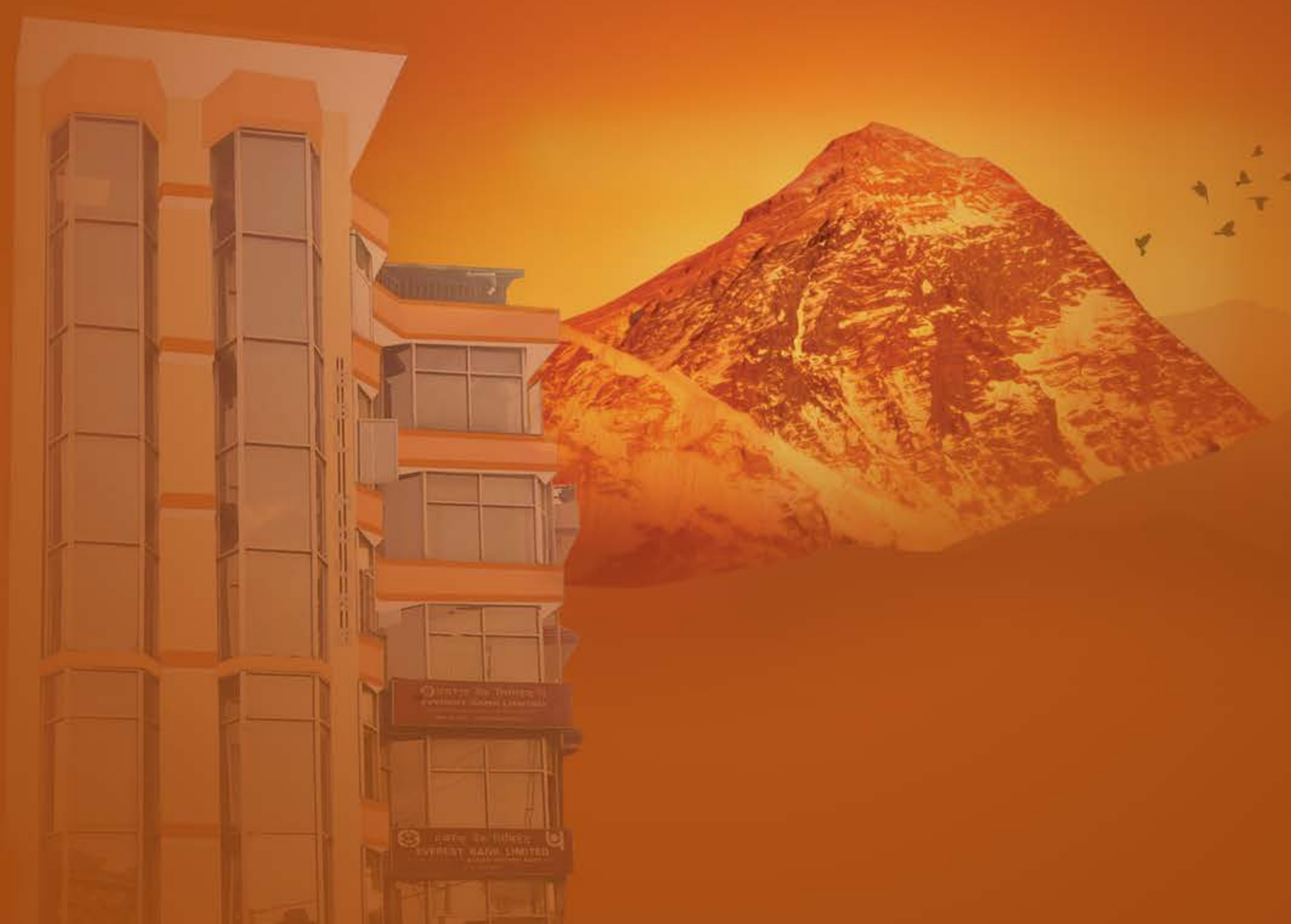
23 YEARS OF BANKING

एभरेष्ट बैंक लिमिटेडको वार्षिक पुस्तिका

प्रतिबिम्ब



(Annual Book Published to Mark 23rd Anniversary)

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EVEREST BANK LIMITED

(A joint-Venture with **punjab national bank** India)

दिगो, दरिलो र विश्वासिलो

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The opinions, suggestions from worthy readers are welcome, may be communicated at ebl@mos.com.np

CHAIRMAN's Message

Nepal is greatly influenced by events in India. The dependency, however, is decreasing with the opening of business with other countries especially with China. It is reported that almost 10 million Nepalese are working in India as everybody knows the movement of people and goods between India and Nepal is free. Even the two currencies have their exchange rate pegged. In fact, SAARC is modelled after the relationship between India and Nepal – as it would appear that India would like economies of the neighboring countries are integrated with India. This has happened in the case of Nepal and Bhutan. Bangladesh is coming more and more closer to India. There seems to be no chance of such integration between India and Pakistan as well as India and Srilanka. In fact, Sri Lanka is more influenced by China than by India.

India is influenced by events in the World Power Sector. After the Second World War in 1945, the World has seen relative stability. The First and the Second World Wars were all started in Europe. Starting with the common market, Europe has now European Union. There has been no war since 1945.

Secondly, while US seems to be withdrawing from its commitments around the World, China is not only filling up this vacuum, but aggressively pursuing to influence the World events.

Nepal has gone through the National Elections. Politically country has been in long transition phase and with the conclusion of current phase of election, new challenges will be emerging for the political parties. The outcome of these results is being watched keenly by our neighbors and International Committees/Communities.

The year 2016/17 spurred a new hope as the Nepalese economy witnessed higher growth, contained inflation and surplus in balance of payments mainly due to increase in tourists arrival and improvement in overall supply situation. The financial friction stemmed after the first quarter of 2016-17, partly from reckless risk taking by BFIs is getting smoothened; however, it has once again underscored the need for good corporate governance. As such, we should firmly commit to the highest standards of governance. The Board of the Bank desires that the activities of the Bank are always conducted with the highest standards and in the best interests of its stakeholders. The progressive steps of development and improvement in these aspects allows the Bank to win the trust of customers and other stakeholders by building strong and sustainable relationships.

The Monetary Policy of 2017/18 has targeted the economic growth of 7.20% and has also come up with provisions to maintain interest rates within appropriate bounds so as to minimize its volatility. Attaining projected economic growth is a challenge, however, as the elections are held successfully, reconstruction works are expected to gain momentum and there may be a flurry of economic activities in the near future. The policy has also introduced priority sector by redefining existing productive sectors. Inflation rate is targeted at 7% or below, however, containing inflation to this level is not an easy proposition given the volatile economic situation. The policy has not revised CRR and SLR but has tried to curb margin and real estate lending. The Policy also aims to manage the interest rate corridor in relation to the current market scenario besides implementing BASEL-III framework.

Further, IMF projects the world economy to grow 3.5% in 2017 and 3.6% in 2018. Such growth was estimated 3.1% in 2016. Advanced economies, which expanded by 1.7% in 2016, are projected to grow at a same rate of 2% in 2017 and 2018. Improvement in the world economy seems to have positive impact on the least developed economies including Nepal. However, slow productivity growth and inward looking policies in advanced economies could possibly have downside risks to emerging market and least developed countries. Furthermore, Doing Business 2018 report ranks Nepal 105 out of 190 economies in terms of ease of doing business. In South Asia, Nepal ranked third, after Bhutan and India. Nepal's distance to frontier (DTF), which is the relative distance between Nepal's score and the best performing economy in a given indicator. In South Asia, Bhutan has the best overall environment for doing business. All the countries, except for Afghanistan, had an improvement of DTF score in DB2018. We, therefore, hope for better days both in national and international fronts.

Now coming to Everest Bank, in its pursuit to excellence, the Bank has earned many laurels and accolades in recognition to its service and overall performance viz. Best Managed Commercial Bank-2013, Highest Income Tax payer for FY 2068/69 among others. The Bank is not only serving the society by way of extending banking services but also consciously targeting inclusive growth by bringing unbanked population to formal banking channels, i.e. through financial inclusion. The Bank is also contributing to the society by way of supporting the people from deprived and under privileged segments for Health, Education, and Infrastructure and most importantly during Natural Disasters towards its Corporate Social Responsibilities. Recently, the Bank celebrated its 23rd anniversary as a "Corporate Social Responsibility" day by organizing various welfare activities at its Head Office as well as in all its branches across the country.

Finally, I would like to express my gratitude to all the employees who always displayed the unceasing faith and belief to serve our valued customers, Board of Directors who has always supported the Bank in taking strong decisions and most importantly our valued customers who entrusted faith in us and stood by us. I would also express my gratefulness to our Regulators and other stakeholders for continuous guidance, patronage and supports.

B K Shrestha
Chairman

Message from the CEO's Desk

My Dear Colleagues,

It's a matter of great pride to unveil new platform of communication in the form of 'Everest Annual Book' to mark the 23rd Anniversary of our Bank. Today Everest Bank has established itself as one of the top and leading Bank in the country not only in terms of business volume but also in customer base, network & return to its stakeholders. Our tag line "Consistent, Strong & Dependable" reminds us of the responsibility towards society, customers and other stake holders. The trust of 9 lacs customers is reflection of honest, dedicated and committed service given by our loyal employees.

Country, its economy, laws or banking industry all are experiencing winds of change. In banking, Risk Management and Technology are going to play a major role. To remain and maintain pole position; we need to be future ready.

Despite several challenges in banking industry including dealing with digital native population, magic mantra will remain "Excellence in customer service or customer convenience". The future of banking will no doubt ride on technology and prudent use of Risk Management will overcome hurdles in real and digital front. However, technology will only be enabler and not a substitute in itself in defining customer convenience. Your bank is fully aware of these challenges and taking all appropriate steps on every front to prepare itself to be future ready.

I would like to thank all my dear colleagues for their hard work and dedication and call upon each one of EBL family member to join hands in our pursuit to achieve excellence in our service deliverance.

With Best Wishes,

Someshwar Seth
Chief Executive Officer

"*I have been impressed with the urgency of doing. Knowing is not enough; we must apply. Being willing is not enough; we must do*"

Leonardo da Vinci

Retail Banking

Rajesh Gautam

In early days, banking activity was restricted to the process of financial intermediation between the savers/depositors and the borrowers. But over last three decades, banking activity has undergone a sea of changes. Retail banking aims to be the one-stop shop for as many financial services as possible on behalf of retail clients.

- Retail banking refers to dealing with individual customers, both on liabilities and assets sides of the balance sheet.
- Retail banking is the banking needs of the individual customers are taken care in an integrated manner. Today the definition of the retail banking has widened. It includes delivery of the multiple products through multiple channels to multiple customers.

Of late, retail banks have even made a push into investment services such as wealth management, brokerage accounts, private banking and retirement planning. While some of these ancillary services are outsourced to third parties, they often intertwine with core retail banking accounts like checking and savings to allow for easier transfers and maintenance. Further, retail banking is not just opposite of wholesale banking as understood commonly, but it is an area where in the banking needs of the individual customers are taken care of in an integrated manner.

Mass Retail Banking and Segmented Retail banking:-
Retail banking is the visible face of banking for the general public. These services are typically offered through alternate delivery channels viz. telephone, mobile and internet. Retail banking encompasses all types of individual customers, though often banks tend to focus on high net-worth individuals. Retail banking services begin with a target clientele which is the common masses and it slowly graduates to the segmented retail banking (class retail banking). In the 'mass retail banking' banks attempt to build a sufficiently broad customer base which can serve as a stable source of funding. The 'class retail banking', on the other hand, is the stage in which the bank targeting a niche customer.

Opportunities for the growth of Retail Banking

The following are the drivers of growth for the Retail banking:

Demographic segmentation:
Changing consumer demographics indicates vast potential for growth in consumption both qualitatively and quantitatively, due to burgeoning affluent middle class with the lowest average age in the world. Economic prosperity and the consequent increase in purchasing power have led to a boom in consumerism. Consumers are now more open to new services and products.

Increasing literacy levels and higher adaptability to technology: Due to increase in the literacy ratio, people have developed a taste for latest technology-and variety of products and services. It will lead to greater demand for retail activities specially retail banking activities.

Continuing Trend in Urbanization: Urbanization is taking place at a faster rate. Population residing in urban areas is continuously increasing.

Declining Treasury Income of the Banks: The Treasury income of the banks, which had strengthened the bottom lines of banks in the past few years, has been on the decline for last two to three years. The banks are moving to alternative recourse for profitability.

Less NPA/Impaired Assets: Considering the fact that retail's share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.

Continuing Growth: Even with concerted efforts on increasing the banking penetration and bringing more and more adult population under the formal financial system over the last 6-7 years, more than half of the target population still remains uncovered. Similarly, the credit penetration from the banking system in the country is abysmally low at about 10%. All this means that the retail banks have a huge potential to grow over time. Banks should get convinced that financial inclusion is a viable and profit-making business proposition and pursue the objective with a missionary zeal.

Risk spread: The banks are risk averse in lending to corporate and hence to spread the risk, Banks should focus on small ticket retail loans.

Technology: Retail banking requires mass production techniques and the availability of technology have enabled the banks to design appropriate technology-based delivery channels.

Major concerns of Retail Banking:

Fair and transparency: Retail Banking should have uniformity, transparency and non-discrimination about the products and services offered. In other words, products should be "off-the-shelf "products without any customization for individuals. The pricing should also be uniform and transparent and there should be no hidden charges.

Delivery Mechanism: It is important for the bank to enhance the customer experience by ensuring that the services are made available whenever and wherever the customer demands them. The banks should be able to deliver the products and services to the customers in safe, secure, prompt and cost effective manner by leveraging technology

Appropriate product and services: As the banks strive to bring new customers into their fold and retain the existing ones, they must invest heavily into data analysis and assess what are the appropriate products and services for the specific groups of their customers. The banks have to be sensitive about the customers' needs and requirements. As the retail (mass) banking involves reaching out to a group of individuals, the banks also need to have appropriate systems, structure, manpower and processes in place to deal with the group, group characteristics, and group behaviour and group dynamics for the target clientele.

Consumer protection interest: To thrive in the developing markets, it is essential that an effective consumer protection environment is created quickly. The regulators and supervisors are turning increasingly intolerant of unfair market practices adopted by the market participants. Large amounts of penalties levied on banks by the regulators mainly for failing to protect consumers' interests and for unfair practices.

Due diligence: It is important to understand and appreciate KYC requirements in all manifestations- be it for the products on the asset side of the balance sheet or on the liability side. Banks would also need to be mindful about the KYC due diligence for the third party products that they sell from their premises/through their delivery channel.

Adequacy of MIS: The banks should have the basic information on how many customers they have and how many products they have. The granular data on segmental revenues and segment profits should be collected before launching any product and risk based/cost benefit analysis to be done for viability and sustainability.

Managing Risk: The retail banking business involves dealing with a large number of customers over varied delivery channels thereby creating significant vulnerabilities across banks' systems. Banks would need to recognize and manage risks arising from mis-selling etc. besides the other business risks like market risk, liquidity risk, operational risk, interest rate risk etc. to avoid reputational risk and unwarranted litigation for the banks. It is, therefore, absolutely important that the banks improve their risk management systems to address these vulnerabilities.

Countering the effects of disruptive new technologies: Retail banking has been most impacted by technological enhancements; thanks to the proliferation of alternate channels of delivery (ATMs, internet and telephone/mobile banking). Banks should quickly adjust to the new paradigm where more and more of their customers move online for accessing banking services. As the demographic changes take place the "technology acceptors" will soon outnumber the "technology deniers" and banks have to use this short transitory period to adequately equip themselves to manage the disruptions arising out of this alternate delivery channel. Further, since the internet is available on a "24 X 7" basis, the banks would have to substantially invest in appropriate technology and ensure that their service offerings are available round the clock with minimal downtime.

Role of third parties: Banks are engaging the third parties like Advocates, Valuers, Chartered accountants, Lender engineers in marketing/ delivering their retail banking products. Any professional deficiency of these personnel will lead the Banks to the reputation risk besides operational risk. Hence banks should have effective mechanism on due diligence of these parties.

Competition: The financial services market is highly over-leveraged. Competition is fierce, particularly from local private banks, New Generation Pvt. banks, foreign banks and NBFCs in the business of home, car, and consumer loans. All banks are targeting the fluffiest segment i.e. the upwardly mobile urban salaried class. Overdependence on this segment is bound to bring in inflexibility in the business.

Challenges of Retail Banking:

• Retail Banking Business model implementation meant higher number of human resources, higher investments in technology, infrastructure and ultimately higher costs. Against these high costs the Income streams primarily come from NIM (Difference between Interest charged and given), Fees & Charges. Let's analyze both in detail.

• The challenges are two dimensional in multi•channel management. The first dimension is to both develop remote channels and reposition branches to create more value for customer engagement. The second dimension is how to increase customer satisfaction and differentiate themselves from the competition while also improving the productivity of the multi•channel model.

• **Commissions & Charges:** Commissions are earned on sales of third party products and on activities like Issuance of BG /LC, Discounting of Bills etc and Charges are applied on non-maintenance of requisite balances (AMB/AQB etc) and on maintenance of accounts, high cash transactions, high ATM usage, branch visits etc and these varies from Bank to Bank and customer to customer. Overalls lowdown in business and investments have impacted the revenue streams of the banks and in order to retain good customers in the fold most of the banks are now offering most of the products and services free of charges. As a result revenues from Commission & Charges are now moving downwards impacting the profitability.

• **Ever growing Operating Cost:** Against the shrinking NIMs and Commission & Charges, Operating cost has been rising alarmingly, whether it's the compensation, infrastructure or the technological investments and maintenance cost which are fixed in nature and are difficult to control. All the above parameters have led to a situation where cost to income ratio is all set to drain banks' profitability in the short term and sustainability in the long term.

