26.36
Finance, Insurance and Real Estate	203,050.35	233,846.71	252,637.87	337,169.65	15.17	8.04	33.46
Hotel or Restaurant	91,145.89	122,122.50	148,657.32	183,908.01	33.99	21.73	23.71
Other Services	105,969.22	122,900.06	150,620.10	177,035.52	15.98	22.55	17.54
Consumption Loans	166,318.73	163,819.04	158,624.47	233,767.41	-1.50	-3.17	47.37
Local Government	1,553.54	1,569.10	1,583.06	1,538.88	1.00	0.89	-2.79
Others	327,742.30	406,641.86	472,098.75	641,727.16	24.07	16.10	35.93
Total	2,422,926.38	2,911,896.78	3,266,011.89	4,172,746.89	20.18	12.16	27.76
Product wise							
Term Loan	423,647.60	562,526.81	718,479.78	932,079.37	32.78	27.72	29.73
Overdraft	410,910.51	455,716.09	488,596.24	634,300.22	10.90	7.22	29.82
Trust Receipt Loan / Import Loan	113,868.62	127,215.69	138,316.38	205,637.63	11.72	8.73	48.67
Demand & Other Working Capital Loan	498,115.75	615,755.45	702,115.42	880,233.54	23.62	14.03	25.37
Residential Personal Home Loan (Up to Rs. 1.5 Crore)	201,681.80	237,959.11	252,542.46	298,257.53	17.99	6.13	18.10
Real Estate Loan	142,005.39	146,990.82	163,480.30	183,538.18	3.51	11.22	12.27
Margin Nature Loan	41,128.86	45,416.72	50,409.69	106,281.51	10.43	10.99	110.84
Hire Purchase Loan	171,054.03	180,956.55	174,057.66	160,657.41	5.79	-3.81	-7.70
Deprived Sector Loan	137,728.27	177,390.02	201,609.71	293,413.85	28.80	13.65	45.54
Bills Purchased	2,858.75	3,341.84	3,303.65	4,403.15	16.90	-1.14	33.28
Other Product	279,926.81	358,627.69	373,100.60	473,944.49	28.11	4.04	27.03
a. Credit Card				2,166.56			0.00
b. Education Loan				14,422.40			0.00
c. Cottage Industrial Loan				7,100.60			0.00
d. Small Industrial Loan				35,470.47			0.00
e. Medium Industrial Loan				67,340.13			0.00
f. Small and Medium Industrial Loan				-			0.00
g. Others				347,444.33			0.00
Total	2,422,926.38	2,911,896.79	3,266,011.89	4,172,746.89	20.18	12.16	27.76
Collateral wise							
Gold and Silver	38,070.33	38,246.38	38,427.04	43,111.28	0.46	0.47	12.19
Government Securities	470.42	336.21	464.82	677.94	-28.53	38.25	45.85
Non-Governmental Securities	37,124.14	35,873.09	39,775.73	87,213.20	-3.37	10.88	119.26
Fixed Deposit Receipts	18,557.51	24,098.87	20,040.53	29,313.43	29.86	-16.84	46.27
Own	17,907.40	23,569.08	19,704.04	29,081.43	31.62	-16.40	47.59
Other Licences Institutions	650.11	529.80	336.49	231.99	-18.51	-36.49	-31.05
Collateral of Properties	2,136,643.17	2,600,224.91	2,913,947.16	3,647,608.95	21.70	12.07	25.18
Fixed Assets	1,788,776.33	2,206,624.04	2,489,020.22	3,118,968.36	23.36	12.80	25.31
Current Assets	347,866.84	393,600.86	424,926.93	528,640.59	13.15	7.96	24.41
Against security of Bill	18,166.44	23,280.71	33,693.81	47,627.64	28.15	44.73	41.35
Domestic Bills	826.25	2,381.60	719.62	555.82	188.24	-69.78	-22.76
Foreign Bills	17,340.19	20,899.12	32,974.20	47,071.82	20.52	57.78	42.75
Against Guarantee	78,284.15	100,600.99	110,037.92	181,602.96	28.51	9.38	65.04
Government Guarantee	2,348.23	2,365.22	2,666.39	2,596.68	0.72	12.73	-2.61
Institutional Guarantee	55,644.51	77,217.25	80,994.81	135,678.69	38.77	4.89	67.52
Personal Guarantee	6,080.54	5,845.79	9,329.54	26,424.04	-3.86	59.59	183.23
Collective Guarantee	7,085.62	7,398.46	8,339.77	8,130.32	4.42	12.72	-2.51
International Rated Foreign Bank's Guarantee	1,681.66	1,662.22	1,901.42	1,783.46	-1.16	14.39	-6.20
Other Guarantee	5,443.59	6,112.04	6,806.01	6,989.78	12.28	11.35	2.70
Credit Card	1,257.07	1,670.37	1,747.60	2,152.25	32.88	4.62	23.15
Others	94,353.16	87,565.25	107,877.28	133,439.23	-7.19	23.20	23.70
Total	2422926.385	2911896.781	3266011.89	4172746.888	20.18	12.16	27.76

