

An Empirical Analysis on the Future Economic and Financial Growth of the Banking Sector in Nepal

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Abstract

The Nepalese economy always experiences the trade deficit. Only, listed few goods are exported to foreign in cheap price whereas most of basic and all of luxurious items are imported from overseas at a high price. India is an immediate neighbor with whom most of the transactions of import and export are done. Again, the purchasing power of common Nepalese is comparatively high than other underdeveloped nation. The increasing openings of a bank account by people in every bank are a kind of surprise. If we observe the financial statement of every bank the number of the consumer of each product is increasing year by year. Banks are earning more than previous, some are doing good by earning double benefit than previous FY financial statement. Though the country political, economic and social current structure is not so supportive, it is very unusual fact to see the progress of banks and financial institutions. This creates a kind of curiosity to the researcher to find the reason behind it. This topic "increasing access of general people of Nepal to the banking sector is selected to analyze the reason behind in depth that will kind the different dimensions and level of society to formulate their own policies.

Keywords: Economics, Financial Growth, Banking Sector, Nepalese economy.

1. Introduction

Himalayan nation Nepal is a landlocked country whose southern, western and eastern border is shared with India whereas northern border is shared with China, having a population of 2.85 crores approx. The undeveloped infrastructure of a nation like unpaved road, wooden bridge, low-quality schools and lacking different accessories, as well as poor HDI (Human Development Index), resulted from interim political instability and foreign influence are the main reason of the Nepal that is dragging nation far from the pace of the development. But, the one interesting fact that economic and financial community of World should accept and learn that despite numerous drawbacks the banking access of general people of the country is increasing day by day or say, year by year. The Nepalese version of classification of depository financial institutions according to the NRB, the central bank of Nepal is shown in the table below:

Table 1: Showing the category of BFIs and minimum capital required in Nepal

Category	Component	Minimum Requirement	Paid Up Capital
KA (A)	Commercial Banks	2 Billion	
KHA (B)	Development Banks	64 crore	
GA (C)	Finance Companies	20 crore	
GHA (D)	Micro Credit Institutions, Co-operatives	1 crore	

Source: Nepal Rastra Bank

1.1 Financial service industry

The financial system is a set of institutional arrangements through which funds are transferred from surplus units (which has excess funds) to deficit units (which lack funds). A financial system composed of financial institutions, financial markets, and financial instruments. In Nepal, the Financial system is in developing stage. Nepal Stock Exchange (NEPSE) is only an organized stock exchange in Nepal. The capital market is not performing well. Stock prices and NEPSE index is decreasing several times than previous years. Banks are the dominant financial institution in Nepal as well as other institutions like a pension fund, provident fund, insurance company, mutual funds etc also plays a major role in the financial sector. However, financial services are not reaching to poor and remote area people. They are concentrating their service only to town focus.

Table 2: Showing banking and non-banking institutions

Banking systems	Non-banking systems
Commercial banks, development banks, development banks, finance companies, and micro-finance financial institutions, and NRB permitted cooperatives and FINGOs.	Citizen investment fund (CIT), employees provident fund (EPF), postal saving bank, insurance companies, cooperatives, NEPSE, and merchant banking institutions

These together total 285 banking and financial institutions (BFIs) and other financial institutions. BFI total 162 and represent 88.7% of total assets and liabilities. Total assets of Nepal Bank Limited (NBL), Rastriyabanijya Bank (RBB), Agricultural Development Bank (ADB)- the three state-owned commercial banks are equivalent to 15.9% of GDP. They serve 26% of total deposit account holders and 44% of total borrowers. Their combined branch network covers 33.9% of total commercial bank branches. However, they just have 80 ATMs.

1.2 Kumari Bank Limited (KBL)

Kumari bank limited came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 2,699,166,532 of which 51% is contributed from promoters and remaining from the public. The Bank is listed on Nepal Stock Exchange Limited.

Table 3: Showing the KBL at a glance

Capital	Branches	ATMs
Authorized capital Rs. 5,000,000,000.00	50 Outside valley	Total- 57
Issued & Paid-Up capital Rs. 2,699,166,532.00	24 Inside valley	

The mission of KBL is to deliver innovative products and services to their customers, use innovative products to achieve financial inclusion, and do so by exemplifying good corporate governance, proactive risk management

practices, and superior corporate social responsibility. Whereas, the vision of this bank is to be the preferred financial partner to our customers, a center of career growth to its employees, and to maximize its shareholders' value while contributing to nation's financial sector and to its economic welfare.

2. Objectives of the Research

- An analysis on the access of banking sector in Nepal.
- To analyze the performance of Kumari bank.
- To create a roadmap for future economic and financial growth based on the research report findings.
- To suggest ways to help banks to reach in rural Nepal more widely.

3. Scope of the Research

Although this project is based on whole banking sector of Nepal, the project was carried in a commercial bank (Kumari bank Ltd.) assuming overall good stand of banks in Nepal. Money and monetary goods are the lifeblood of the economy. The commercial banks in the country have a strong position in the contribution of an economy. The analysis of financial statements, two-month-long observation inside and outside the bank, talks with the bankers, professors, and economist, study of different reports issued by NRB and wings of United Nation are the reasons behind the result in the following pages of this paper. This research clearly mentions the financial progress as well as increasing customers inside the Nepal only. It is believed that conclusion drawn in the following will help the economist, intellectual, professors as well as people of the financial world as a good case which gives an essence of good governance that will work effectively despite depressing economic growth rate.