• **Saturation at Urban & Semi-Urban centers on acquisition of new customers and low profitability of customers in the rural markets:** It is very difficult to find a person without having bank account at Urban and Semi• Urban areas. Switching customers from one bank to another is very common in these areas than acquiring and this has impacted the free flow on CASA float by way of large acquisition for banks over the last few years. And most of the banks are not keen on going to rural markets as the scope of business does not justify the cost of operation.

• **Low level of customer loyalty resulting in switching of banks:** Customer loyalty is something Banks have failed to attract, notwithstanding the higher acquisition and maintenance cost compared to pre globalization era. The availability of same set of products and services across banks with no difference does not attract customer loyalty and wherever they see lower charges and fees or lower interest rates, prefer to switch their account. The logic of hooking the customers with multiple products will act as forced loyalty for the bank but with concepts like account portability coming in, Banks will find it difficult to retain their customers resulting in high volatility of portfolios impacting profitability.

• **Competition from non-banking entities:** Nowadays NBFCs, Mobile operators and Retail chains like Walmart are providing various payment products like Credit Cards, Mobile payment services etc to customers with little requirements compared to Banks and similarly Investment advisory services offered by various NBFCs have diminished Banks' role as the IAS (Investment Advisory Service) provider. Further NBFCs, Micro finance companies have succeeded in providing easy and quick finances like Gold Loan, Housing Loan, Mortgage loan etc to customers resulting in erosion of potential business for Banks and if the trend continues, banks will struggle to retain customers and lose them to other businesses offering banking products & services at a better price and pace.

Suggestions to improve Retail Banking:

With similar products offered by the banks, service is the only differentiator which makes the difference. In such scenario, service quality and Customer Relationship Management needs special attention to **create moment-of-truth for the customer.** There is need for strengthening customer service. Investing heavily on advertisement and promotion of new products to attract new customers would prove to be futile, if those customers are subsequently have to leave because of poor customer service.

Relationship Pricing & TAT for all products based on Relationship value: Banks needs to come out with a transparent method of account level profitability and offer products and services at better price and at pre-defined TAT (Turnaround time). Customers should be classified into Tier one, two, three etc and Best customers of the bank should be able to access entire Products & Services of the Bank within predefined TAT.

24x7 Services, whereby Customers can avail any products & services of the Bank anytime: Banks can upgrade phone banking, Mobile banking, Internet banking products & services to include all kinds of Banking Products & Services to be available 24x7 and 365 days.

Solution Provider services to Complaint resolution: As an extension to the above initiatives, one major area of concern for customers is the Complaint resolution by Banks, many times customer doesn't get instant solutions due to one reason or the other.

Loyalty programs for Customers based on their relationship years with the Bank: Banks need to undertake loyalty programs, which will directly influence customers' loyalty towards the bank. Initiatives like rewarding customers for the long number of years of relationship with Bank by way of preferential treatment and access to Best products & services at best prices and having programs which make a customer feel privileged not only in the Bank but even outside like invitation to executive launches like credit cards offers, insurance products; offering cashless scheme at designated hospitals, special bookings, discounts, preference in delivery of products & services at designated Multiplexes, Hotels, Restaurants, Giant retail shops etc.

Branch less banking business model for taping large rural markets profitably: Since urban and Semi-urban centers are well banked, the next stage of growth prospects lies in rural areas but Banks are finding it difficult to operate in rural markets due to adverse cost to income ratio. Here Banks need to introduce cost effective banking model than sticking to the traditional brick and mortar model. As business prospects at rural centers are in low volumes, it will not add sense in servicing these low value customers incurring the same high value business model. Hence Banks will have to develop a branch less business-model, which can be a combination of BCs and BFs.

Tie up with service providers: Banks will have to work on tie-ups with various service providers and should be able to bargain and get best products & services at best prices for its customers. And for customer, Bank will be the point of quality check and guarantor of services, thus becoming more important in the customers' day to day life. And for Banks, it will be a great opportunity to showcase their service quality and advertise it along with acting as a linkage between consumer/ buyer and the seller which further creates an opportunity to earn commission, fees etc for the services from both the parties. Hence such initiatives will be novel and would create win- win situation for the Banks.

Meaningful customer engagements:

Targeting customer education on new developments in Banking and benefits: Every Bank must work on setting up a dedicated Customer Experience research team, who will not just do dip checks and run feedback campaigns but who will create various interaction points between bankers and customers. It may be through social media, door to door campaign, advertisements or even through customer meets.

But it is important that Banks must meaningfully engage with customers on educating about Banks' products & services, loyalty programs etc and these efforts should be the PUSH efforts towards customers than the present trend of pushing products at the customers and once knowledge is pushed through one way or the other

, there will be an understanding on products & services available with Banks and customers will be able to match their requirement with the Bank and thus business will be more of a PULL nature in contrast to the present PUSH nature. Customer Experience research teams envisage to bring in customers to the bank for products & services than banks pushing around products & services at customers often creating irritation than delight.

Ongoing training for empowering the staff to market the products along with external marketing to attract the customer by raising his expectations is the need of the hour in retail banking. Often staff is of the view that marketing is the job of marketing department. There is an urgency to signal that each staff has to be a marketing agent. Staff must have complete knowledge about products & services and should promote them.

Conclusion:

In today's life 'Innovation is necessity, not option'. Hence the banks must continue to innovate in terms of products & services to cater to the needs of the vast segment of the society. To innovate, understanding the changing customer/market needs is fundamental.

It is important to understand challenges & bottlenecks faced, along with offering and implementing right solutions. The customer deposit garnered by retail banking represents an extremely important source of stable funding for most banks. In this context, it is essential for the banks to keep pushing the frontiers of innovation and experimentation in the retail banking space to survive and also to remain relevant.

One of the most essential elements of a strong customer bank relationship is the bank's understanding of customer's needs and preferences. It is in the banks' own interest to be alive to the customers' interests; else they might have to face stiff regulatory sanctions. In this Facebook and Twitter age, the banks cannot remain oblivious to the power of the social media which wields enough clout to forcibly reform the outliers through negative publicity.

Only such banks, who inculcate ability to churn out innovative and differentiated products by harnessing cutting-edge technology, greatly improve their productivity and efficiency, bring a fair, transparent and nondiscriminatory pricing and demonstrate a commitment towards fair treatment to their customers, would be able to survive and add value to the society.

Internet Banking, Mobile Banking and making ATMs more customers friendly is the need of the hour to promote retail deposits. Deposit products are dependent on the technological services extended by the Bank. Greater is the efficiency the scope for their growth is better. Growing affluence of agriculture sector needs to be closely watched and potential for banks retail products is growing among the neoclassic of agriculturists. Continuous innovation in financial inclusion shall play an important role in the retail banking in rural areas.

Focus on customer centricity, product innovation, quick delivery, better customer relationship, formation of marketing teams, leveraging from technology, identification of emerging markets in rural area are the developments that retail banking needs to look into to sustain the profitability of the banks.

(Mr. Gautam is the Dy. General Manager)

" I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel "

Maya Angelou

Job Enrichment

Rajeev Jain

The need for job enlargement and job enrichment has risen from the increasing alienation of employees from their job monotony and boredom created by advancement of modern technology and specialization of tasks to be executed on a daily basis. Job enrichment is directly related to motivation.

Motivation is an internal process that makes a person move towards a goal. It's like intelligence, as it cannot be observed directly but only be inferred by judging a person's behavior. The power of motivation rules all segments of the society and it is needed best when it comes to work cultures and environments. Willingness to work is an important component of one's performance and motivation denotes not only the willingness to work but to work in a desired manner.

It is simply not possible to succeed unless the workforce of the organization is motivated adequately. It is widely accepted that motivated employees generate higher value and more substantial levels of achievements. The management of motivation is therefore a critical element of success in banking business.

Motivation of people comes through inspiration, clear goal setting, desire to be rewarded, desire to be an achiever, desire for promotion, loyalty, clear understanding, by giving breaks, enjoyment, power of choice and so on. Any idea of motivation basically consists of three interacting elements, employees need which is the deficiency, employee's drive which provide and energizing thrust towards goal accomplishment and finally the goal which is required to alleviate the need and reduce the drive.

The traditional approach believed that employees can be motivated by monetary rewards and will act rationally to maximize their earnings. Whereas, it is highly noticed that even a simple act of appreciation can boost the employees' morale.

Main factor which could improve motivation and morale of its employees is Job enrichment and enlargement which is essential for making workers to give their best and to reduce frustration. It can also increase job satisfaction.

Job enrichment provides the employee with the opportunity for greater recognition, advancement, growth and responsibility. This makes job more interesting and challenging. Job enrichment provides opportunity for the psychological growth of employees. Job enrichment improves the quality of work and morale of the employees. It is stated that certain job dimensions will motivate employees to work more effectively. In this theory 'motivators' is separated from 'hygiene' factors. The hygiene factors included salary, company polices, and administration as well as supervision. Another set of factors including achievement, recognition, responsibility, advancement, growth and the work itself were postulated as the 'real' motivators.

Characteristics of Job Enrichment

Following are the important job characteristics underlying job enrichment:

- **Skill Variety:** It includes doing different thing: using different valued skills, abilities and talents.
- **Task Identity:** Doing a complete job from beginning to end, the whole job rather than bits and pieces.
- **Task Significance:** The degree of meaningful impact the job has on others; the important of the job.
- **Autonomy:** This makes freedom to do the work as one sees fit; discretion in scheduling, decision making and means for accomplishing a job. High quality work performance.
- **Feedback:** This gives clear and direct information about job outcomes or performance. High quality work performance.
- **Goal Clarity:** Knowing and understanding what specific objectives or goals apply to the job and their relative priorities.

How to Enrich Jobs?

Techniques of job Enrichment includes:

- **Remove Unnecessary Controls:** Decentralization provides personnel with a sense of responsibility for the work outcomes rather than compliance with procedure.

- **Rotate Jobs:** The opportunity to use a variety of skills, and perform different kinds of work.
- **Combine Tasks:** If tasks are combined in a logical and meaningful manner, task identity and skill variety will be improved.
- **Establish Client Relationships:** A direct personal contact between the employee and the customer for his product or service.
- **Schedule Own Work:** It includes ordering the sequence of their work.
- **Plan and Control Own Work:** It allows workers to plan their own activities. Employees should also be encouraged to provide input to all decisions that affects their jobs.
- **Redistribute Power and Authority:** Redistribute control and authority to employees for making job-related decisions.

Advantages of Job Enrichment:

- Better work methods
- Retaining good employees
- Attracting good employees
- Quality implementation
- Increase in output
- Improve decision-making at the job level

Outcomes and issues of Job Enrichment:

- Enriching jobs (motivators) can be significantly less expensive in comparison to hygiene.
- Employees are internally motivated versus externally moved.
- Job enrichment is the fundamental part of attracting, motivating and retaining talented people, particularly where work is repetitive or boring. To do it well, you need a great match between the way your jobs are designed and the skills and interests of the employees working for you. When your work assignments reflect a good level of skill variety, task identity, task significance, autonomy and feedback, members of your team are likely be much more content, and much less stressed. Enriched jobs lead to more satisfied and motivated employees. Consultative and participative style of management can also increase the autonomy in their work.
- The staffing of the right person, at right job, at right time. Well planned training and development programs for boost up the morale of the employees.

(Mr. Jain is the Dy. General Manager)

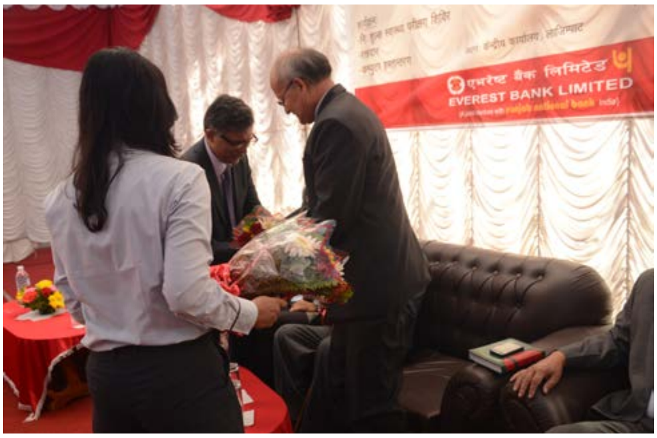
"If you look at what you have in life, you'll always have more. If you look at what you don't have in life, you'll never have enough"

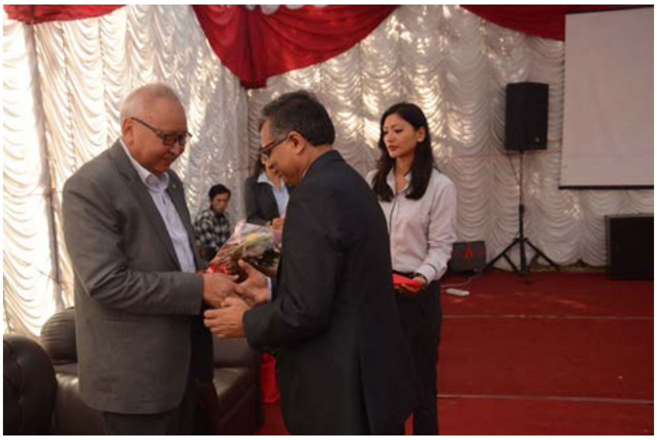
Oprah Winfrey

Celebration of 23rd Anniversary

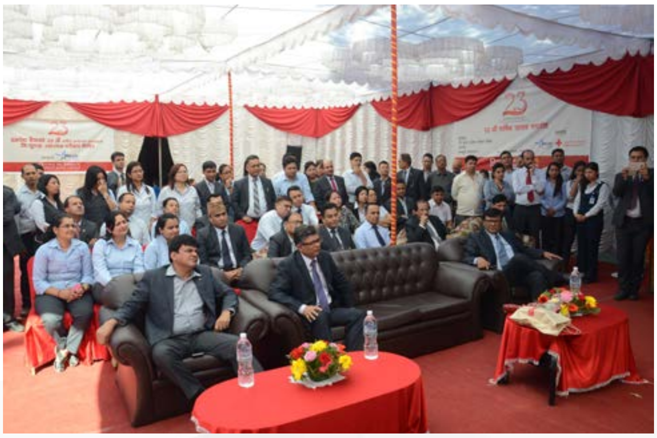
The Bank celebrated its 23rd Anniversary by organizing various CSR events such as Blood Donation, Free Health check-ups, Computer Donation to Government Schools and Health Talk Show in order to mark its foundation day as a CSR Day

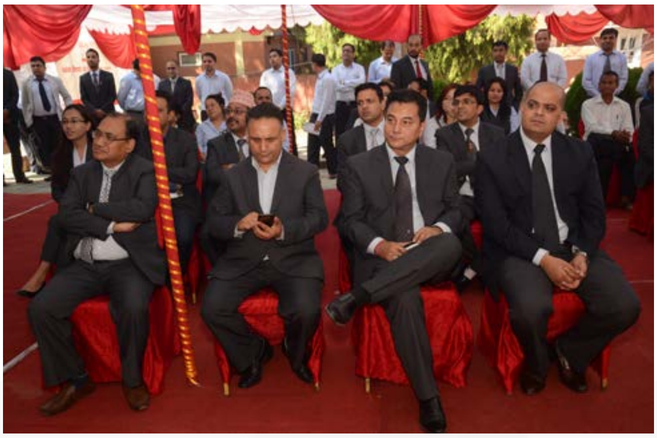
Mr Someshwar Seth (CEO) presenting bouquets to Board of Directors,
Mr V.K.Shrestha, Dr. Bal Gopal Baidhya, Mr Arun Man Sherchan and Mr Sunil Gopal Shrestha





Participation of Staff Members at Anniversary Program

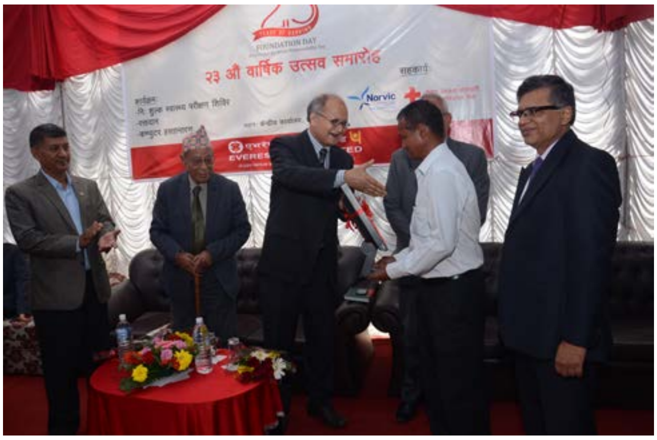




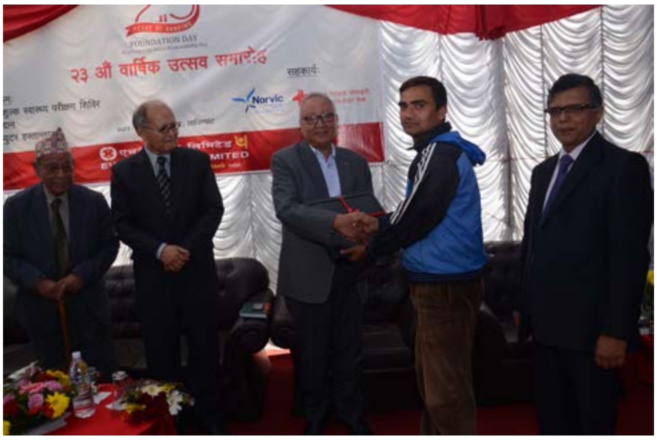
Donating Computers to Local Government Schools

&

Talk Show Program "How you can save a Life" conducted by the team led by Dr Yadav Bhatta from Norvic International Hospital