Annex-V
Major Financial Indicators

As on Mid-July, 2021

		Class "A"	Class "B"	Class "C"	Overall
A. Credit, Deposit Ratios (%)					
1	Total Deposit/GDP	98.56	10.45	2.09	111.10
2	Total Credit/GDP	87.19	8.99	1.68	97.86
3	Total Credit/ Total Deposit	88.47	86.02	80.08	88.08
4	CCD Ratio#	76.28	78.39	68.41	76.32
5	Fixed Deposit/Total Deposit	45.65	54.60	56.57	46.70
6	Saving Deposit/Total Deposit	33.92	31.37	29.03	33.59
7	Current Deposit/Total Deposit	11.31	3.12	1.44	10.35
8	Call Deposit/Total Deposit	8.05	10.86	11.13	8.37
9	NPL/ Total Loan	1.41	1.30	6.19	1.48
10	Total LLP /Total Loan	2.42	2.21	6.63	2.48
11	Deprived Sector Loan/Total Loan $	7.43	14.90	13.05	8.25
B. Liquidity Ratios (%)					
1	Cash & Bank Balance/Total Deposit	9.79	6.92	9.42	9.51
2	Investment in Gov. Securities/Total Deposit	15.32	12.76	22.99	15.22
3	Total Liquid Assets/Total Deposit	25.96	25.16	41.58	26.18
C. Capital Adequacy Ratios (%)					
1	Core Capital/RWA	10.92	11.77	19.66	11.12
2	Total Capital/RWA	14.13	13.14	22.04	14.19
D. Financial Access					
1	No. of institutions	27	18	17	62
2	No. of Branches	4,753	1,023	222	5,998
3	No. of Deposit Accounts	32,927,622	4,332,374	510,989	37,770,985
4	No. of Loan Accounts	1,366,442	300,631	35,122	1,702,195
5	No. of Branchless Banking Centers	1,706	-	-	1,706
6	No. of Branchless Banking Customers	230,154	-	-	230,154
7	No. of Mobile Banking Customers	12,638,366	1,500,050	56,423	14,194,839
8	No. of Internet Banking Customers	1,115,532	37,063	7,726	1,160,321
9	No. of ATMs	3,983	301	41	4,325
10	No. of Debit Cards	8,459,435	348,411	32,009	8,839,855
11	No. of Credit Cards	192,370	-	-	192,370
12	No. of Prepaid Cards	65,786	-	-	65,786

E. Interest Rate(%)

1	**Wt. Avg Interest Rate on Deposit**	**4.76**
	(a) Saving	3.01
	(b) Fixed	7.72
	(c) Call	0.93
2	**Wt. Avg Interest Rate on Credit**	**8.43**
3	**Wt. Average Spread Rate**	**3.67**

Note:

Bank balance includes money at call
Nominal GDP for 2020/21(P) stands at Rs. 4,266,322 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
# 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. Dev Kumar Dhakal, Executive Director, Bank Supervision Department	Member
Dr. Gunakar Bhatta, Executive Director, Banks and Financial Institution Regulation 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. Guru Prasad Poudel, Executive Director, Payment Systems Department	Member
Mr. Kiran Pandit, Director, Banks and Financial Institutions Regulation Department	Member Secretary
Mr. Pitambar Bhandari, Executive Director, Financial Institution Supervision Department	Invitee Member
Mr. Bimal Raj Khanal, Executive Director, Non Bank Financial Institution Supervision Department	Invitee Member
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
Social security	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
Mr. Birendra Bahadur Budha, Deputy Director, Economic Research Department	Member
Mr. Prahlad Giri , Deputy Director, Microfinance Supervision Department	Member
Ms. Ranjana Sharma, Deputy Director, Finance Company Supervision Department.	Member
Mr. Prakash Rai, Deputy Director, Payment Systems Department	Member
Mr. Subodh Man Shrestha, Deputy Director, Bank Supervision Department	Member
Mr. Raju Poudel, Deputy Director, Development Bank Supervision Department	Member
Mr. Mani Raj Shrestha, Deputy Director, Foreign Exchange Management Department	Member
Mr. Subash Acharya, Deputy Director, Banks and Financial Institutions Regulation Department	Member Secretary

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