4. Literature Review

A literature review is a "stock-taking" of available literature on the selected research topic. It helps the researcher to review the stock of relevant literatures to understand what aspects relating to the topic have been already explored or studied and what needs further study. For this topic "Increasing access of general people of Nepal in the banking sector" different national and international journal articles, working papers and research reports are reviewed. Financial inclusion which ensures the access of general people in financial service has become an important topic to be discussed in the international arena in past decade with The United Nations (UN) declared 2005 the Year of Microfinance, and the Pittsburg and Korea G-20 communiqués in 2009 and 2010 all have stressed on working towards improving the global state of financial inclusion. Even The Nobel Institute recognized the importance of financial inclusion by awarding the founders of microfinance, Muhammad Yunus and the Grameen Bank, the Nobel Peace Prize in 2006. Now let's see some of the conclusion drawn by experts in this sector.

Schumpeter (1934): Better financial intermediaries are considered to influence growth primarily by raising domestic savings rates and attracting foreign capital. The financial intermediary sector alters the path of economic progress by affecting the allocation of savings and not necessarily by altering the rate of savings.

McKinnon (1973): An increased use of financial intermediation by savers and investors and the monetization of the economy allow efficient flow of resources among people and institutions over time. This encourages savings, reduces constraint on capital accumulation and improves allocated efficiency of investment by transferring capital from less productive to more productive sectors.

Peachy and Roe (2006): They argues that there is clear and well-established evidence that bigger and deeper banking systems go hand in hand with more advanced economic development and that a vibrant microfinance sector can augment this but not substitute for it.

Access to Financial Services in Nepal (2007) by Ferrari, Jafrin, & Shrestha: They viewed in recent years financial

intermediation in Nepal has been stagnation. Over the past 10 years, despite the negative real interest rate on deposits, deposit volumes have grown faster than credit volumes. The ratio of credit to deposits fell from 71 percent in 1996 to 63 percent in 2005. Banks have also increased their investments in government securities, from 9 percent of total assets in 1996 to 12 percent in 2005.

Morduch and Karlan (2009): They suggest financial access will not, on its own, be enough to take children out of the reach of poverty on a massive scale. Nor does the evidence suggest that finance alone is necessarily as powerful as finance coupled with other interventions – like training and healthcare.

Nara Hari Dhakal (2011): This study reveals that net access to financial services in Nepal is considered 1.667 million savings clients and 1.207 million loan clients among 28 million populations. The study conducted in Nepali context suggests financial institutions to employ business strategies and plans for promoting access of their services to low-income group treating it both a business opportunity as well as a corporate social responsibility in order to promote financial inclusion. There exists potential that financial inclusion may emerge as the commercial and profitable business but this requires that financial institutions consider access to finance outside the conventional thinking and in an innovative way.

World Bank's Financial Inclusion Data (2011): It revealed 25 percent of the adult Nepali population has a bank account in a formal financial institution. Likewise, 10 percent of the adults have saved in a formal financial institution in the past year while 11 percent has borrowed from the formal financial institution. Furthermore, 33 percent have borrowed loan from family or friends in the past year, which demonstrates the prevalence of informal channels as the major source of financing for a majority of Nepalis.

Asli Demircuc-Kunt and Leora Klapper (April 2012): This report shows that 50% of adults worldwide have an account at a formal financial institution, though account penetration varies widely across regions, income groups and individual characteristics. Among the most commonly reported barriers are high cost, physical distance, and lack of proper documentation, though there are significant differences across regions and individual characteristics.

Mustafa K. Mujeri (January 2015): Here Bangladeshi scholar presents some of the suggestion which ensures increment in financial access in the Country. Suggestions are:

- Promoting a competitive financial system.
- Learning from MFIs and Informal market.
- The partnership between formal and quasi-formal institutions.
- The reduced transaction cost of borrowing.
- Financial literacy program.
- Documentation of best practices in mobilizing financial resources

Bharat Ram Dhungana and Dr. Prashant Kumar (2015): The reports of this two academician conclude that financial inclusion in Nepal is not satisfactory. They conclude lack of willingness among policymakers and financial institutions are the main reason behind non-financial inclusion. This paper clears the poor access of general people in the banking sector.

Making Access Possible (MAP) funded by Government of Denmark and DFID (2016): This well-accepted report forwards positive direction of Nepalese economy which shows increasing access of general people in financial services. Some of the financial facts among many are as follows:

- Salaried workers and MSMEs are the most banking sectors.
- Remittance flow inside the country is increasing year by year.

- Digitization of scrips and transactions is enabling faster and more cost-effective clearance of transactions.
- Commercial banks (class A) are the biggest providers, in terms of both assets and market share

5. Research Methodology

Research methodology is a way to systematically solve the research problem. The research methodology using for find out the solution of the research problem is analytical research reason methodology and some extend description and analytical research methodology.

5.1 Research Design

The present study is based on analytical design. Analysis of financial performance of Kumari Bank Limited and different internationally well accepted research report of Nepalese economy are considered.

5.2 Population Size and Sampling Method

Employing sample population in this kind of study is considerably tough. There is no exact number of populations introduced in this study. Judgmental sampling method is used in this study.

5.3 Data Collection Method

5.3.1 Primary data

The primary data is collected from the discussion with the manager of Kumari Bank Limited, Macchapuchre Bank Limited as well as assistant director of Nepal Rastra Bank, central bank of Nepal. Inputs of Professor from Central Department of Economics, Tribhuvan University are also the primary source of data. The queries to visitors in KBL during this two month long research project and expression of their expectations are also the strong source of data mentioned here.

5.3.2 Secondary data

It is the data collected from any published source of data. Here the researcher has given more priority to secondary data. Data were collected mainly from the internet, published research papers, journal publications, annual reports of NRB and KBL, different progress report and summary of UN agencies as well as the European Union.