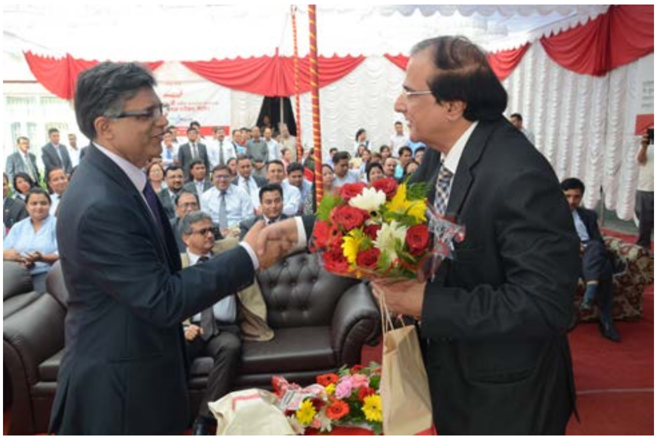
Board of Director, Dr Bal Gopal Baidhya, donating computer to Shree Shikharbesi Secondary School-Nuwakot

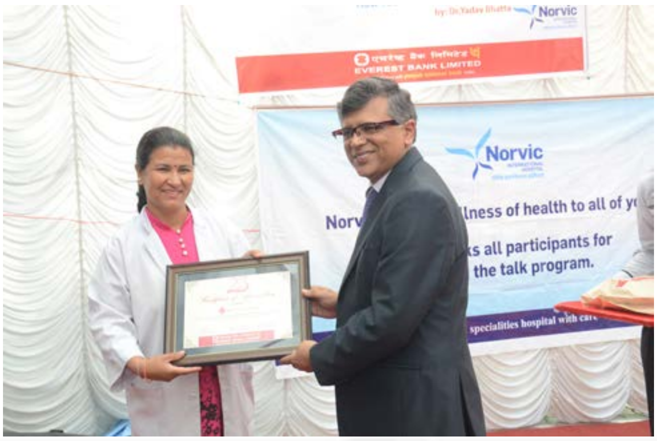


Board of Director, Mr Arun Man Sherchan donating computer to Shree Bachala Secondary School-Nuwakot

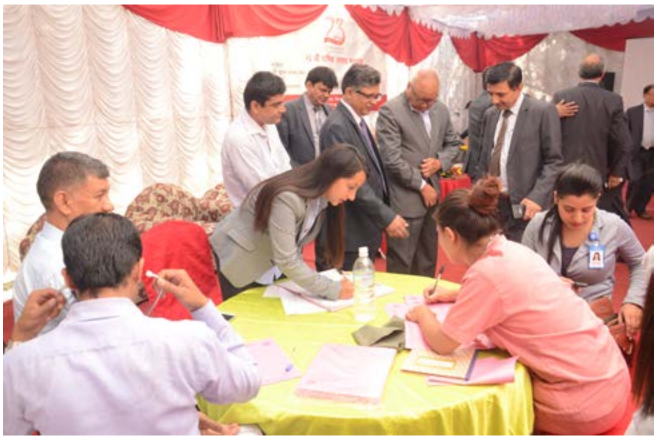
Board of Director, Mr Sunil Gopal Shrestha donating computer to Shree Yashodhara Secondary School-Taulihawa

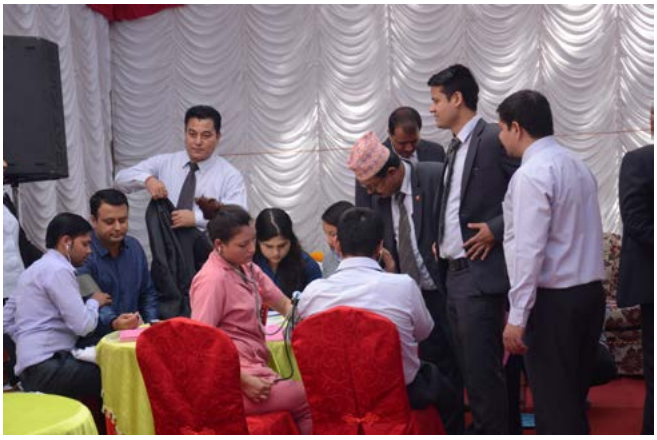
Mr Someshwar Seth (CEO) presenting bouquets and mementos to Doctors from Norvic International Hospital and Representative from Nepal Red Cross Society

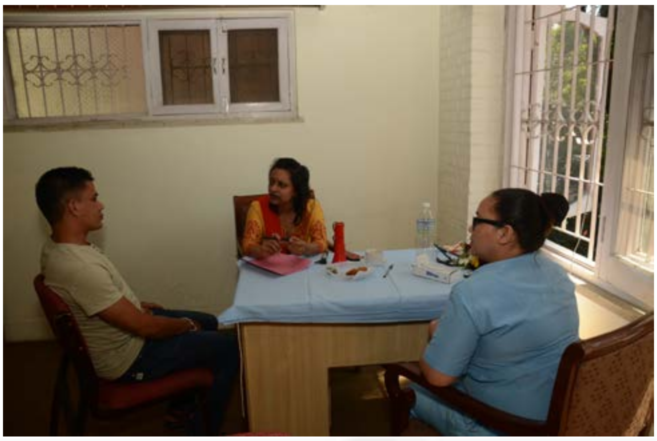


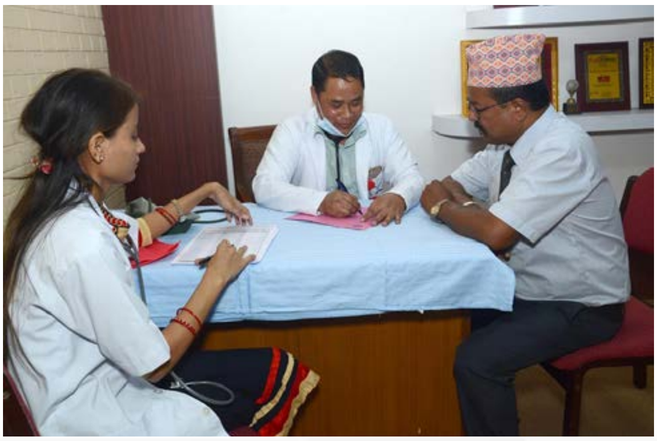


Free Health Checkup Camp by Doctors from Norvic International Hospital

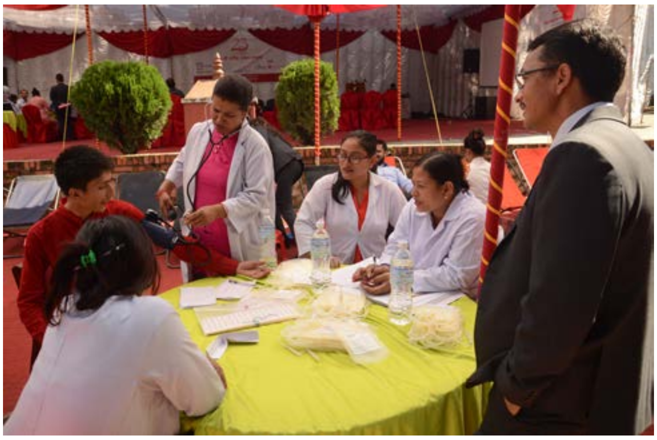


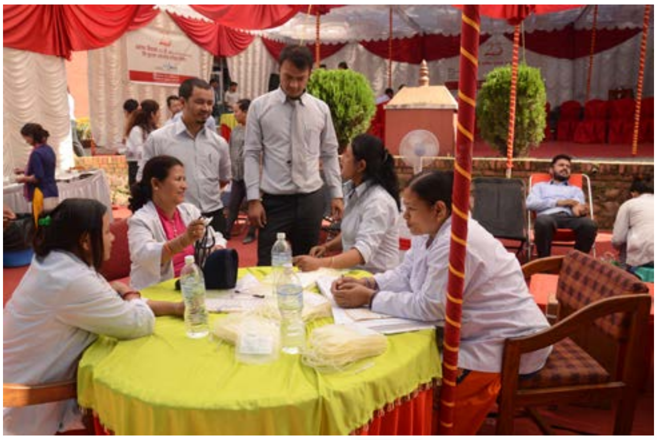


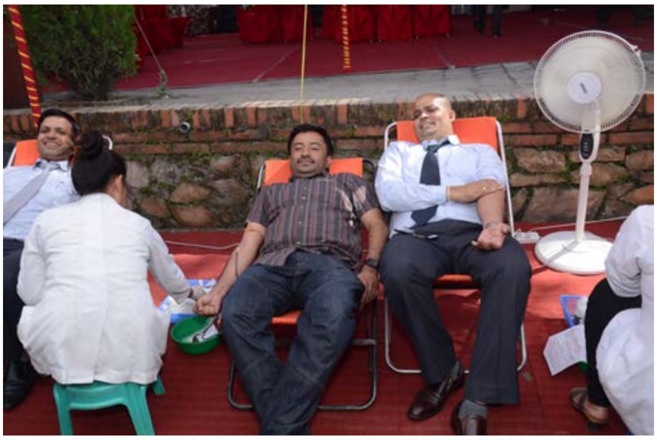




Blood Donation Camp in association with
Nepal Red Cross Society







An Overview of Industrial Enterprises Act 2073

Keshab Paudel

Nepal Government introduced "Nepal Industrial Act 2073" with effective from 2073-08-07 replacing the erstwhile "Nepal Industrial Act 2049". The act basically focuses on creation of suitable business environment for the establishment of new Industries and also expansion of existing one. With the creation of industrial environment, more industries of different nature will be established that utilizes unused raw materials (resources) and human resources of the country and eventually increase in GDP of the country. The act has also prioritized the economic issues that will help to revive the economy besides increasing confidence among investors for further investment in the country.

As per the extant law, except minor & cottage industries, others need to be registered in Department of Industry before starting its operation or before commencement of any businesses. The Industrial Enterprises Act, 2073 has classified the industries based on fixed assets as under:

Type of Industries	Fixed Capital required
Minor Industries	Upto Rs. 5 lacs
Cottage Industries	-
Small Industries	Upto Rs. 10 crore (Apart from classified as minor and cottage Industry)
Medium Industries	Upto Rs. 25 crore
Large Industries	Above Rs. 25 crore

Minor Industries includes the following industries with:
- Annual turnover of maximum of Rs. 50 lacs
- Maximum application of 20 KV energy
- Maximum fixed assets of Rs.5 Lac
- Maximum of 9 employees including investor

Cottage Industry includes the following industries with:
- Industries based on traditional skill and technology
- Labor intensive and specific skills or local raw materials
  including local technology, craft and culture
- Engines, equipment and machines with maximum 10 KW of electric energy

In line with the Industrial Act 2073, Nepal Rastra Bank has introduced monetary policy 2074/75 where the priority has been given to cottage & small scale industry, agriculture, energy and tourism. Till Jestha 2074, commercial banks have lent 17.50% which was 0.7% higher as compared to that of last year same period. Through the policy, NRB has advised that at least 25% of the total loan & advances should be lent on priority sector by any commercial bank with minimum 10% in agriculture, 5% in hydro/energy sector, 5% in tourism sector and remaining 5% on small & medium industries, medicines, cement and garment and export oriented business. Other priority areas set by the monetary policy are:

Agriculture sector includes
- Crop, Vegetables & other Cash Crops
- Tea/Coffee/Tobacco, Jute, Fruits cultivation & Floricultures
- Livestock and Poultry Farming & Bee keeping
- Fertilizers & Insecticides
- Irrigation
- Forestry
- Slaughter House
- Other Agriculture & Agro Related Service
- Fish Farming
- Agriculture related Machinery/Tools
- Fertilizers Seeds
- Animal and Poultry Feed
- Agro –Product Storage
- Processing (Tea, Coffee ,Ginger, Fruits)
- Initial Internal Agriculture Processing

Energy sector includes:
- Hydropower related energy sources,
- Industry generating energy from water sources, wind, solar, natural oil, coal, fuel/gas, biomass and other similar energy producing industry.
- Energy transmission and energy distribution.

Tourism Sector includes:
- Trekking, Travel Agency, Mountaineering, Resort,

Rafting, Camping
- Hotel
- Entertainment, recreation, movies related
- Loans extended to the organized institutions operating public city transport services in the major cities namely Kathmandu Valley, Biratnagar, Janakpur, Birgunj, Pokhara, Bhairawa, Nepalgunj & Dhangadhi.

The Industrial Enterprise Act 2073 has clearly categorized Cottage & Small scale Industry based on the nature of products which is further clarified by the monetary policy 2074/75.

Cottage & Small Scale Industry includes the following industries with fixed capital upto Rs. 10 crore:
- Handloom, Pedalloom, Semiautomatic loom, Cloth Warping, Traditional method of coloring, dyeing and printing, Tailoring (Other than readymade Garments) & Knitting.
- Hand knitted woolen Mat and blanket (Radi, Pakhi), woolen Carpet, pashmina, wollen Garments, handmade
  paper & its products.
- Traditional artistic products & statues
- Copper, Bronze, Brass, dalaut & German Silver based handmade utensils and handicraft products
- Iron based handmade utensils & traditional tools likeknife, Chulesi, Khukuri, sickle, spade plough, used for household purpose.
- Gold & Silver based handmade ornaments, products, utensils, including precious and semi precious & ordinary stones embedded.
- Nationally available precious, semi•precious & ordinary
  stones cutting udhyog, Rural Tanning & handmade leather products.
- Jute, Sabai Grass, Choya, Babio, Cotton Thread, hamp etc natural fiber based industries.
- Stone Sculptures (Products made by carving stones).
- Paua, Thanka paintings and other traditional painting.
- Masks, Dolls and Toys resembling traditional cultures.
- Handicraft products resembling traditional culture, folk musical instruments & crafts.
- Artistic products made up of wood, bones horns, mud, stones & metal, ceramic & clay utensils.
- Handmade bricks industries

The fixed capital of an industry shall be valued on the basis of following assets:•
- Land & Physical infrastructures constructed & developed on land, underground, space, water or below water.
- Physical infrastructures constructed on land like sewerage, internal road, drinking water infrastructures, water supply system.
- Office, factory building & godown
- Residential buildings for staff & workers
- Electricity supply including related equipments & system
- Machinery, equipments, tools including related spare parts.
- Means of Transportation
- Office supplies & equipment
- Furniture & Fixtures communication system and equipments.

The industries have also been classified as national priority which incorporates energy, agro-forestry, Construction, Export, cottage industries and also health service industries established outside Kathmandu valley and other areas of terai region as specified in the Act.

Before establishment, the industry needs to comply with the environmental issues and needs to get approval from the concerned authority before operation of any industries. The act has also addressed the issues of Corporate Social Responsibility. Cottage & Small Scale Industry having its annual turnover greater than Rs. 150 Lacs, Medium & Large industries with capital on fixed assets of more than Rs.150 lacs needs to allocate 1% of the its profit in corporate social responsibility and report pertaining to it shall be submitted to concerned authority with 3 months from the end of particular fiscal year. If there is non-compliance or non-fulfillment of CSR activities, 0.75% of the annual transaction amount is imposed to the concerned industries.

"No work, No pay" is one of the new features of the industrial act 2073. It may minimize various activities of protest impacting the production and return of the company. This provision is expected to create healthy environment in various industries that lead to best performance of industry and the employee.

Further, the act has provided concession to various industries based on the nature and final product. For example, 20% tax exemption on income earned by manufacturing Industries, 40 % tax exemption on infrastructures related manufacturing industries, 100% tax exemption for 10 years from the date of operation/establishment to the industries established with Rs. 1 billion capital employing more than 500 employees, 100% tax exemption for first five years to the tourism related industries and so on. An industry of liquor and tobacco is not exempted to any taxes. If industries are eligible for more than one exemption, then those industries need to select any one exemption as applicable to them.

The act has also addressed the issue of "One Window" Policy. For simple and easy access to various facilities, concessions or basic infrastructures provided by Government of Nepal, the government can imply "One Window Policy". Until the establishment of one window center, Government of Nepal will formulate one window committee to provide discount, facilities and concessions.

The act has also defined Sick Industries as those industries which has commenced for minimum 5 years from the date of operation, is utilizing minimum of 30% of its capacity, has intentional management conflict and are in continuous loss for three consecutive fiscal years. No duty, fee and tax shall be levied on for extension, reconstruction and management of such industries.

Non-compliance of the terms & condition of the act is considered offensive. Activities like establishment of industries without registration, no complying with the basic requirement for setting up industries/organizations and misuse of various facilities provided by government or misuse of incentives provided to the industries.

For promotion of export focused industries, to minimize trade deficit and attract foreign investment, Ministry of Industry has developed Special Economic Zone (SEZ). Factories being established in SEZ, following facilities shall be provided by the government.

- Customs
- Medical
- Bank
- Insurance
- Clearing & Forwarding
- Library
- Child Care Center
- IT
- Entertainment
- Telecommunication
- School
- Consultancy services for business promotion
- Other necessary services, if necessary.

Industries of herbal product, leather, handicap, agro-based industries, readymade clothes, Pasmina Industry, Jewellery Industry etc are considered potential industries in SEZ. Industries under SEZ need to accomplish the following.

- The company should export their products/service minimum 75% of total production. The remaining products/service can sale in the domestic market of Nepal.
- The industry has to pay Rs. 150/sq mtr rent of leased land per month. The rate will be increased by 10% in every year.
- Income statement of the industry to be submitted to concerned office as per prevailing Nepali Law in every fiscal year.
- Water & Electricity charge have to pay by the industry itself.

Area identified by Nepal Government for establishing SEZs are as follows:

- Bhairahawa
- Simara
- Panchkhal
- Biratnagar
- Kapilvastu
- Jumla
- Dhangadi
- Nuwakot
- Nepalgunj
- Jhapa
- Dhanusha
- Rautahat
- Siraha
- Gorkha

Following are the main benefits & facilities for industries established under SEZ:

- SEZ will provide various discount & facilities or recommend to Ministry of Industry to provide various discount & facilities to the established Industries.
- SEZ will recommend to the Ministry of Industry to provide discount on rental/lease charge @ 50%, 40% & 25% for initial three years to the established Industries.
- Allowing to open Foreign Currency account
- Business Visa Facilities

- Bonded Ware House Facility
- Sub Contracting facility between established industries in SEZ
- Accelerate depreciation rate
- Need based import/export
- If any firm/company/industry supplies/sales its raw materials/finished products to the industries established in SEZ, that supplies/sales will be also counted as export and such supplier firm/company/industry will get or SEZ recommend to Ministry of Industry to provide export related facilities.

Lastly, the newly enacted industrial act will be helpful in sustainable economic development and prosperity of the country. As a result, the Banking sector will also have immense opportunity and poisitve impact in the performance in coming days.

(Mr.Paudel is the Asst. General Manager)

> *When everything seems to be going against you, remember that the airplane takes off against the wind, not with it*
>
> *Henry Ford*

Customer Excellency Award

As a part of Bank's effort to continuously improve its service delivery, the Top Management handing over the Customer Excellency Award for 2073/074

Mr Binaya Pd.Upadhaya, Mr Saroj Yadav and Mr Chandra Rajbanshi receiving the Shield and Certificates on behalf of B/O Rajbiraj under category of Best Service Provider Branch (Outside Valley)

Mr Satish Pratap Singh, Ms Sabitri Adhikari and Ms Neha Gyawali receiving the Shield and Certificates on behalf of B/O Lazimpat under category of Best Customer Service Provider Branch- Very Large (Valley)

Mr Ram Hari Acharya, Mr Mandip Khanal and Ms Asmita Basnet receiving the Shield and Certificates on behalf of B/O Lagankhel under category of Best Customer Service Provider Branch-Large (Valley)

Mr Swalid Sthapit, Ms Romila Dhakal and Ms Sneha Maharjan receiving the Shield and Certificates on behalf of B/O Kirtipur under category of Best Customer Service Provider Branch-Medium (Valley)

Mr Puspa Upreti and Mr Sharad Singh receiving the Shield and Certificates on behalf of B/O Jorpati under category of Best Customer Service Provider Branch-Small (Valley)

Mr Lava Kuikel receiving the Shield and Certificates on behalf of B/O Nepalgunj under category of Best Customer Service Provider Branch-Large (Outside Valley)

Mr Binod Shah and Ms Sabina Maharjan receiving the Shield and Certificates on behalf of B/O Surkhet under category of Best Customer Service Provider Branch-Medium (Outside Valley Branch)

Mr Roshan Dangol receiving the Shield and Certificates on behalf of B/O Mahendranagar under category of Best Customer Service Provider Branch-Small (Outside Valley Branch)

Deposit Mobilization Campaign

The Top Mangement handing over Awards to best performing branches under In House Deposit Mobilization Campaign

Mr Sumit Amatya receiving the Shield on behalf of B/O Teku under category of business above Rs 400 crore

Mr Satish Pratap Singh receiving the Shield on behalf of B/O Lazimpat under category of business above Rs 400 crore

Mr Nawaraj Acharya receiving the Shield on behalf of B/O Bagbazar under category of business above Rs 200 crore upto Rs 400 crore

Ms Bimala Pant receiving the Shield on behalf of B/O Kalimati under category of business above Rs 200 crore upto Rs 400 crore

Mr Arun Sharma Poudel receiving the Shield on behalf of B/O Biratnagar under category of business above Rs 200 crore upto Rs 400 crore

Mr Binaya Pd. Upadhaya receiving the Shield on behalf of B/O Rajbiraj under category of business above Rs 75 crore upto Rs 200 crore

Mr Shiva Raj Timsina receiving the Shield on behalf of B/O Krishnanagar under category of business above Rs 75 crore upto Rs 200 crore

Mr Chhitij Parajuli receiving the Shield on behalf of B/O Gongabu under category of business above Rs 75 crore upto Rs 200 crore

Mr Anil Niraula receiving the Shield on behalf of B/O Bhojpur under category of business below Rs 75 crore

Mr Navraj Timsina receiving the Shield on behalf of B/O Tikapur under category of business below Rs 75 crore

Mr Shyam Bahadur Pandit receiving the Shield on behalf of B/O Rukum under category of business below Rs 75 crore

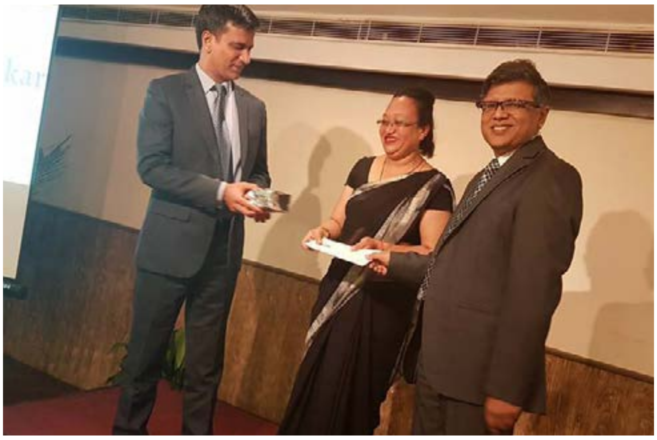
Bancassurance Business Campaign

The campaign was launched with an objective to garner large number of Bancassurance Business. As a part of motivational tool, rewards in the shape of Trophy, Mountain Flight Tickets and Movie Tickets were given to winner branches

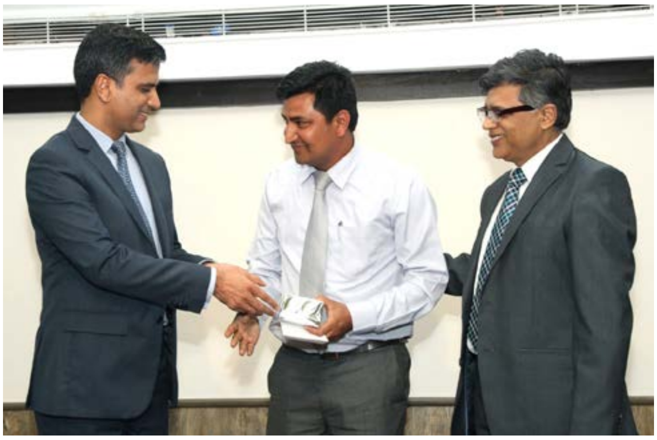
Mr Swalid Sthapit, on behalf of B/O Kirtipur

Mr Nawaraj Acharya, on behalf of B/O Bagbazar

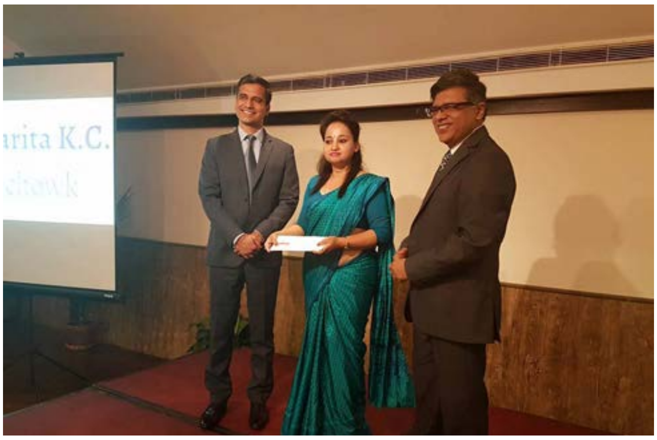
Mr Rudra Joshi from B/O Baneshwor



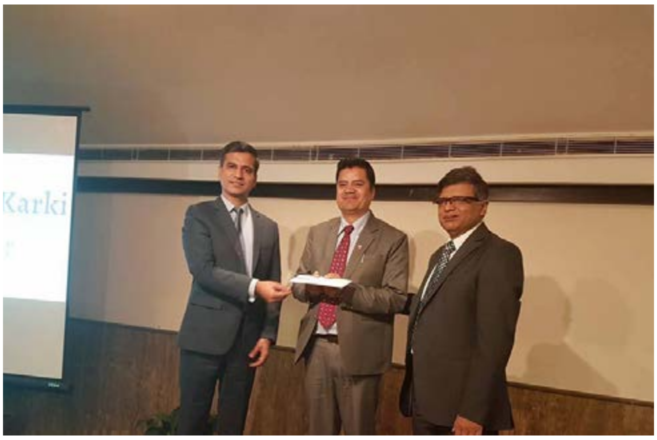
Ms Jamuna Tamrakar, on behalf of B/O Satungal



Mr Suraj KC from B/O Satdobato

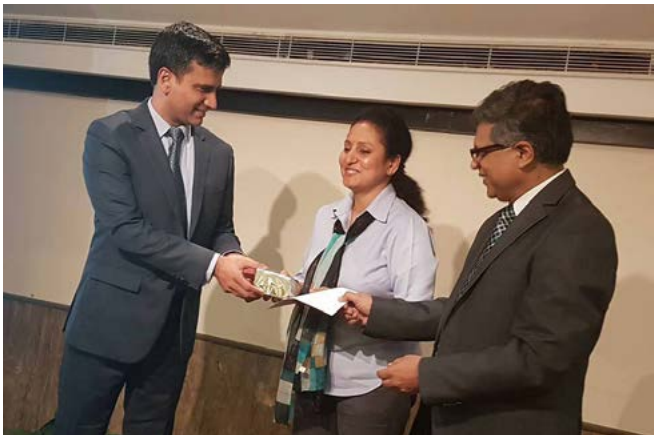


Ms Sarita KC, on behalf of B/O Pulchowk



Mr Jagadish Karki, on behalf of B/O Bhaktapur

Mr Suraj Bhakta Shrestha, on behalf of B/O Satdobato



Ms Manita Rayamajhi, on behalf of B/O Balaju

Mr Amir KC from B/O Balaju

Benefits of Risk Based Pricing & Major Challenges Ahead

Ashutosh Sharma

Background

In year 2012, Nepal Rastra bank introduced the concept of BASE RATE in financial system of Nepal with advisory that that it shall not be prudent to lend below the base rate. The base rate, as derived from the formula set by NRB, indicated a cost factor for the banks. In spite of NRB's advisory on prudence, anomalies were noted due to market pressure i.e. banks provided loans below their base rate.

After introduction of base rate concept by Nepal Rastra Bank, it was anticipated that sooner or later NRB shall move further forward with new concepts on interest rates. In 2017, Nepal Rastra Bank issued revised guidelines on charging interest rates on Loans and advances linked to base rate. The new guidelines mention the word "Premium" which is to be added to the base rate while charging interest rate to the borrowing customers. This move by NRB has created a platform for initiating risk based pricing, at least on credit portfolio, by Nepalese banks. Further, NRB has been directly advising banks to adopt risk based pricing while conducting on site risk based supervision.

Risk Based pricing is a process of charging different interest/charges to different customer for one product or service based on estimate risk associated with the borrower or estimated probability of default by the customer. This results in differentiation in pricing.

The pricing includes base rate i.e. cost factor for the bank's fund and credit risk premium i.e. an additional amount included in yield of loan which reflects what could be lost if the borrowers were to default. The differentiation in pricing is done on basis of profile of each customer i.e. perceived default risk associated with the individual customer.

The differentiation in pricing shall result to a premium and in order to optimize risk return trade off, fundamentals of "high premium to compensate high risk" is applied.

Most commonly used tool for risk differentiation are statistical ratings models whose output are generally in form of rating scores or rating grades indicating the level of risk associated to the profile of each individual customer. Risk rating is not only used for assessing risk associated with individual borrowers but also leads to early warning system for potential portfolio problems for a particular segment.

Benefits

In terms of global scenario, after implementation of Basel accord, financial institutions (FIs) of developed nations has already implemented risk based pricing and FIs in developing nations are already in process of achieving the same. Nepalese financial system has been traditionally using cost based pricing (where general markups over cost are fixed) or market driven pricing (where a few players generally market leader/s set the prices) which has put the medium to small borrowers at disadvantage position. Nepal also has to move with the time and NRB's guidelines, in this line appears to have come at the right time. Nepalese banking sector can also reap some of immediate benefits of risk based pricing as follows:

- Risk based pricing brings greater transparency in application of interest rates to credit clients so enhance credibility of institution. It also increases efficiency of banks to manage return/income from credit portfolio.

- Risk based pricing also helps the banks in diversifying credit portfolio in scientific manner.

- Credit granting process becomes less dependent of individual judgment of any credit officer and decision making becomes more systemic and faster.

- Borrowers with good ratings can get loans at lower rates so, the good loan customer do not have to carry the cost of other defaulter customers as high risk borrower have to pay higher rates.

- Risk based pricing makes customer more conscious on loan repayment as degraded performance increase cost to them so increase financial discipline by the borrower and results to lower defaults hence reducing Non performing loans of the bank.

• Banks shall move away from present practice of collateral base lending, towards project/business performance based lending as collateral security is only a risk mitigant and shall not constitute a major risk rating determining factor. For borrowers, it shall help to overcome restriction of obtaining limited finance due to collateral constraint.

• Product with high costs in terms of high default risk or high cost of capital charge can also be a factor for risk based pricing for differentiating among products. This is also in line with NRB's intentions of limiting excessive credit flow to such portfolio which has been termed as "unproductive sector".

Challenges

Everest Bank is the first bank to initiate implementation of risk based pricing as it was the first bank to publish customer rating wise interest rates, though for limited sector of borrower. However, adopting to risk based pricing model is not easier said than done. Financial institutions shall have to overcome some of the initial major challenges:

• Risk base pricing for credit portfolio is generally done through ratings of the customers based on bank's internal risk rating models or ratings provided by external rating agencies. On one hand the country has presently one external rating agency actively engaged in conducting ratings however its access has been limited only to financial institutions on other hand ratings based on internal models needs large quantum of past data on default in portfolios, products and other data to track history of customers. Use of centralized banking solutions is not very old and structuring of data for analysis purpose shall be another challenge for the banks.

• Developing Internal models needs human resources with skill sets in developing such rating models and take time to evolve as well as stabilize. Development of human resource may take some time and resources in absence of local expertise.

• Financial reports of customer shall always remain one of the key components for ratings. Government, as such has to encourage as well as enforce the culture of correct financial reporting by the business community for larger national interest as well as revenue collection, some bold steps need to be taken by government in this regard. However, NRB's recent guidelines on quality of financials (loss provisioning on acceptance of two different financials for same period by banks) is a welcome move, at least for financial sector.

• With initiatives of Nepal Government and NRB to expand financial services to unbanked areas, availability of services of qualified auditors to help in preparations of financials for customer is also another challenge. ICAAN and similar institutions have to play a significant role for improvement on this aspect.

• Preparedness of borrowers is also a big challenge. Banks, also with help of other stakeholder, need to educate the customers on the benefits of moving on to risk based pricing.

Finally, sooner or later, the banks have to adopt risk based pricing and with support from NRB, all stakeholders have to move in one direction to overcome the challenges.

(Mr. Sharma is the Assistant General Manager)

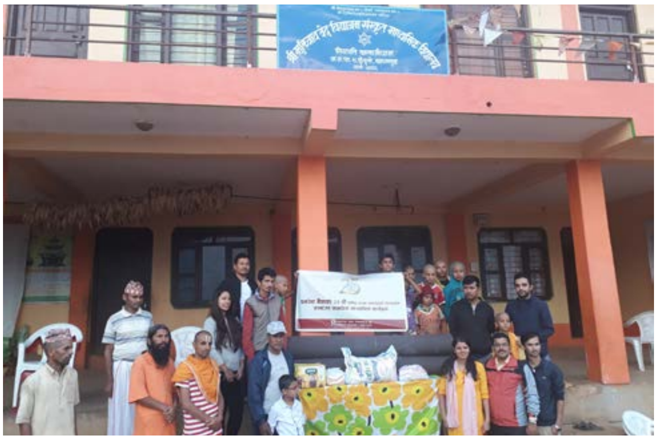
"When one door of happiness closes, another opens, but often we look so long at the closed door that we do not see the one that has been opened for us"

Helen Keller

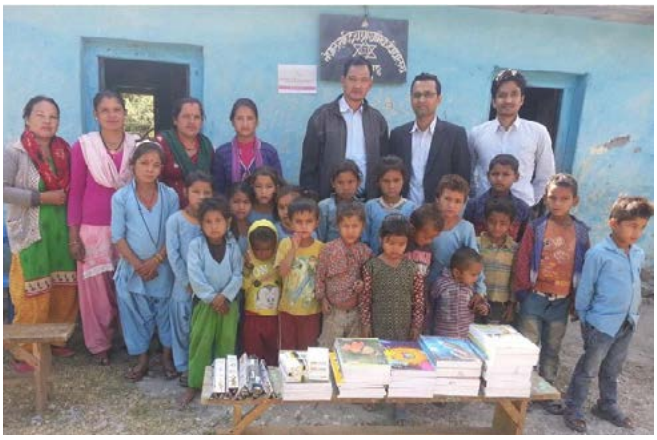
Various CSR Events conducted by Branches to mark 23rd Anniversary

Birgunj Branch donating warm clothes to old age home, Manab Sewa Ashram, Birgunj in the presence of Mr Someshwar Seth (CEO)

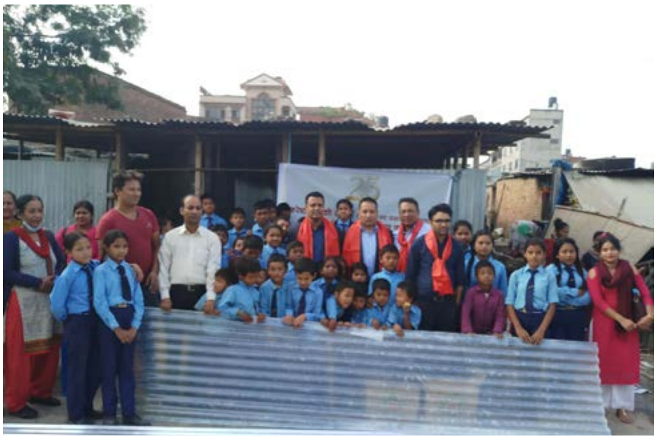
Baneshwor Branch donating grocery items and warm clothes to Koseli Foundation (Center for slum and street children) in the presence of Mr Rajesh Gautam (DGM)