5.4 Tabulation and Chart

It is done with the view of giving quick information to a reader. This will help them to understand the financial facts of Nepal.

5.5 Tools used in the Study

Different tools are used in this study to analysis the KBL's annual performance as well as whole financial trend of Nepal. They are:

- Company Analysis
- Financial Statement
- Percentage Analysis
- Average

5.6 Period of study

This study covers the multiple years' financial information. For example, in respect of KBL's performance it has mentioned last five years numerical facts. Researcher here presents the date of transaction in B.S in place of A.D. since Nepal records their fiscal year in B.S. starting from Shrawan first of first year and ends at Ashad last of second year. For the general information of whole country's financial trend the limitation of time is not mentioned.

6. Data Analysis and Interpretation

In Nepal, Nepal bank limited was the first bank in the modern banking system which was established in year 1937 A.D. The central bank of the country was established in 1956 A.D. In these years of absence of central bank in the country, Nepal bank Limited played a role of central bank. In 1968 A.D. another bank named agricultural development bank was established with the view of assisting farmers. After declaration of free economy and privatization policy in 1990, the government of Nepal encouraged the foreign banks for joint venture in Nepal.

6.1 Financial transactions of KBL

Table 4: Showing financial performance of Bank's past five year

Particulars	Fiscal year (NPR million)				
	068/69	069/70	070/71	071/72	72/73
Paid-up Capital	1603.80	1828.33	2431.68	2699.17	
		3265.99			
Deposit		21985.20	25318.57	27578.38	
	33421.91	37950.53			
Loans, borrowing	18101.34	20119.79	22808.50	27070.39	
		30111.45			
and Advances					
Investments	3261.80	4888.55	3672.10	5299.47	
		7742.97			
Fixed Assets (Net)	277.27	255.86	235.78	259.46	265.41
Total Assets	25131.40	28222.57	31020.60	37374.51	42416.51
Net Interest Income	819.09	978.03	835.47	925.77	1175.43
Other Income	203.36	237.05	330.83	297.55	
		338.61			
Operating Expenses	406.32	434.27	461.82	538.08	581.11
Operating profit	616.13	780.81	704.48	685.24	
		932.94			
before loan loss					
provision					
Net Profit (Loss)	275.5	291.45	341.65	394.79	
		716.06			
Non-Performing	2.21	2.89	4.03	2.49	
		1.15			
loan ratio (%)					

Note: Paid-up Capital includes bonus share

Looking at the past year's performance, it is evident that the bank's financial business had a significant growth. Non-performing assets have been well managed in these years and the business activities of the bank have been increased at a limited rate on the basis of risk valuation. The bank has been planning for balanced and long-term business growth despite fluctuating condition of Nepal's financial market, political context, industries, etc. In fiscal year 2071/72, additional loan loss provision was NPR 55.8 million whereas the write-back of loan loss provision in fiscal year 2072/73 was NPR 254 million. In fiscal year 2072/73, loan of NPR 40 million was stated during enlistment of non-banking assets. During the period, although the other operating income had declined by 10.06%; due to the incremental impact of net interest income by 10.81%; the total operating income of the bank had increased by 4.89. Net loan loss provision has been decreased by 65.16% in fiscal year 2071/72 than that of previous fiscal year.

Non-performing loan (NPL) is the default loan or loan which is close to default. Generally, loan turns to NPL after it reaches or crosses the 90 days of default, but it depends upon the kind of contract. The NPL ratio measures the effectiveness of a bank in receiving repayments on its loans. The calculation method for the NPL ratio is simple: Divide the NPL total by the total amount of outstanding loans in the bank's portfolio. The ratio can also be expressed as a percentage of the bank's nonperforming loans. Here in above-furnished information, the bank in FY 68/69 observed 2.21%. This rate goes increasing in FY 69/70 as well as 70/71, i.e. 2.89% and 4.03% respectively. This condition started to come under control from FY 71/72 as well as FY 72/73 showing 2.49% and 1.15% respectively.

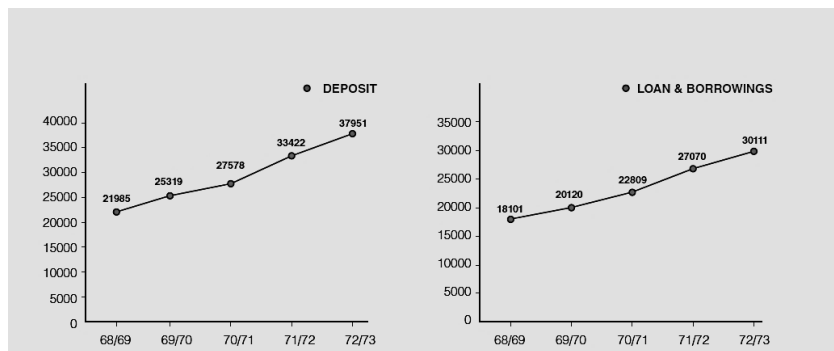


Figure 1: showing the amount of deposit and Loan & Borrowings

Deposit is the sum of money which is kept in an entity (banks) by the depositor that may be taken back, paid fees as well as transferred to others account. The deposit amount in KBL in FY 2068/69 was NPR 21985.20 million which increased to NPR 25318.57 in FY 69/70 making 15.16% of increment. Again, in FY 70/71 we can see 8.93% of an increment than previous FY. This increment is seen continuous in KBL since the percentage of deposit increases by 21.19% and 13.55% in the FY 71/72 and 72/73 respectively. Deposit is considered as a liability of bank that they need to return it back to the owner.