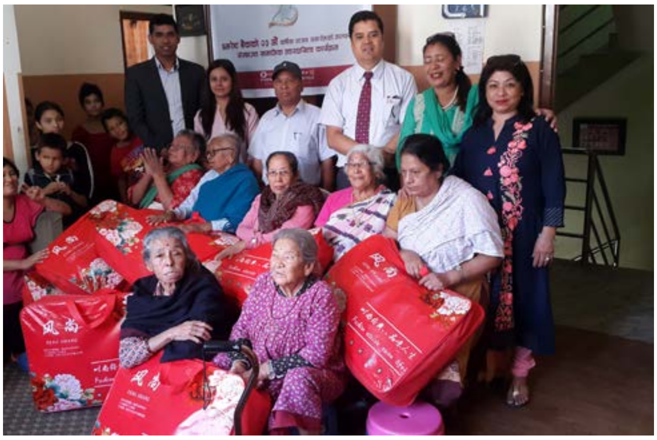
Baglung Branch donating carpets and foods to Shree Muktinath Ved Vidhyashram Sanskrit Madhyamic Vidhyalaya



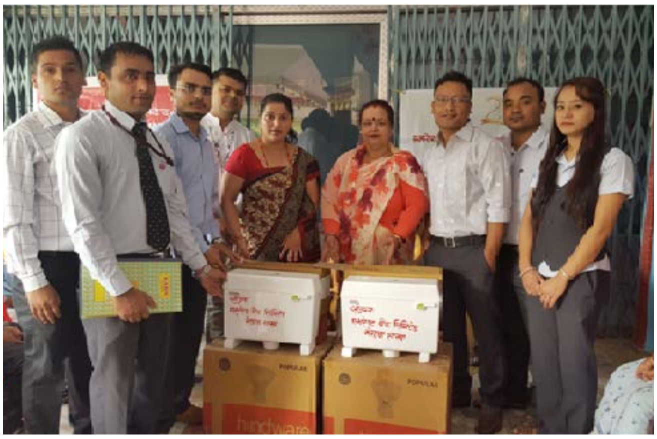
Bajhang Branch donating stationery items to Nepal Rastriya Primary School,Bajhang



Balaju Branch donating galvanized sheets to community based school, Shree Balkalyan Adharbhut School, Balaju



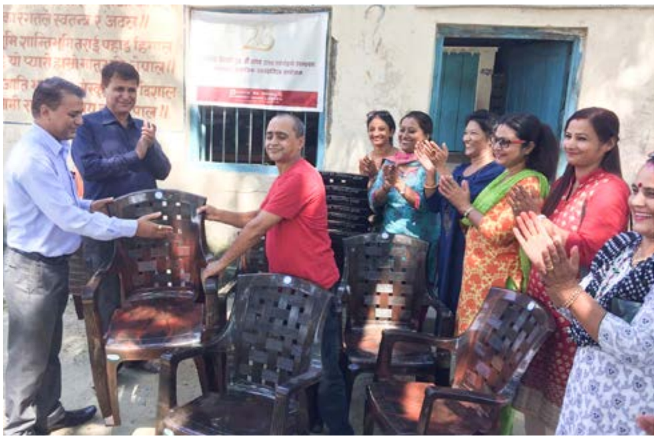
Bagbazar Branch donating warm clothes to old age home, Mudita Sewa Griha, Lalitpur



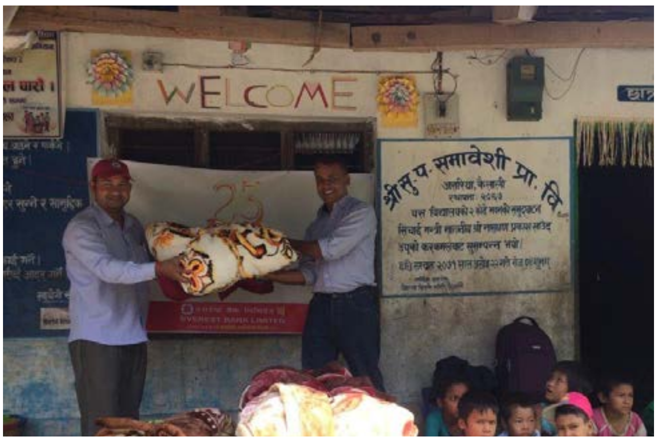
Bhairahawa Branch donating sanitaryware to old age home, Om Satya Sai Briddhashram, Bhairahawa

Bhaktapur Branch donating toys to Bidhyarthi Niketan Madhyamic Vidhyala, Bhaktapur

Bhojpur Branch donating scanner machine to Shree Ranabam Gan, Bhojpur



Biratnagar Branch donating plastic chairs to government community school, Shree Bhanu Morang Primary School

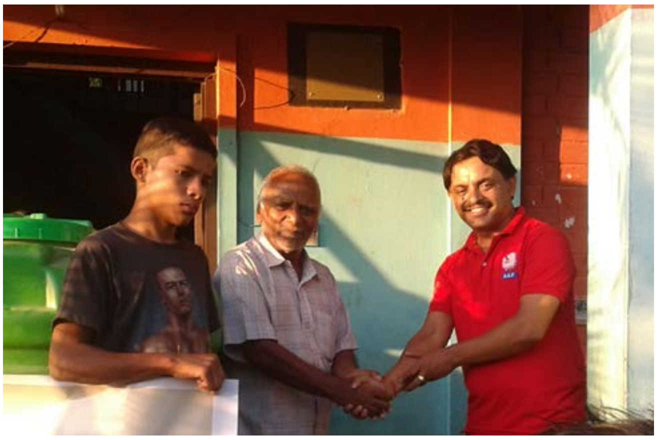


Attariya Branch donating warm clothes to differently able children of Su. Pa. Samabeshi Adharbhut Vidhyalaya, Godawari

Butwal Branch donating wheel chairs and walkers to Lumbini Zonal Hospital

Dhading Branch donating warm clothes to orphanage home "Aama ko Maya" Chhatrabaas, Dhading

Dhangadhi Branch donating warm clothes to orphanage home, Nepal Life Mission, Dhangadhi

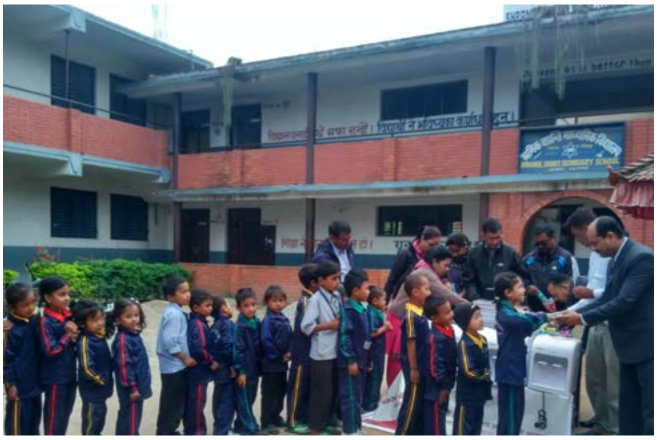


Duhabi Branch donating water tank and food stuffs to Helpless Children Welfare Mission

Golfutar Branch donating warm clothes and arranging lunch to Sr Citizens of Dibya Sewa Niketan, Golfutar

Gongabu Branch donating bed and mattress to Matriyabhumi Child Homes, Gongabu

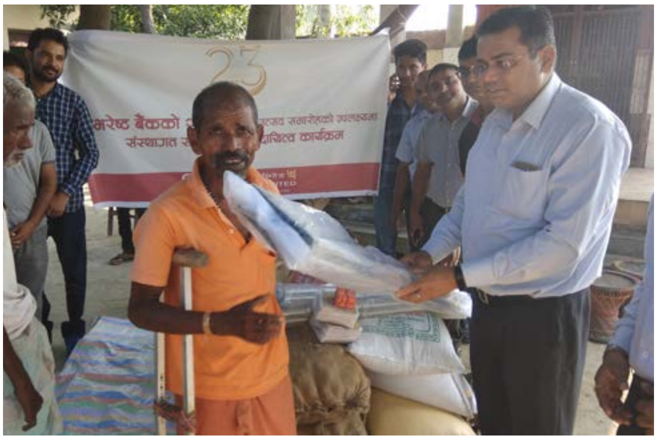
Gorkha Branch donating warm clothes and stationery items to Shree Gorachhanath Baidik Gurukul School,Gorkha



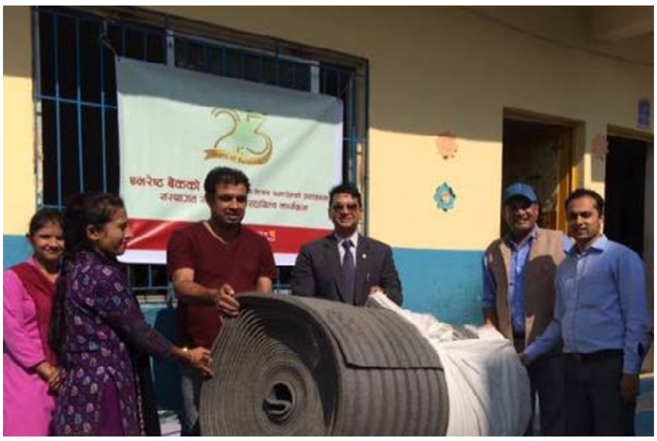
Gwarko Branch donating stationery items and water dispensers to Shramik Shanti Secondary School, Lalitpur

Hetauda Branch donating a set solar light to old age home, Om Briddhashram

Itahari Branch donating warm clothes and food stuffs to old age home, Shree Ram Janaki Shanti Briddhashram, Sunsari

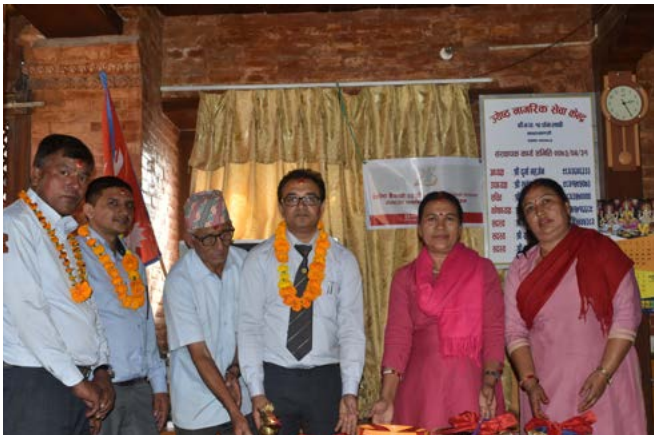


Janakpur Branch donating walkers for handicapped, sanitarywares and food stuffs to community near to Zero Mile



Jorpati Branch donating floor mat and stationery items to Jorpati Lions Academy School, Jorpati

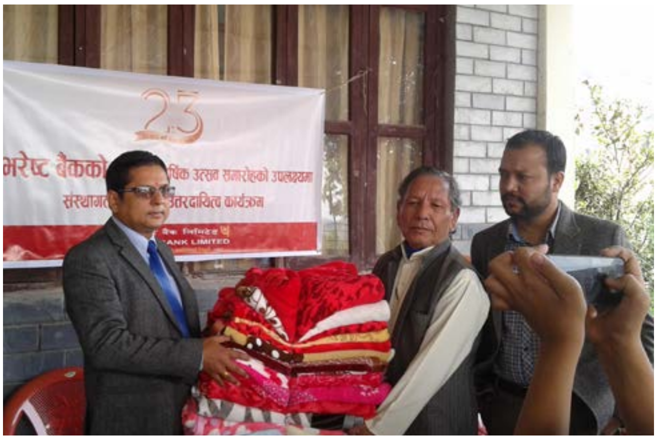
Kalimati handing over cheque to Nil Barahi School, Kalimati for scholarship package of economically weak students



Kirtipur branch donating musical instrument and arranging lunch to old age home, Jestha Nagarik Sewa Kendra,Kirtipur

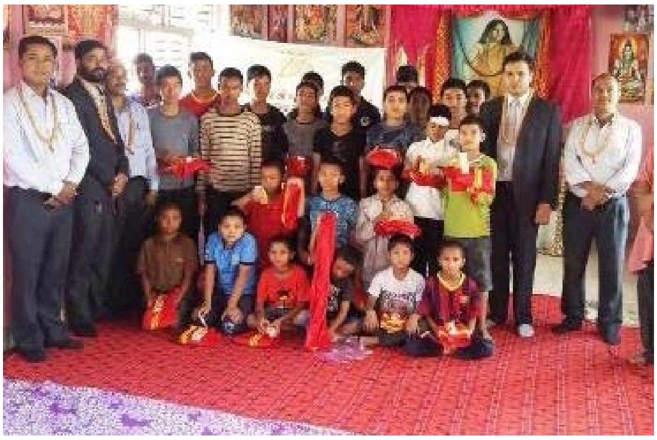
Kushma Branch donating photocopy machine and stationery items to Shree Balmandir Prathmik Vidhyalaya

Lagankhel Branch donating warm clothes to Sishu Shyahar Kendra, Lalitpur



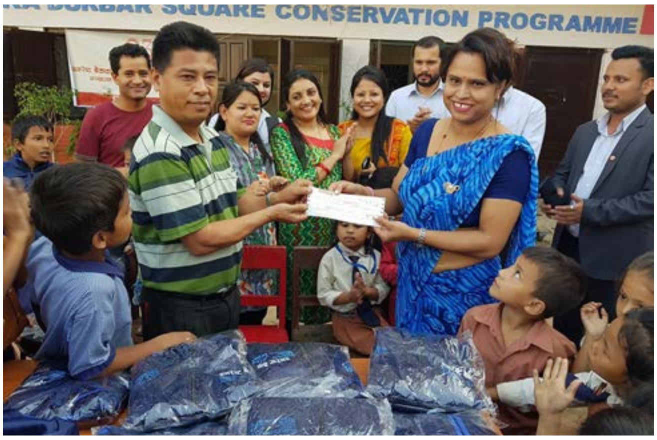
Lekhnath Branch donating warm clothes to old age home, Pokhara Briddhashram, Pokhara

Lumbini Branch donating fans to Buddha Adarsha Uccha Madhyamik Vidhyalaya, Lumbini



Maitidevi Branch donating warm clothes and food stuffs to Pravabhaanda Vidhyamandir, Guhashewari

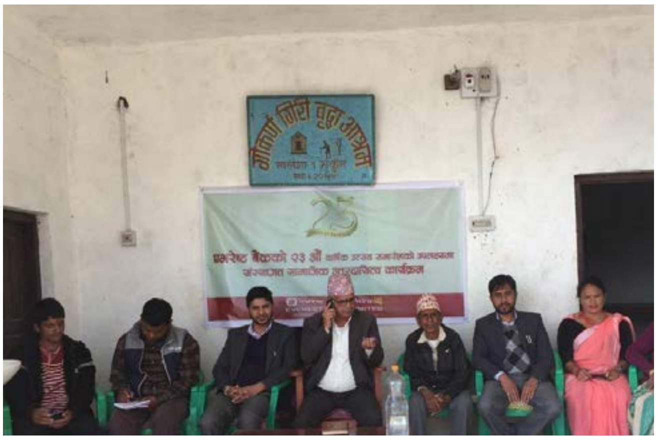
Narayangarh Branch donating stationery items, sports materials and sanitarywares to Shree Narayan Madhyamic Vidhyalaya



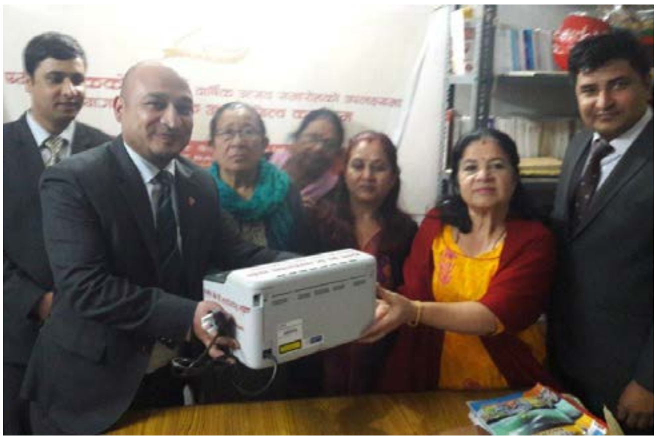
New Road Branch donating warm clothes and foods to Nawa Adarsha Madhyamik Vidhyalaya

Pokhara Branch donating warm clothes and fruits to the batuks of Pokhara Chisakhola Ved Biddhyashram

Rajbiraj Branch donating walkers and foods to differently able people residing in community

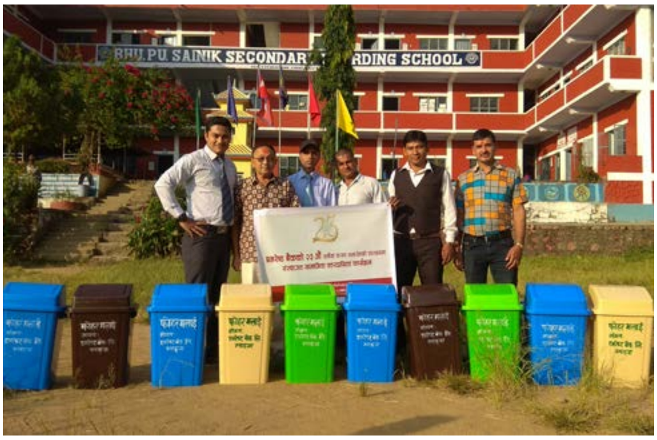


Rukum Branch donating kitchenwares to old age home, Gokarna Giri Briddhashram, Khalanga



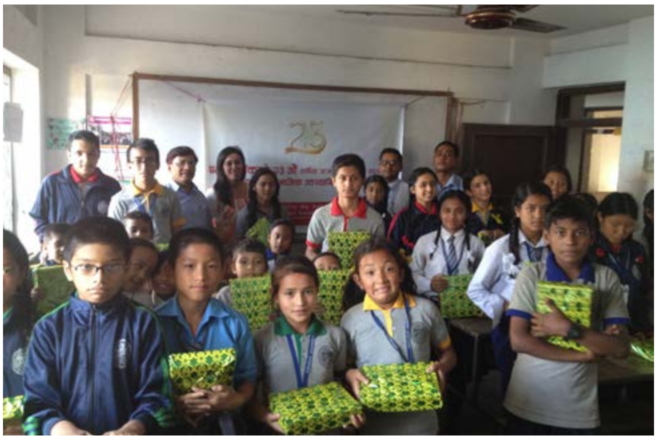
Satdobato Branch donating Laser printer to Prerana Mahila Secondary School, Satdobato

Sukkhad Branch donating warm clothes to differently able students of Shree Rastriya Higher Secondary School



Syangja Branch donating dustbins to Bhu Pu Sainik Awasiya Secondary School, Syangja

Teku Branch handing over cheque to Milan Marg Tole Sudhar Samiti for reconstruction of Ganesh Temple

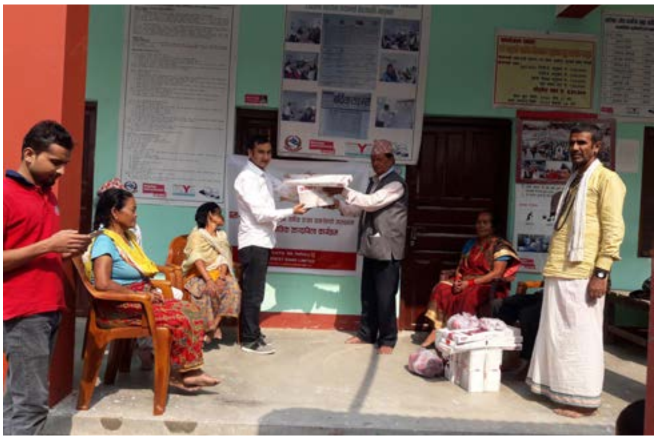


Thamel Branch donating stationery items to community school, Siddhi Ganesh Higher Secondary School

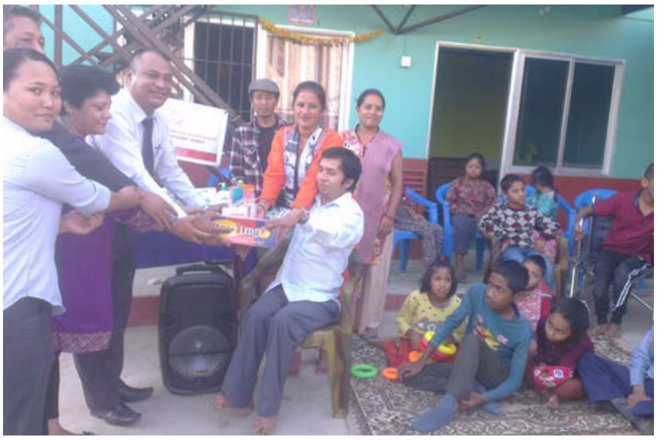
Tikapur Branch donating warm clothes and food stuffs to orphanage home, Tikapur children Home

Tulsipur Branch donating Dustbins to Rapti Shanti Udhyan

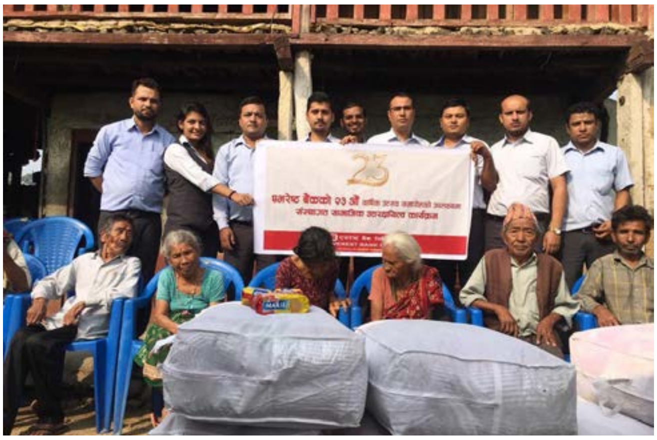
Bagdole Branch donating warm clothes and foods to rape victims of National Fertility Crisis Centre



Gulariya Branch donating fans and foods to old age home, Shree Pashupati Shanti Shivalaya Sudama Brida Sadshang Samuha Ashram, Bardiya

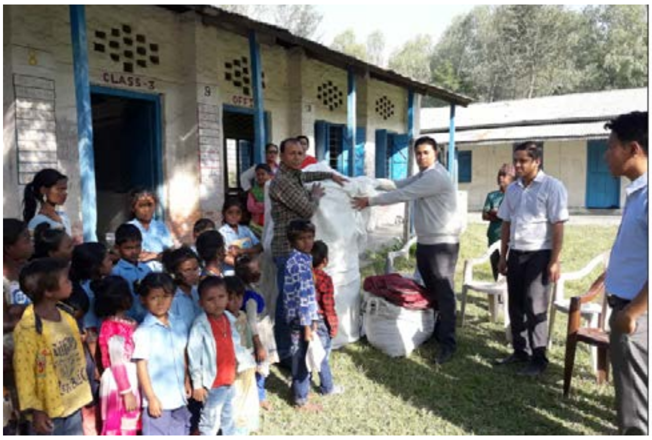


Satungal Branch donating toys and foods to differently able students of Srijanshil Rehabilitation and Special Education School, Naikap



Simara Branch donating warm clothes and foods to old age home, Jestha Nagarik Samman Briddhashram

Birtamod Branch donating scholl bags and stationery items to community school, Sighadevi Prathmik Vidhyalaya



Chandranigahapur Branch donating school bags and floor mat to Krishak Samuha Primary School, Judibela

Challenges on Regulatory Requirement under Agriculture Lending

Santosh Bhattarai

Nepal Rastra Bank (NRB) through Monetary Policy 2074 expressed that increasing investment in priority sector has become critical in order to minimize widening trade deficit. It prioritized to encourage banks & financial institutions to direct credit towards agriculture, energy, tourism, small & medium scale enterprises as well as to other productive enterprises. As such, NRB widened the scope of priority sector by including hydropower, agriculture, tourism, exports, small & cottage industries, pharmaceuticals, cement and garments and redefined the minimum lending to productive sector by Class 'A', 'B' & 'C' FIs by raising the minimum requirement at 25%, 15% and 10%, respectively. Out of 25% priority sector lending requirement, commercial banks are required to maintain its lending to agriculture, energy and tourism at 10%, 5% and 5%, respectively by end of current Fiscal Year 2074/075. It further issued Directive under Priority Sector Loan on 15th August 2017 in consonance with the above policy.

In the above context, Class 'A' Commercial banks have lent 17.5% of their credit to priority sector i.e. agriculture, energy, tourism and small and cottage industries as of end of FY 2074. The same was at 16.8 percent as of end of earlier FY when it was mandatory for these banks to disburse at least 20% of their outstanding credit to these sectors. Thus minimum requirement of 25% in the sector by the end FY 2074/75 is a challenging benchmark, especially while considering the present overall growth rate of private sector lending at proximity of 20%.

Needless to mention, Everest Bank has always emphasized on extending loans to priority sector and has complied with every regulatory requirement in respect of productive sector financing. However, with further segregation of priority sector into sub sectors with individual requirement, the gap has widened in some sub sectors further indicating NRB's increment on lending requirement for Agriculture and Tourism sector to be evidently challenging.

Everest Bank has always emphasized and understands the importance of Agriculture to the financial market and the economy which is also evident as being the pioneer among the private sector commercial bank in setting up a specialized agriculture lending unit by opening its branch at Rajbiraj during Ashad, 2069. Based on the experience of over these years in lending to the Agriculture sector, there are challenges that persist for BFIs which may be note worthy as under:

External (Market Related)

- The agricultural sector, which represents 27% of GDP contribution, stands as a dominant contributor to Nepal's economic activity. However, lending to the overall priority sector, including agriculture, constitutes only 17.5% of total private sector credit mostly constituted by energy sector which may be indicative of unfavorable financing environment to cater to the farmers with predominantly lower literacy rate.

- There are collateral-related issues such as existence of unregistered/ unrecorded land holding in a number of geographical areas.

- Unfavorable/ insufficient Insurance policies targeting the Agriculture business such as insurance related to various livestock.

- In addition, agriculture in Nepal is largely rain-fed and small scale thus creating uncertainty in yield.

- Fragmented land ownership pattern, especially in hilly areas, also limits extension of required credit facility.

Internal (Within FIs)

- Financial Institutions and other players in the sub-sector do not have sufficient guidelines for agricultural financial services creating gaps for ready access for the small scale farmer to financial services. Even the direct government intervention is also to the advantage of large-scale commercial farmers and businessmen.

- Extra cost for creating security charge, insurance, mortgage, valuation etc. including cost of manpower for small financing also stand as barrier to extend lending facility as desired.

- Shortage of skilled human resource with expertise in Agriculture sector in Financial Institutions also stands as a major challenge.

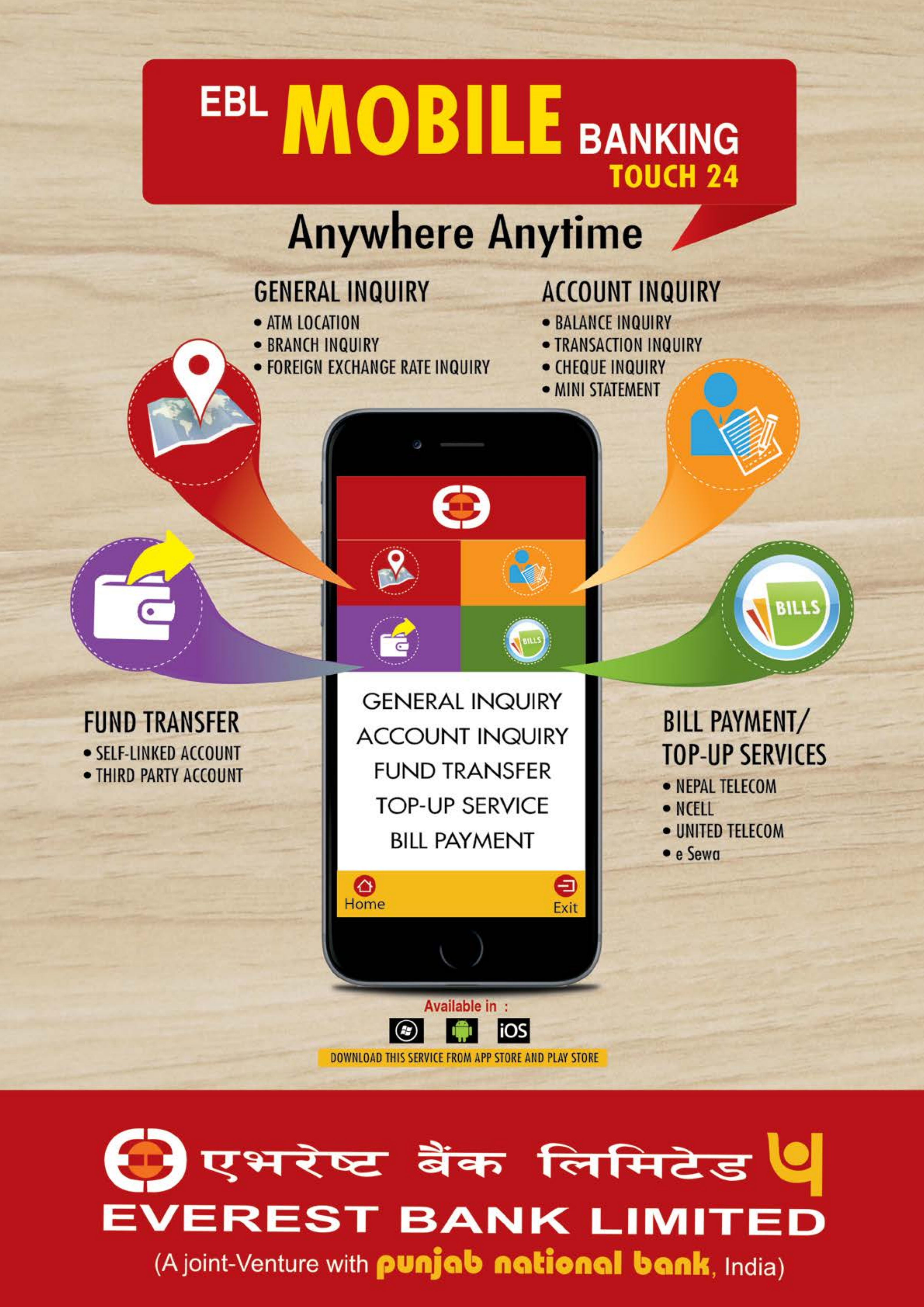
- Competition with local micro finance and cooperatives taking advantage of lower monitoring/ recovery costs, familiarity with local people, knowledge of feasible crops, buyers etc. which may not be possible in case of commercial banks.

Despite underlying challenges, NRB has taken the initiative of enforcing the BFIs to increase lending to the Agriculture sector including other priority areas by issuing above directive which may even appear as a bane to BFI's in the immediate future. However, the BFIs' of Nepal with its proven maneuvering capacity even during the anomalies as in the recent pasts shall once again overcome these challenges and turn this initiative of NRB into a long lasting blessing.

*(**Mr.Bhattarai** is the Head of Corporate Credit)*

"What's money? A man is a success if he gets up in the morning and goes to bed at night and in between does what he wants to do"

Bob Dylan


EBL MOBILE BANKING
TOUCH 24
Anywhere Anytime
GENERAL INQUIRY
• ATM LOCATION
• BRANCH INQUIRY
• FOREIGN EXCHANGE RATE INQUIRY
ACCOUNT INQUIRY
• BALANCE INQUIRY
• TRANSACTION INQUIRY
• CHEQUE INQUIRY
• MINI STATEMENT
BILLS
FUND TRANSFER
• SELF-LINKED ACCOUNT
• THIRD PARTY ACCOUNT
GENERAL INQUIRY
ACCOUNT INQUIRY
FUND TRANSFER
TOP-UP SERVICE
BILL PAYMENT
Home
Exit
BILL PAYMENT/
TOP-UP SERVICES
• NEPAL TELECOM
• NCELL
• UNITED TELECOM
• e Sewa
Available in :
iOS
DOWNLOAD THIS SERVICE FROM APP STORE AND PLAY STORE
एभरेष्ट बैंक लिमिटेड
EVEREST BANK LIMITED
(A joint-Venture with punjab national bank, India)

Amendments in Company Act, 2006

Swechha Shrestha

Parliament has passed First Amendment to Companies Act 2006 (2063 BS.) which came into force from May 2nd, 2017 (2074/01/19 BS). Following are the Key changes made in the Amendments.

1. Relaxation of the provisions relating to issuance of shares at premium price

Section 29 of Company Act had provided following pre-requisite for issuance of shares at premium applicable to all companies:

a) Company should be in profit and should have declared dividend for last 3 consecutive years prior to issuance
b) Company's net worth should exceed its total liabilities
c) Issuance should be approved by the general meeting
d) Approval of Office of Company Registrar (OCR)

Amendment:

As per the new provision, premium share issuance in case of listed companies shall be subject to terms and conditions imposed by applicable Securities Laws. Further, Amendment has removed requirement of approval of OCR for issuance of shares at premium for private and unlisted public limited companies.

2. Mandatory requirement for telecommunication service provider companies to be converted into a public company

Section 12 of the Act provided for provision pursuant to which certain business activities like banking, financial transactions, insurance, stock exchange, pension fund or mutual funds and other notified business activities are required to be incorporated as public limited companies.

Amendment:

Amendment has inserted additional provision pursuant to which Telecommunication Service Provider companies having paid up capital exceeding Nepalese Rupees 50 Million will have to be registered as public limited companies and such companies already having paid up capital more that NPR 50 million are to be converted into public limited company within a period of 2 years.

Effect of Amendment:

Amendment does not define Telecommunication Service Provider; however, it appears to include Internet Service Providers as per provision of telecommunication laws. It only covers form of incorporation and does not deal with mandatory requirement for issuance of shares to general public. In view of the same, such entities will be mandated by Telecommunication Act or directives from telecommunication regulator.

3. Investment companies exempted from investment ceiling

Section 176 of Companies Act restricts a company to invest in other company, in excess of sum total of 60% of it's paid up capital and free reserve or 100% of free reserve, whichever is higher.

It has also excluded certain companies from application of Investment Ceiling like, banking or financial institutions, insurance company, company with main objective to buy and sell securities, private company which has not borrowed any loan from a bank or financial institutions, company with objective to provide infrastructure facility, and investment made/guarantee given by the holding company in its fully owned subsidiary company.

Amendment:

Amendment has inserted "Investment Company" within the excluded business activity for which Investment Ceiling will not be applicable.

4. No mandatory conversion requirement for private companies

Section 13 (1) of Companies Act provides conditions where a private limited company is required to be converted into a public company:

a) If general meeting of private company, by adopting a special resolution, decides to convert that company into a public company, or
b) 25% or more shares of private company are held by

one or more public companies, or
c) If private company acquires 25% or more shares of a public company.