Loan and Borrowings is the fund that the banks and financial institute give to the individual person, group or the organization whenever they are in need o fund and applies in the BFI for support. After completing the requirement the funds are disbursed according to the rule and provision of a particular bank. Loan and borrowings are the assets of the bank. According to the above-furnished information, the amount at KBL under the heading of loan and borrowings in FY 68/69 was NPR 18101.34 million which later increase by 11.15% in FY 69/70. With the increment of deposits in KBL, the increment of loan and borrowings can also be seen. In support of this, the loan and borrowings of KBL increase by 13.36% and 18.69% in the FY 70/71 and FY 71/72 respectively. The increment of loan and borrowing continues in FY 72/73 giving 11.23% of the increase.

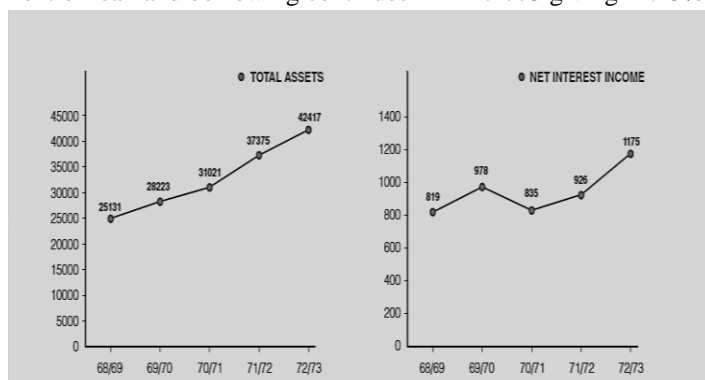


Figure 2: Showing total assets and net interest income of KBL

The final amount of all gross investments, cash and equivalents, receivables, and other assets as they are presented on the balance sheet is called total assets. Given information speaks; KBL had total assets of NPR 25131.40 million in FY 68/69 which increased by 12.30% in the following FY 69/70. In FY 70/71 and 71/72 KBL observed the growth of 9.91% and 20.48% respectively. In the recent FY 72/73, it observed the growth of 13.49%.

Net interest income is the difference between the revenue that is generated from a bank's assets and the expenses associated with paying out its liabilities. A typical bank's assets consist of all forms of personal and commercial loans, mortgages, and securities. The liabilities are the customer deposits. The excess revenue that is generated from the interest earned on assets over the interest paid out on deposits is the net interest income.

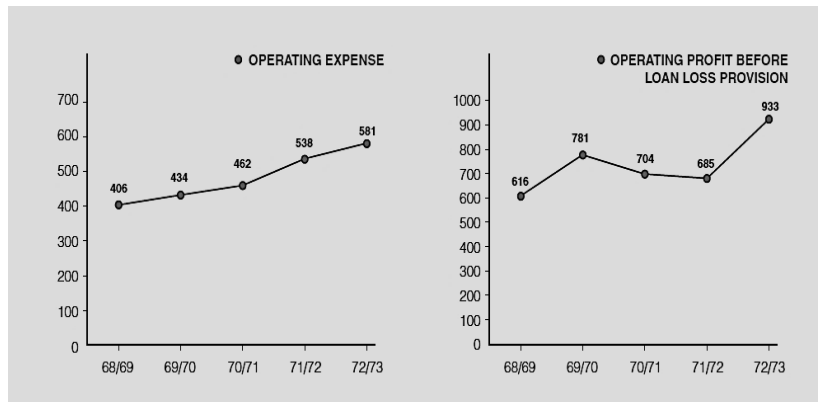


Figure 3: Showing operating expense and operating profit before loan loss provision of KBL

The expense which is incurred while operating the bank is known as operating expenses. Here, capital expenditure does not come. Marketing expenses, salary to staff, rent charge; legal expenses, etc. are the operating expense of the bank. With growing operation of the bank, the operating expense also seems to increase year by where. This is a normal business which happens when a volume of a transaction as well as an area of operation increase. The operating expense of KBL of FY 68/69 was NPR 406.32 million which increased by 6.87% in FY 69/70. Bank observed increment the of 6.34%, 16.51% and 8% in the FY 70/71, FY 71/72 and FY 72/73 respectively. Loan loss provision is an expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover a number of factors associated with potential loan losses including bad loans, customer defaults and renegotiated terms of a loan that incur lower than previously estimated payments. Loan loss provisions are an adjustment to loan loss reserves and can also be known as valuation allowances. In the FY 69/70, it observed the growth of 26.73% under the same heading of PBLLP. But, in the FY 70/71 KBL observed the 9.78% less PBLLP than the previous fiscal year of the bank.

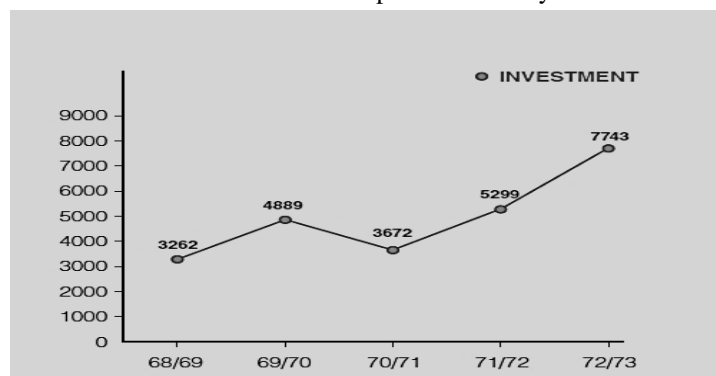


Figure 4: Showing investment of KBL

Investment is the fund or amount put by the bank with the view of getting extra benefits out of it. Buying the bonds, shares of other company many other like this is called investment and the benefit from this is called a return, the return may consist of capital gain or investment income, including dividends, interest, rental income etc., or a combination of the two. The KBL observed the NPR 3261.80 million of investment in FY 68/69 which increased by in the FY 69/70. The investment in FY 70/71 is 24.88% less than the previous FY. KBL increases its investment in following FY 71/72 increasing 44.317% more than the previous year’s investment. This rate increases considerably while coming to the FY 72/73 which is 46.11% of previous year.