Amendment:
Amendment has removed conditions mentioned in clauses of (b) and (c) in Sec. 13 (1) thereby allowing a public company to hold 100% shares of private company and vice versa without requirement of mandatory conversion.

5. Special provision for de-registration of defunct and defaulting companies
Section 136 of Companies Act, de-registration of defunct companies or defaulting companies are subject to fulfillment of all pending compliances and clearance of all fines and dues by liable offices.

Amendment:
Amendment has inserted a new section 136(A) which has made a provision relating to de-registration of defunct or defaulting companies. It has provided a period of 2 years from the date of commencement of Amendment to such companies to apply to OCR for de-registration which have not fulfilled following conditions:
a) commence business, or
b) submission of details pursuant to Section 80, or
c) payment of fine under Section 81.
d) A decision from general meeting of such company is required to initiate the process.

Amendment has further prescribed applicable government fees for such de-registration is (a) payment of fine under Section 81, or (b) payment of 0.50% of paid up capital of the company, whichever is less.

Effect of Amendment:
Amount of fine as prescribed under Section 81 can be huge for some of the companies which have remained defunct for several years. Now, defunct companies can deregister themselves by paying an amount equal to 0.50% of its paid up capital.

6. Increase in maximum number of shareholders of a private company
Pursuant to Section 9 of Companies Act, a private company cannot have more than 50 shareholders.

Amendment:
Amendment has increased this number to 101.
It is traditional to define companies as public or private in terms of minimum or maximum number of promoters/shareholders. Though Amendment still retains this concept, it has provided flexibility to private companies in terms of maximum number of shareholders; however, this threshold does not apply in case of employee shareholders.

7. Protection of corporate name/ brand
Section 6 of Companies Act provides various grounds under which OCR can refuse to provide name for registration of the company. It has, amongst others, included similarity with name of registered company as one of the grounds for refusal for registration.

Amendment:
Earlier, the protection was not extended to registered trademarks though some provisions were inserted in Company Directive 2015. Amendment has inserted a provision pursuant to which OCR can now refuse registration of companies if proposed name is identical or confusingly similar to trademark of registered company.

8. Provision for specific time limitation to bring action
Companies Act had lacked provision for time limitation to bring an action against Company or its officers before OCR or courts. This implies that any action under Companies Act can be brought at any time subject to general provisions provided under the Country Code (Muluki Ain). This has provided uncertainty as there remains possibility of challenging past corporate action or decision by an interested party at any point of time and without being subject to time limitation.

Amendment:
Amendment has mentioned time limitation to file a case as two years from the date of knowledge of cause. This limitation is applicable in case no separate time limitation is prescribed in the Companies Act.

9. Extended prohibition on availing loans to officers and shareholders
Section 101 of Companies Act had prohibited the companies to provide loan or financial assistance, security or guarantee to its officers, substantial shareholder or their close relatives or officers, shareholder or their close relative of the holding company of such company.

Amendment:
The provision has not covered "officers or shareholders

of subsidiary company of a company in question" within the prohibition. Pursuant to Amendment, prohibition under Section 101 is now extended to officer, substantial shareholders or officer, shareholder of its subsidiary company or a close relative of such person.

10. Extended coverage of "Substantial Property Transaction"
Pursuant to existing Section 93 of Companies Act, no public company shall, without approval of general meeting, do any significant transaction with its director or his/her close relative or substantial shareholder or no subsidiary company shall, without approval of general meeting of its holding company, do any significant transaction with any director or his/her close relative or substantial shareholder of the holding company.

"Substantial Property Transaction" means and includes any transaction of sale, purchase or exchange and contract, the value of which at the time of doing transaction exceeds Rs. 120,000 or 5% of total assets of Company whichever is lesser, or Rental transaction amounting to Nrs. 120,000 or more annually

Further, "substantial shareholding" means any person owning 5% or more of paid up capital of any public company with full voting rights; however, in case of a company having paid up capital of more than Nrs. 250 million, any person owning 1% or more of total paid-up capital of such company with full voting right is a "substantial shareholder".

Amendment:
Amendment has further restricted to carry out "Substantial Property Transaction" with "the firm, company or corporate body" of which such director, close relatives of a director or substantial shareholder holds substantial shares.

11. Extended prohibition to provide financial assistance
No company shall provide any loan or financial assistance of any kind to any person for purchasing its own shares or shares of its holding company or getting entitlement to such shares in any manner. Provided, however, that nothing contained in this Section shall prevent a company from providing loans to any employees of the company to purchase fully paid up shares of that company or its holding company or acquire ownership over such shares in any manner, under a scheme of selling shares to its employees.

Amendment:
Restriction for providing loan or financial assistance as provided above has further been widened by the Amendment. Pursuant to the Amendment, a company is further restricted to provide financial assistance to anyone for purpose of buying its shares or shares of its subsidiary company.

12. Mandatory participation in the general meeting
Pursuant to Section 68 of Companies Act, every director of a company shall be present in general meeting as far as possible. No alternative means of presence was allowed by Section 68.

Amendment:
Amendment has provided participation of the director in general meeting by means of video conferencing or similar technology. However, ensuring such presence is allowed in force majeure situations only.

13. Additional requirement for private companies in relation to annual general meeting
Section 76 of Companies Act requires each public company to conduct annual general meeting (AGM) within 6 months from the end of a fiscal year. It has granted right to shareholders of a public company to seek recourse in case a public company does not convene AGM within the statutory timeline. A shareholder can seek recourse from OCR and court if the company does not comply with directives of OCR. Companies Act does not provide similar provisions to private companies. Furthermore, it is not mandatory for private companies to conduct AGM unless the same is provided in articles of the company.

Amendment:
Amendment has now provided requirement of convening of AGM and other compliances thereto in case of private company where provision of such general meeting is provided in Article of Association. The statutory timeline, as mentioned under Section 76, for concluding AGM is now applicable to private company as well. This will provide right and recourse to the shareholders of a private company to ask to conduct AGM by taking assistance from OCR and court.

14. Specified Timeline for holding extra ordinary general meeting ("EGM") upon requisition:
Pursuant to Section 82 (3) of Companies Act, Board of Directors of a company is required to call EGM in case

shareholders holding at least 10% shares of paid–up capital or at least 25% shareholders of total number of shareholders make an application setting out reasons for the same.

Amendment:
Prior to Amendment, timeline to call and convene EGM upon request by shareholders was not specified. Amendment has now prescribed the time and as such BOD is required to hold EGM within 30 days from the date of receipt of such application from shareholders.

15. Maximum number of directors
Pursuant to Section 86, appointment and number of directors of a private company shall be as provided in its articles of association.

Amendment:
Amendment has removed the flexibility provided to private companies regarding appointment of directors in desired number. Private companies can now have a maximum of 11 numbers of directors.

16. Requirement of mandatory female director
Pursuant to the Amendment, a public company is required to have a mandatory female director if there is one or more female shareholders in the company.

17. Statutory recognition to online system: New Provision
Amendment has provided statutory basis for recognition and implementation of online filing of documents with Office of Company Registrar. Though OCR has already implemented online filling and submission, it had no legal basis. Further, Amendment has also recognized use of electronic signature in the documents to be submitted to OCR.

Effect of Amendment:
It is not clear as to whether manual submission of documents would also be required following online submission. Currently, documents are submitted both online and manually. Registration certificate and charter documents are also required to be collected from OCR physically. Hence, the practice will need to be aligned in line with the provisions of Amendment.

18. Reduction of the statutory timeline for registration of companies
Pursuant to Section 5 (1) of Companies Act, OCR is required to complete registration of a company within a period of 15 days from the date of application. Notification of refusal of registration was required to be given within 15 days as provided under Section 6(2).

Amendment:
Amendment has reduced statutory timeline for giving decision by OCR as to the proposed registration of companies. Pursuant to Section 4 of Amendment, OCR is required to register a company within 7 days and in case of refusal, same to be notified to the applicant within next 3 days.

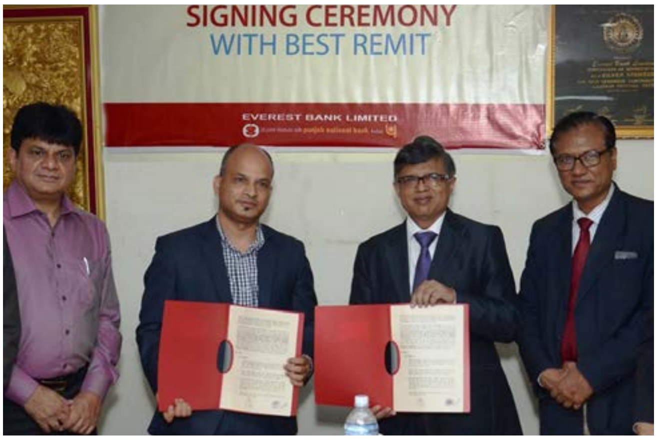
19. Provision of services from the branch offices of the Office of the Company Registrar: New Provision
Amendment has provided new provision for establishment of branch offices of the OCR. OCR can now establish branch offices and provide services related to company registration and administration through such branch offices.

Effect of Amendment:
Generally, entire system of registration, reporting, payment and similar services of OCR is centralized in Kathmandu. There is no branch office of OCR to render services. Only example in the past was establishment of a unit of OCR in Lalitpur District. Therefore, demand for establishment of branch offices of OCR has been raised time and again, at least in major business cities. This new provision is likely to simplify registration as well as compliances related process.

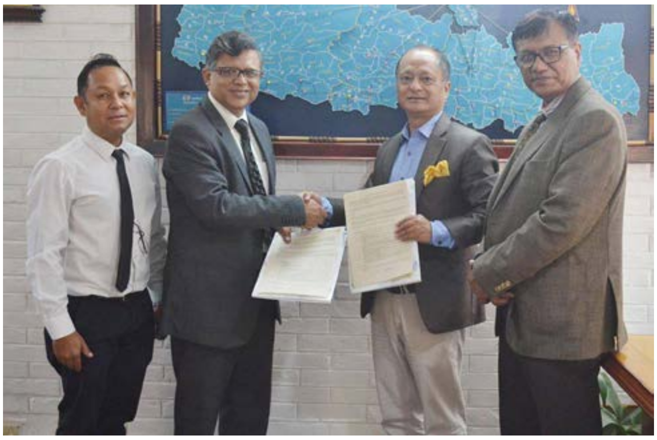
20. Compliance with the anti-money laundering requirement
Amendment has prescribed compliance requirement with anti-money laundering laws. The company is required to make commitment pursuant to the applicable laws on anti money laundering and terrorist financing.

(Ms. Shrestha is Assistant Manager at Corporate Credit, Head Office)

Corporate Events

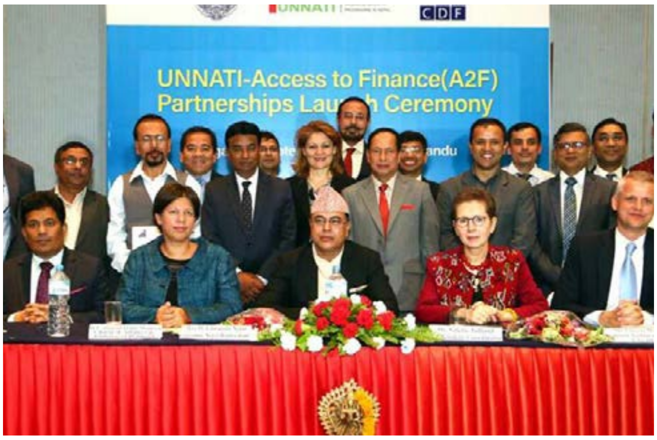


EBL join hands with Best Remit for Remittance Service

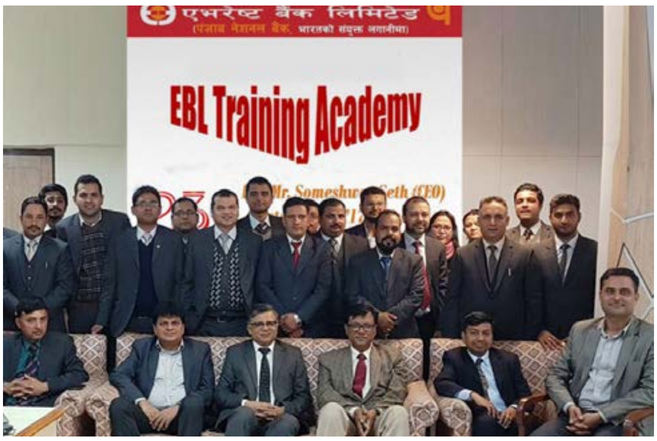


MOU signed between EBL and NBI for Strategic Alliance

EBL associated with National B-Schools Rating Ranking Awards 2017 as Title Sponsor



EBL participating in UNNATI-Access to Finance (A2F) Partnerships Launching Ceremony



Inauguration of EBL Training Academy

Launching of Everest Special Savings Account

Retail Lending: the core Interest of Bank & Financial Institutions

Bishnu Prasad Gyawali

Introduction

Retail Banking refers to the customer oriented services offered by the bank and financial institutions. It deals with the retail customer instead of institutional customer. It is also known as mass banking where banks and financial institutions are dealing with voluminous transaction covering a large population of individuals. In retail banking, the product and services is offered directly to these customers to meet their immediate requirements where as in wholesale banking, products and services is offered to big corporate, public enterprise and multi nationals to meet the need of companies and business i.e. acquiring plant and machinery, purchasing of raw materials/ finish goods and for trade finance facility.

Retail Banking has become a very important module in the business mix of banks both on assets and liabilities side of their balance sheet.

Retail lending is a major component of retail banking model of bank and financial institutions which focus strictly on consumer markets. It provides variety of loans i.e home loan, auto loan mortgage loan, educational loan and credit cards etc. The retail loan is mainly provided to the retail customer for consumption purpose.

History and present scenario of Retail lending

In early banking history, the focus was usually for big corporate and credit was mainly provided for working capital, trade finance and infrastructure of the firm/company. The concept of retail banking was started from UK during the 19th Century and evolved worldwide along with the evolution of modern technology. The retail banking in south Asia was started in early 1980s with the consumer banking model targeted at the personal segment. Traditional practice of lending to corporate clients currently is in slow pace due to the high risk of NPA hence the retail lending is now the best alternative available for banks to increase their earnings.

In 1997, Everest Bank lunched home loan product first time in Nepal. Later on, other banks started car loan, mortgage loan, education loan and consumer loan etc to the individual borrower. Now, almost all bank and financial institutions are financing retail loans to the individual customer, small & medium sized business to meet their requirements.

Retail lending has been the attractive market with large numbers of varied classes of customers in developing country like Nepal which is mainly due to risk diversification, attractive yield , easy loan recovery and high loyalty of customers towards the banks. Hence, most of the banks are focusing retail credit rather than corporate credit where products can be easily designed, developed and marketed as per the individuals needs.

The typical products offered in the Nepalese retail banking segments are home loan, auto loan, mortgage loan, educational loan, consumption loan for purchase of durable goods and credit cards. The loan are marketed under attractive brand name to differentiate the products offered by different banks.

Scope and Opportunity of Retail Lending in Nepal

BFIs have contributed significantly in promoting financial access through the expansion of their network. BFIs are the lifeline for capital formation and economic development. In addition, BFIs play a crucial role in leveraging financial resources and help uplifting the living standard of people.

Presently retail loans contribute less than 10% of GDP in Nepal where as other Asian Countries (South Korea 55%), (Taiwan 52%), (Malaysia 33%), (Thailand 18%) and (India 7%). As per recent data of NRB, the share of retail portfolio of banks and financial system is about 10% of total credit of Rs.1995 billion in 2017, which is very nominal as compared to the other countries. However, the growth rate of retail loan is 26% as against the total growth of loan by 19% in July,

2017. It means the share of retail lending over the total credit portfolio of the bank is in increasing trend. Hence, retail banking has huge opportunity in Nepal. NRB, the regulatory body of the country has also emphasized to regulatory retail portfolio by increasing threshold limit from Rs. 10 million to 15 million under home loan facility, which helps banks to increase retail lending portfolio in the coming days.

Nepal has entered into federal system and elections of local, federal and central bodies have been done. Hence, the economic growth of Nepal seems better in the coming days as compared with earlier. Growing urban population, emergence of new customer segments, higher disposable income show the high scope of retail banking as well as retail credit business in Nepal in coming days.

Retail lending is an effective tool to improve the bottom line of banks but it has also contributed to the development of society. The development takes place in the society, where the people see the need to grow and approach the banks. Hence, the retail lending contributes to the economic growth of the country as well through society.

Challenges of retail Lending

- **Retention of Customer:**

Today's customer are more empowered and earned with much more information before even the first contact, they are less loyal as then search for best deal and are likely to maintain a relationship with more than one financial institutions, which means the customer experience became a key competitive consideration . Today's banks , therefore need to see the world from the customer point of view, understand what competitors are doing and develop an effective customer relationship strategy which maximize value for all sides. If a customer experience poor customer service, he or she may never return and will advise their friends and relatives to do same.

- **Network Management Challenges:**

Difficulties in maintaining and optimizing the performance of retail banking network ensuring that all banks products and services are available at all times and across the entire organization is essential for today's retail banking to generate revenue and remain competitive.