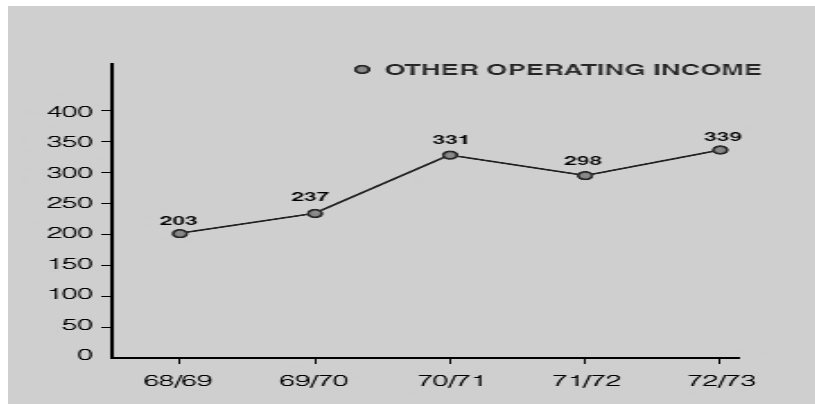


Figure 5: Showing other operating income of KBL

The other operating income is the amount received out of core business of the bank. Income from allowance, government grants, gains less losses on disposal of financial assets (available for sale and loans and receivables), dividend income, gains arising on assets fair valued at acquisition, rental income from operating lease assets, gains on disposal of property, plant and equipment and gain arising on change of control are items comes under other operating income. The other operating income for FY 68/69 is NPR 203.26 million which in following FY 69/70 increased by 16.63%. The KBL observed the big increment in FY 70/71 since it gained 39.56% of growth in operating than the previous year. But, in the following FY 71/72, it observed the 10.06% less gain than the previous year. The other operating income of FY 72/73 remained NPR 338.61 million showing 13.80% growth than the previous fiscal year.

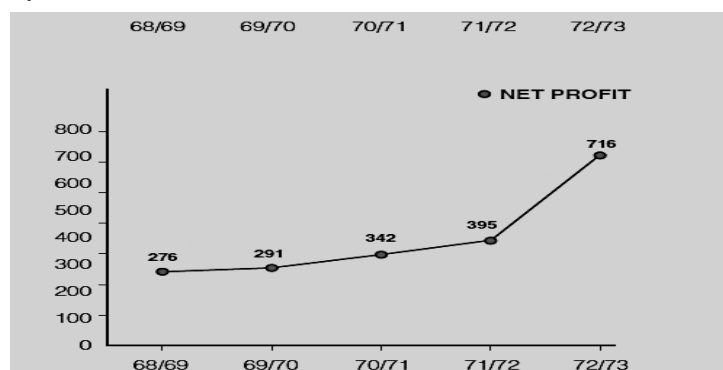


Figure 6: Showing net profit of KBL

Net profit is the net gain of the bank derived after calculating all the expenses that bank obliged to pay. Net profit is the something that every BFIs looks for to increase. This comes at the end of every financial statement after cutting all the obligations. The bank had NPR 275.5 million of net profit in FY 68/69 which increased only by 5.79% in FY 69/70. KBL observed 17.22% and 15.22% of growth than the previous fiscal year in FY 70/71 and 71/72 respectively. KBL observed the very attractive growth in net profit in FY 72/73 making it NPR

716.06% showing the growth of 81.38%.

6.2 Financial Performance Summary of KBL

6.2.1 Capital management

As per Nepal Rastra Bank's capital requirement, the bank had formulated following capital plan to adhere to a requirement of Central Bank obligations.

Table 5: Showing the capital plan of KBL

Amount in NPR million

Fiscal Year	Opening Balance	Addition to Paid-up of Bank			Closing Balance	
		Share Dividend	Right Share	Acquisition		
2072/73 3,266	2,699		567	-	-	
Fiscal Year	Opening Balance	Kumari Bank's 50% Right Share	Acquired through Acquisition	Right Share after Acquisition	Share Dividend	Closing Balance
2073/74 844	3,266 8000		1,350		1,640	900

Out of Bank's current paid-up capital of NPR 2.69 billion, total capital would reach NPR 4.61 billion after distribution of the share dividend of 21% i.e. NPR 566.8 million and 50% right share i.e. NPR 1.35 billion, in the fiscal year 2072/73. Similarly, additional paid-up capital of NPR 1.64 billion from 4 acquiring financial institutions would be added up in the bank's capital. In the current fiscal year 2073/74, share dividend from joint operation after acquisition would be NPR 840 million and right share would be NPR 900 million. The above mentioned right share is targeted to be included in the consolidated capital after an acquisition.

6.2.2 Deposit

The total deposit amount reached NPR 37.95 billion in Asadh end 2073, which increased by 13.55 as compared to the last fiscal year. This is shown below:

Table 6: Showing the kind of deposit and increment in KBL

Amount in NPR million

Deposit	FY 072/73	% of total deposit	FY 071/72	% of total deposit	Increased Amount	Increased Rate
Current 404	2,070 24.25		5.45		1,666	4.98
Savings 1,576	9,581 19.69		25.25		8,005	23.95
Call -510	8,771 -5.49		23.11		9,281	27.77
Fixed 3,058	17,528 21.13		46.19		14,470	43.29
Total 4,529	37,951 13.55		100		33,422	100

6.2.3 Lending and its management

In fiscal year 2071/72, the bank's total loan was NPR 27.7 billion, while at the end of review year, it increased by 11.23% reaching NPR 30.11 billion. The bank has diversified its lending into the personal loan, education

loan, small and medium scale business loan, agricultural and productive loan, deprived sector loan, organizational loans and development projects loan. During the review period, bank's nonperforming loan is 1.15%, but the gross non-performing loan ratio was only 0.12%. Certain improvements were noted in real estate sector lending in the current review period. In the current review period along with recoveries, certain non-performing loans were taken as the non-banking asset of the bank, which resulted in the decline in non-performing loan ratio in comparison to the previous year.

6.2.4 Investment

In accordance with the bank's objective of getting returns from overall resources by maintaining balanced liquidity, the bank has given continuity to its policy of investing in Nepal Government and Nepal Rastra Bank's risk-free securities (Treasury bill, development bond, etc). The bank has been carefully investing in the local and international market and various organizations' share and bonds. The bank has invested NPR 1.28 billion in NG's treasury bills, NPR 2.51 billion in development bonds; making the total investment of the bank to be NPR 7.74 billion by the end of FY 2072/73. The bank has invested in shares of few institutions also.

6.2.5 Profit

In the review year, there was good growth in revenue from every sector along with growth in the Bank's overall business. Besides this in the review year, growth in operating expenses has been limited to 8% and huge bad debts have been recovered. Interest income from loan and investment in the fiscal year 2072/73 increased by 11% and reached NPR 2.69 billion and interest expenses increased by 0.64% to NPR 1.52 billion as compared to the fiscal year 2071/72. Bank's net interest income increased by 27% and reached NPR 1.18 billion in the fiscal year 2072/73. Bank's loan, deposit, and income through fee and commission for other services increased by 14% and reached NPR 230 million in fiscal year 2072/73 whereas foreign exchange income increased by 14% and reached NPR 110 million. Similarly, in the fiscal year 2072/73, Bank's total operating income has reached NPR 1.51 billion which increased by 24% than the previous year. Besides this, Bank's staff expenses and other operating expenses increased by 11% and 4% to NPR 320 million and NPR 260 million respectively. In fiscal year 2072/73, operating profit before loan loss provision increased by 36% than last fiscal year and reached NPR 930 million. In the review year, there was additional loan loss provision NPR 180 million and NPR 430 million was returned for loan loss provision. There were few loans which were required to be converted into non-banking assets with a book value of NPR 40 million. The Bank's net income in fiscal year 2072/73 increased by 81% and reached NPR 716 million as compared to the fiscal year 2071/72 which was NPR 390 million.

6.2.6 Contribution to government revenue

In the fiscal year 2071-72, the bank paid NPR 173.7 million as a corporate tax to the government and during the review period NPR 356 million was paid as advance corporate tax to the government.

6.3 Analysis of Financial access in Nepal

Table 7 : Showing the different indicators of financial access

S. No	Particulars	Class "A"	Class "B"	Class "C"	Overall
1.	No. of Branches	2,116	805	805	3,726
2.	No. of Deposit Accounts	14,929,948	34,37,203	4,76,454	18,843,605
3.	No. of Loan Accounts	8,41,206	3,05,111	37,315	11,83,632
4.	No. of Branchless Banking Centers	976	0	0	976
5.	No. of Non-operated	142	0	0	142

Branchless Banking Centers					
6.	No. of Branchless Banking Customers	2,24,003	0	0	2,24,003
7.	No. of Mobile Banking Customers	22,08,046	20,5,735	12,900	24,26,681
8.	No. of Internet Banking Customers	7,12,336	20,649	1,939	73,4,924
9.	No. of ATMs	1,817	201	29	2,047
10.	No. of Debit Cards	4727384	353099	27730	5108213
11.	No. of Credit Cards	64136	0	0	64136
12.	No. of Prepaid Cards	99933	0	0	99933

Source: Banking and Financial Statistics Report, NRB. Mid-June 2017

The information mentioned in above table talks about the access of BFIs in Nepal. It shows that commercial banks have 2116 branches until mid-June 2017 in Nepal. Similarly, development banks and financial institutions have 805 each branch in a different part of the country till the date mid-June 2017. The total number of deposit accounts in Class "A", "B" and "C" is 18,843,605 where 11,83,632 is the number of loan account holder till the date. From the above information, we observe that only commercial banks have the facility of the non-operated branchless banking center and the number of it in Nepal is 976. The number of customers who are benefited from this same facility is 2, 24,003. The number of non-operated branchless banking centers are 142. Nowadays, mobile banking and internet banking are also becoming famous in Nepal. Mobile has 24,26,681 customers whereas, internet banking has 73,4,924 number of customer. The concept of cashless economy is found moving quickly in Nepal. Till mid-June 2017, the number of ATMs, debit card holders, credit card holders and prepaid cardholders are 2047, 5108213, 64136 and 99933 respectively.

6.4 Comparative study of Financial Access in Nepal

Table 8: Showing the comparative progress in financial access

S. No	Particulars	2015 (Mid-July)	2016 (Mid-Dec)	2017 (Mid-June)
1.	No. of Branches	2864	2949	3726
2.	No. of Deposit Accounts	15,755,857	17,519,287	18,843,605
3.	No. of Loan Accounts	10,38,166	11,01,240	11,83,632
4.	No. of Branchless Banking Center	503	812	976
5.	No. of Branchless Banking Customers	1,97,493	2,15,094	2,24,003
6.	No. of Mobile Banking	9,97,463	17,54,566	24,26,681
7.	No. of Internet Banking Customers	3,96,362	5,15,465	7,34,924
8.	No. of ATMs	1,483	1,908	2,047
9.	No. of Debit Cards	41,46,237	46,57,125	51,08,213
10.	No. of Credit Cards	43,895	52,014	64,136
11.	No. of Prepaid Cards	69,322	92,349	99,933

Source: Banking and Financial Statistics report, NRB.

The above table displays the progress made the BFI in Nepal towards the access to its service in Nepal. The number of branches in the year 2015 (mid-July) was 2864 which is found increased by 2.97% in mid-Dec, 2016 making a number of branch 2949. This was again found increased in 2017, mid-June by 26.35% making number 3726. The number of deposit accounts is also seen increased considerably. In an amount of deposit in 2015, mid-July was reported 15,755,857 which increased by 11.19% making number 17,519,287 in mid-Dec, 2016. This number in 2016 increased in 2017, mid-June by 7.56%. The number of loan account holders is also seen

increased. It was 10, 38,166 in Mid-July, 2015 which increased by 6.08% till mid-Dec 2016. Again, the number of the loan account holders found increased by 7.48% in mid-June, 2017. The number of the branchless banking center and customers were also seen increased as the number of centers increased. In the mid-July, 2015 the number of branchless banking center was 503 which increased to 812 till mid-Dec, 2016. This number of centers increased till mid-June, 2017 to 976 making the growth of 20.19%.

In Nepal, the concept of cashless economy is increasing day by day, more in the educated circle. The demand for mobile banking and internet banking are increasing day by day. In mid-July, 2015; 9, 97,463 numbers of customers all over the Nepal are found using the facility of mobile banking. In the same way, 17, 54,566 numbers of customers all over the Nepal are found using the same facility showing the growth of 75.90%. The number of mobile banking customers reached to 24, 26,681 until mid of June 2017 making the growth of 38.31%. The number of internet banking customers is also seen increased considerably. In mid of July 2015, the number of customers using this facility was 3, 96,363 which increased by 30.05% till mid of December 2016. The number of the customers using the internet banking services in overall Nepal reached to 7,34,924 making the growth of 42.57% than previous calculation.

From the above table, we can observe a net increase in the number of ATMs in all over Nepal. In mid-July, 2015, the NRB records 1,483 ATMs all over the Nepal which again they have recorded in another report of mid-December, 2016; 1,908 ATMs. The number of ATMs found again more in the survey reported at mid of June 2016, and it is found country has increased the number by 7.28% making number to 2,047. The number of the debit card in mid-June, 2017 was reported at 51,08,213 which were only 46, 57,125 in mid-Dec, 2016. From above table shows that the number of the debit card in mid-July, 2015 was 41, 46,237 in all over the country. The Same increment can see in credit card too. The number of credit card holder was 43,895 in the mid-July, 2015 which increased by 18.50% in mid-December, 2016. The number of credit card user reaches to 64,136 in mid-June, 2016 showing the increment of 23.31%. We can also observe the increment in user of the prepaid card which was only 69,322 numbers in mid-July, 2015. This number increases by 33.22% as reported in mid-December, 2016. The NRB observed only little increment in mid-June, 2017 in the numbers of the prepaid cardholder. Only 8.21% of overall user's number is increased till the date.

From the above information, we came to know that the volume of Nepalese financial sector is increasing day by day. Every dimension of financial access discussed above is found heading in a positive direction. These data imply not only increasing access of general people in the banking sector but also the level of awareness.

6.5 Comparative study of population per branch of BFIs in Nepal

Table 9: Showing the comparison of population per branch of BFIs in Nepal

Year	Total Population	Total Branches of BFI	Population per branch
Mid-Jul, 2015	2,80,44,096		4047
6930			
Mid-Dec, 2016	2,84,31,494		4514
6299			
Mid-Jun, 2017	2,84,31,494		4894
5809			

Source: Banking and Financial statistics report. NRB

From the above record, we observe the decreasing number of population per branch of BFIs in Nepal. The report on mid-Jul, 2015 records the 6930 people per branch with the full population of 2,80,44,096. The total branches of BFI at that point were 4047. These statistics found the change in the record of mid-Dec, 2016. The number of people using the single branch reached to 6,299. Here, we can see two differences in data provided: change in total population and total branches of BFIs. The population of Nepal reached to 2,84,31,494 and at the same

time, total branches are also found increased i.e. 4514. The recent publication also showed the progress in financial access. The number of people per branch in the record on mid of June 2017 records 5,809 people. Here the population remains same to the mid-Dec, 2016 record whereas, the number of branches of BFI

7. Findings and Suggestions

The above discussion not only forwards the developmental trends in Nepalese banking sector but, also stresses on the need of banks and financial institutions to increase the quality of life. Though the Nepal lacks in a wide distribution of industrialization and the wealth, it is constantly observing increased financial transactions every year. Presently, most of the youth are outside the nation, mainly in gulf like Dubai, Saudi Arab, Malaysia, Qatar, etc. Educated youth circle is in developed countries like Australia, USA, Canada, etc. and this number is not naming to stop. This migrated population mostly uses to send their earnings in-country rather than spending in outside. Remittances have 28% of contribution in the GDP of the Nepal. It is very true that most of goods and services consumed in Nepal are not produced inside. India is the major business partner as well as supplier to Nepal. Any changes in Indian business trend have a direct or indirect impact on the availability and price of the goods and services in the country.

The given below are the main findings of the financial analysis of KBL and Nepalese economy towards financial inclusion.

7.1 Findings of this Research

- Salaried workers and MSMEs are the most banked group. 72% of MSMEs have access to formal financial services, in the same way, 83% of salaried workers have access to same. The nature of occupation they hold made them financially inclusive group.
- 28% of GDP is contributed from remittance. The rate of contribution in GDP under remittance is increasing since the rates of immigrants are increasing every year.
- Poor banking infrastructure and the high cost of operation is restricting BFI from spreading their reach in rural areas.
- Informal channels of financial service providers have widespread usage among all target market segments. Landlords, goldsmith, and pawnbroker are widely visited group for financial support. No cumbersome procedure and no strict legal compliance are the reason behind the wide presence of this informal group.
- There is a single stock exchange, dominated by scrips of banking and financial institutions (BFIs).
- Digitization of scrip's and transactions is enabling faster and more cost-effective clearance of transactions.
- Sophisticated financial technology and services introduction is increasing in the country.
- A number of branches are increasing more each year. BFI is seen more interested to open a branch in an urban area than rural.
- The rate of net profit of KBL is very progressive despite the poor economic condition of Nepal.
- The numbers of the account holder (both deposit and loan) are seen increased every year. Comparatively, deposit account holder is seen more than loan account holder.
- The user of debit, credit and prepaid card are increasing. Every time the record made by the particular BFIs and NRB record reports the increased number.
- Mobile and internet banking are getting more popular. The user of mobile banking service user was found 38.31% more in mid-June, 2017 than the mid of the Dec. 2016. In the same way, the internet

banking users are also found more than the previous record. 42.57% of growth is seen in mid of June 2017 than the mid of Dec. 2017 record.

- Every immigrant with different motto has at least one bank account in Nepal since they need to deposit the amount and send it to home.
- The number of ATMs counter in all five development region of Nepal is found increased.
- Mostly remittance is received from money transfer agency. Nowadays most of the banks have their own remit agency.
- Almost all financial transactions and volume of banks is seen increased. The comparative financial statement of KBL and record of NRB are the proof.
- The government of Nepal is found motivating BFI for merge which helps them financially more capable.
- People of Nepal are seen little more financially aware than past years. The increased number of ATMs, branch of BFIs and many others like this proves it.
- NGOs and INGOs have a strong presence in Nepal. Program by them is also seen one of the reasons that poor people of Nepal are visiting BFIs. Especially, far western development region where the presence of BFIs is seen comparatively less, the NGOs and INGOs are found more active.
- The increasing number of customer and branches of BFI shows that they are earning more trust than local money lenders. The number of customer per branch is decreasing as the number of the new branch is opening at a different part of the country. The recent record on mid of June 2017 shows per branch cover 4,894 people of Nepal which are decreasing every year.

7.2 Suggestions

- The government of Nepal needs to develop the infrastructure so that BFI can be motivated to reach remote region.
- Banks and banking institutions should decrease their service cost so that more people can be attracted.
- More branch needs to open, especially should focus on rural Nepal.
- People should be encouraged to purchase more financial products which benefit them.
- Insurance other than life and automobile has weak presence in the country. Importance of remaining product is needed to highlight by financial institutes.
- Account opening process need not be cumbersome and time-consuming. This discourages people to enjoy the financial service of BFIs.
- Frequent change in an interest rate of savings/loan needs to review on an interval.
- Social security fund should be disbursed to the individual in their individual account. This compels them to have the bank account so that they can be habited to banking service. This benefits both bank and customer.
- NRB should regulate the banking service with the stricter parameter.
- NRB should stop giving agreement to small financial institutions to operate as banks in the remote region.
- NRB should make a rule and policy which ensures a number of BFI presence in rural Nepal. The present number i.e. at least one branch in rural Nepal need to be increased.
- Telecom companies should make wide access to the internet with low cost and strong network range coverage so that people have no difficulties in using mobile and internet banking.

8. Conclusion

Kumari bank limited is really doing a great job in the banking business. The increasing rate of customers, branches, and services, as well as the net profit, are the proof of its best performance. The condition of other BFIs is also the same, only a few are an exception to this. The dimensions we talked above showed clearly the increasing presence of BFIs in Nepal. More and more branches are found opened in every review period. Previously, KBL too only had 36 branches all over the Nepal but, after the acquisition, it came with 38 new branches. This does not only indicate the rising business of KBL but also the trust they have earned or, the willingness of the customer to associate with them. They have 50 branches outside the Kathmandu valley and 24 inside it. The monthly, quarterly and annual progress report prepared by NRB has stated the clear picture of the increase in financial BFIs with strong financial backup. The number of an account holder, ATM center all over Nepal is found more than the previous report each time it is prepared. The user of mobile banking facility and internet banking is also found increased. The card holders are found considerably more than the previous record. If we see the record of the presence of BFIs development region wise, we observe the clear progress in a number of BFI branches in each region than a previous latest record. The decreasing population per branch is also the witness of increasing financial access in Nepal.

Nepal records 28% of GDP contribution from remittance. The presence of industries is like equal to no in Nepal. Out of total import goods and services, more than 60% comes from India alone. Nepal exports the low price goods whereas imports the goods and services of the high price. Trade, as well as the budget deficit, is common in Nepal. These national records depict the overall performance of Nepal and efficiency of government to bring prosperity to the nation. Foreign subsidies, grants, and discounts are the major part of Nepalese budget since it lacks the capital to invest, political stability and major goods industries. The increased inflation rate is the major reason behind increased in the budget every year. The increasing financial access in Nepal among the general people is the outcome of the collective effort of Ministry of Finance, GoN, NRB and all its regulators as well as BFI. This shows the effective implementation of fiscal and monetary policy in Nepal. Here we conclude that though the Nepal lacks the strength of capital and investment, business environment, political stability and skilled manpower, it has segregated its performance towards progress in term of financial inclusion. Each data and interpretation is the witness to its increasing access.

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