- **Money laundering:**

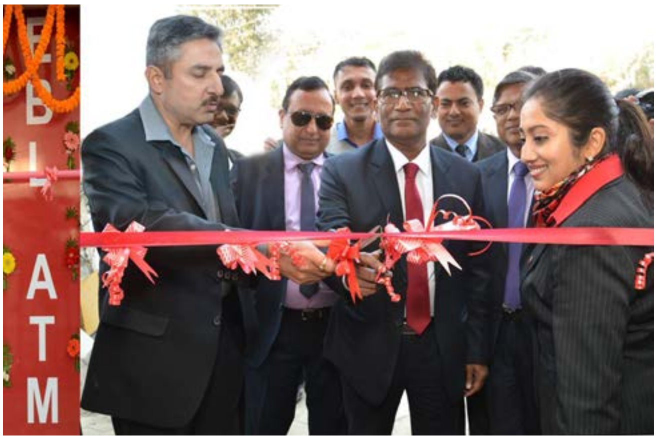
KYC issues and money laundering risk in retail banking is another issue. Higher competition for clients may also lead to KYC procedure being waived in the bid of new business. Banks also may compromise identification of documents and other process to be completed.

Conclusion:

The retail segment is lucrative and provides ample opportunities to the banking industry. However, it is a challenge to meet the growing expectations of the consumers along with meticulous compliance of regulatory requirements. To mitigate these issues, banks needs to be innovative in reforming their business processes, structures and delivery mechanisms. Only such banks & financial institutions, which are able to introduce innovative products with firm strategies to improve both productivity and efficiency along with transparency and commitment towards fair treatment to the customers would be able to sustain and add value to the society.

(Mr. Gyawali is the Head of Retail Assets Cell)

ATM Inauguration



Dr Ram S Sangapure (Executive Director of PNB) and Colonel Man Raj Singh Mann, Defence Attache, Embassy of India jointly inaugurating ATM Outlet at Welfare Wing of Indian Embassy, Sorakhutte

Dr Ram S Sangapure (Executive Director of PNB) inaugurating ATM Outlet at Jain Bhawan

Mr Someshwar Seth (CEO) and Mr Ramesh Maharjan, Mayor of Kirtipur Municipality jointly inaugurating ATM Outlet at Kirtipur

Non Performing Assets (NPA) in Nepal, Causes, Impacts & Remedies

Raju Gauli

The economic progress of a nation and development of its banking sector is invariably interrelated. The banking sector is an indispensable financial service sector supporting development plans through channelizing funds for productive purpose, intermediating flow of funds from surplus to deficit units and supporting financial and economic policies of the government. Banks serve social objectives through priority sector lending, mass branch networks and employment generation. Maintaining asset quality and profitability are critical for banks survival and growth. In the process of achieving such objectives, a major roadblock to banking sector is prevalence of Non-Performing Assets (NPA).

The Non-performing Assets of financial institutions are considered as a significant issue. The immediate consequence of large amount of NPAs in the banking system can result in bank failure and it can result in significant impact in overall economy of the country. Considering these facts, it is necessary to control non-performing loans for the economic growth in the country, otherwise the resources can be jammed in unprofitable projects and sectors which not only damages the financial stability but also the economic growth. In order to control the non-performing loans it is necessary to understand the root causes of these non-performing Assets.

It is important to understand the phenomena and nature of non-performing Assets; it has many implications, as fewer loan losses is indicator of comparatively more firm financial system, on the other hand high level of nonperforming loans is an indicator of unsecure financial system and a worrying signal for bank management and regulatory authorities.

Assets / Loans Classification in Nepal.

Every country's Banking Regulator defines Assets as Performing and Non Performing Categories. In Nepal Central Bank, Nepal Rastra Bank (NRB) has provided following provision for performing as well as Non Performing Assets.

1. Performing Assets.

Those Assets /Accounts which do not disclose and carry more than normal risk attached to the business and are regular in servicing their financial obligation. All Standard Assets attract 1% provisioning. Though Account is regular, regulator has prescribed certain conditions and if such account/Assets meet such condition, such asset has to be categorized as Watch list Assets. All Watch List Account attract 5% provisioning requirement.

2. Non Performing Assets.

Refers to classification of Loans/Advances (NPA) that are overdue for a period of 90 days/more and generally these assets ceases to earn income. NPA is further Categorized as Substandard Assets, Doubtful Assets and Loss Assets.

Those accounts which remain overdue for period of 90 days are categorized as Substandard Assets and these assets attract 25% provisioning as Loan Loss Provision (LLP). Second category under Non Performing Assets is Doubtful Assets. Those account which remain overdue for period of more than 90 days and up to 180 days are categorized as Doubtful Assets and these assets attract 50% provisioning as Loan Loss Provision (LLP). Similarly, those accounts which remain overdue for period of more than 180 days are categorized as Loss Assets and these assets attract 100% provisioning as Loan Loss Provision (LLP).

Causes of NPA of Commercial Banks

On a global scenario, there can be numerous reasons for rising NPAs such as global slowdown, economic crisis, fall in domestic demand etc. However, pertaining to the Nepali banking sector, there is certain cause for NPAs. These are:

- Willful defaulters, fraud, mismanagement, misappropriation of funds corruption etc...
- Lack of proper pre-appraisal and follow up.

- Under financing / over financing.
- Delay in completing the project.
- Business failures.
- Deficiencies on the part of bank viz., in credit appraisal, monitoring and follow ups.
- Excessive volatility of liquidity in Nepali economy resulting in future uncertainty.
- Natural calamities.

NPAs of Nepalese Commercial Banks

Presently, there are 28 commercial banks operating in Nepal. NRB promoted merger of banks with the objective to reduce the number of commercial banks in Nepal. In response to it, 4 commercial banks i.e. Kist Bank Ltd., Grand Bank Ltd merged with Prabhu Bank Ltd, Commerz & Trust Bank Merged with Global IME bank Ltd and Lumbini Bank Ltd merged with Bank of Kathmandu. Prior to merger, numbers of commercial banks operating were 32.

In order to analyze the NPA of Nepalese Banking Industry, we need to study overall NPA Level of Commercial Banks of Nepal. Table 1 shows previous 8 years overall NPA level in Amount and percentage in terms of total gross loan of all the commercial Banks in Nepal.

Particulars	**Amount in crore (NPA)**	**% of NPA**
Mid July 2010	1,122.33	2.39
Mid July 2011	1,687.16	3.20
Mid July 2012	1,632.52	2.66
Mid July 2013	1,945.18	2.57
Mid July 2014	2,725.24	2.95
Mid July 2015	2,717.41	2.46
Mid July 2016	2,534.35	1.82
Mid July 2017	2,673.28	1.54

Source: Nepal Rastra Bank

Major reason for controlled NPA in Nepali Banking sector can be attributed to the regulator's positive role in controlling and regulating the financial Institutions as well as Banks proactive approach in managing Non Performing Assets besides simplified legal recourse mechanism and negligible cases of wilfull default compared to other countries. Nevertheless, the amountwise gross NPA has been increasing with the growing portfolio in the industry.

Impact of NPAs on banking sector and economy

NPAs leads to asset contraction for banks. Due to the presence of NPAs, the banks can follow low interest policy on deposits and high interest policy on advances provided. As per the Basel norms all banks are required to maintain capital on risk weighted assets. A rise in NPAs pressurizes the banks to increase their capital base further. Rise in NPAs also reduces the customer's confidence on the banks and also affects the profitability of the bank which further hinders the returns to be received by the customers as well as stake holders. Decrease in profits leads to a lower dividend pay-out by the banks and affects the ROI expectations of the stake holders.

Thus, a rise in NPAs not only affects the performance of the banks but also affects the economy as a whole.

Remedies/Measures for managing NPAs

Banks today have a herculean task of both effectively managing the NPA's as well as keeping their profitability intact. In order to achieve it, Banks need to strengthen the following;

- Well-established credit appraisal system should be established. Since lending forms a major segment of bank's transactions, they need to properly evaluate the credit proposals with proper risk assessment.
- Full information related to the client/company, industry, management etc. should be collected.
- A effective model for sanctioning and recovery of loans should be setup.
- Staff with specialized skills in credit risk management must be developed.
- Mechanism of close monitoring on the performance of the borrowers must be established so that recovery of installments is ensured.
- Further, if any accounts becomes NPA, timely action should be taken.

In conclusion, proper monitoring system and effective business models need to be developed in order to resolve the problem of NPAs.

Conclusion

NPAs have not been a problem only for the banks but it has been a problem for the economy as a whole. The money locked up in NPAs has a direct impact on profitability of the banks as many banks are highly dependent on interest income.

Presently, Nepalese banking industry is not involved in complex lending structure and Banks portion of investments in infrastructure development and high risk assets are less. Therefore, steps taken by regulator to reduce NPAs has proven to be adequate in Nepali context.

However, with the introduction of new lending requirement in certain priority sector by the regulator and growing investments of banks in new infrastructure sector, it will be a big challenge to the regulator as well as the banks to maintain their level of NPAs in controlled level in the days to come.

*(**Mr.Gauli** is the Branch Manager at Teku branch)*

> *The first responsibility of a leader is to define reality. The last is to say thank you. In between, the leader is a servant*
>
> ***Max DePree***

An overview on Bank's Documentation procedure & Security Arrangement

D.P. Gauli

Introduction
Documentation plays vital role in all types of banking transactions. Proper and complete documentation helps in minimizing risk in all types of banking transactions and thus employees dealing with credits should ensure that the documentation is carried out within the legal standards and practices/policies set by the Bank.

Strong and effective documents are always required to be executed because in case of breach of contracts or default by the parties, these documents will work as the basis of evidence as well as the weapon to the bank to ensure that the commitments or promises of the parties are fulfilled by the competent court or legal or administrative authorities. Timeliness, completeness and procedural accuracy should be maintained while carrying out documentation job. Here an effort has been made to provide some guidelines in preparation and execution of documents related to different facilities to be offered by the bank to the parties.

Nature and type of documents:
The nature and types of documents to be executed depend on various bases. Some of them are type of security, type of borrower, type of charges, type of facility etc. Details descriptions are explained henceforth.

Specific points to be considered for documentation:
In the matter of documentation, there are some essential points to be noted. They are as follows:

a. Standard formats provided and approved by the Law department/Head Office must be used. Any alteration or modification needs prior approval of the Head Office.
b. Authorized persons having full legal capacity must sign the documents. Signatures and thumb impressions must be obtained as appropriate.
c. Documents should be properly witnessed as required by law.
d. Documents should be registered as required by law.

Capacity of Parties:
In order to determine legal capacity to sign documents or enter into documents, the following points are noted:

a. **Age:** Must have completed 16 years of age.
b. **Mental soundness:** Must not be lunatic.
c. **Financial capacity:** Must not be insolvent.
d. **Authorization:** Only the concerned person must sign the documents. No individual can sign in place of another. However, individuals having authority through Board resolution or power of attorney from competent authority can sign the documents for and on behalf of the real owner or corporate bodies.

Types of borrower

a. Single Borrower:
The individual should execute documents personally showing his/her identity to the concern official. If the customers has not attained the age of majority and is not of sound mind he is incapable of entering contracts under Contract Act, 2056.

b. Joint Borrowers:
All the joint account holders should join while making an application to the bank for any credit facility and on sanction of the facility all of them must join in executing the loan and security documents. All the joint account holders have to execute the documents for undertaking 'joint and several' liability in their personal capacity. In addition, instructions should be obtained under the signatures of all the joint account holders, as to whether securities are deliverable to 'either or survivor', or to 'any one of them' or 'any one of the survivors' or the last survivor', as the case may be. In the absence of such instructions, securities are to be delivered against the joint discharge of all the account holders.

c. Sole-Proprietorship Concern:
The legal capacity of the individual customer and the proprietor is no difference against the debt of the bank. Sole-proprietorship concerns intending to open

accounts with us are required to sign account opening form, which contains a provision for the firm concerned to give an authority, if it so desires, to an agent or nominee for operation on the account.

d. Partnership Firm:
In the case of a partnership firm, every partner is liable for the firm's debts to the full extent of his private resources in addition to his partnership capital. As such, signatures of all partners are taken on the documents as partners on behalf of the firm. By making the partners, they are jointly and severally liable for the firm's debts. On admission of a new partner, a letter should be obtained to the effect that in consideration of Bank's continuing the Banking facilities he agrees to be liable for the amount due by the firm to the Bank as on that date and also for future advances form time to time, and is bound by the terms and conditions agreed to by the other partners

e. Company (Pvt.Ltd. / Ltd.):
Before allowing advances to a company, it is important to study its Memorandum and Articles of Association, in order to find out whether the company has powers to borrow, if so, to what extent such power expressly stated in the AOA/MOA of the company. The provision of the prevailing Company Act to be taken as a guideline. If the company has the power to borrow, the directors have the power to raise the loan, and the Board has passed a proper resolution for the same, copy (either printed or hand written) of the resolution should be certified by the company secretary. If the company has no secretary, chairman/director of the company may instead sign it. Board resolution to be taken separately, specifically to borrow the loan and to accept the sanction facility. The resolution passed at a regular meeting of the board is required and in the matter, a resolution by circulation is not valid. In some cases, special resolution of general meeting of shareholders is required.

f. NGOs/ INGOs
Before opening the account and allowing the credit facility to the non-governmental or international non-governmental organization, we have to study the constitution carefully and observe the right to borrow the fund as well as authorization to open and operate account. Proper authorization is require opening and operating the account. If the constitution is not allowed to borrow the fund, credit facility should not be provided to the said organization.

g. Educational Institutions:
Educational institutions get affiliation with the concern authority/University as prescribed by the prevailing law/rules. Bank can obtain necessary documents for opening the bank account. The Govt. School, Community School, School establish by the Guthi can open their bank account however bank must be cautious for scrutinizing documents submitted by those schools if deemed necessary bank may consult with concerned govt. authority and bank can not make finance for those organizations against their property /Land / Building without consent of concerned govt. authority.

h. Government Corporations:
Bank can obtain necessary documents for opening the bank account and open the bank account. Those corporations can borrow the loan from bank after completion of all legal formalities of concerned authority of the Govt.

Execution of documents:

1. The liability of borrowers/guarantors can be enforced in a court of law on the basis of documents executed by them and the entries made in the books of accounts and registers of the Bank. As such all documents prescribed for various facilities should be correctly drawn up/filled up, duly executed by the borrower before drawings are permitted.

2. Documents should invariably be executed in the presence of Bank Officer only. The documents should not be handed over to the borrower for obtaining the signatures of the borrower and or guarantor.

3. All blanks in the documents including space for date, amount of loan, name of the facility, details of the executant should be filled in. Date and place on execution of the loan documents should not be filled in the space provided if the executant reside in different places and execute the same on different dates. In such cases, each person should give the name of the place and date underneath his signatures.

4. All alterations, additions, cuttings, overwriting, insertions, erasing, interlinings, removal, tearing, deletions and cancellations must be authenticated by the borrower/other executants under his full signature/thumb impression.

5. Documents should be got completed in one sitting only and in the same handwriting using the black ink

and pen only.

6. Documents should be of full value of sanctioned limit although only a part limit might be disbursed initially.

7. All the documents should be executed in respect of an advance on one common date that means that DP Note, Deed of Hypothecation etc. should bear the same date, as far as possible.

8. Signatures of the borrowers/other executants must tally with the specimen signatures supplied to the branch.

9. All loan documents, including guarantees executed by illiterate persons should be supplemented by certificate signed by the Incumbent Incharge/Credit Officer and an independent witness.

10. All the executants should sign in the order as their names are appearing on the face of documents, unless they execute at different place in which case chronological order be observed.

11. In case of companies, it must be insured that the company should have powers to borrow as per provisions of Memorandum and Articles of Association, Resolution of Company's General/Board Meeting etc.

12. Signature of witness(s) should be obtained alongwith their full names, age and address wherever required.

13. In all cases of Loan accounts, where advances are sanctioned to two or more persons, letter of authority in favour of the person to whom the consideration money is to be paid, should be obtained.

14. The signature of the minor should not be obtained on the documents, although he may be beneficiary in the partnership firm.

15. In case a limited company is a borrower, Directors need not sign DP Note in their personal capacity. It is advisable to take a separate guarantee form executed by them, if necessary.

16. In case of the Company the stamp to be taken in the executed documents and in case of Private Firm and Partnership Firm the thumb impression, signature and stamp of such firm to be taken.

Legal formalities in documentation and Registration

Whatever may be the nature of security, it is very essential that correct documentation to be taken and they must be correctly executed in order to effectively create the required charge on the securities in favour of the bank. Certain documents to be registered in proper authority and bank create their registered charges which are as follows:

- In case of the immovable property; Mortgage Deed: Concern registration office (Malpot)
- In case of Vehicle; bank's lien is got noted in the Department of Transportation.
- Incase of Hypothecated property/ current assets to be registered at concerned authority as per Secured Transaction Act, 2063 BS.
- In case of Aircraft or Helicopter; Bank's lien should be noted in the Dept. of Civil Aviation.
- In case of margin lending the shares/securities shall be lien through the Demat account whre the party's Demat account is opened and conformation to be taken from concerned company.
- In case of lending against Gold/Silver certain procedure and documents shall be fixed by the concerned bank.

Mortgage.

A mortgage is the transfer of an interest in specific immovable property for the propose of securing the payment of money advanced by way of loan, an existing or future debt or performance of an engagement which may give rise to pecuniary (monetary) liability. Immovable property includes land, benefits that arise out of land and things attached to the earth like trees, buildings, fixed machinery, etc. The machinery which is not permanently attached to the earth and which can be shifted is not considered immovable property. In our context, the commonly used forms of mortgage are,

1. Registered Mortgage: -

Where, without delivering possession of the mortgaged property, the mortgager binds himself personally to pay the mortgage money and agrees, expressly or impliedly, that in the event of his failing to pay according to his contract, the mortgagee shall have a right to cause the mortgaged property to be sold and the proceeds of sale to be applied, so far as may necessary, in payment of the mortgage money, the transaction is called a "Registered Mortgage".

2. ROKKA (As a mortgage):
In this case registration office creates charge on the property up on written request of the mortgagee (Bank). However, no mortgage deed is registered as in usual case. The land revenue office earmarks (Rokka) the property in favour of the mortgaor/ issues letter to this effect in favour of the mortgagee.

Before cerating such charge, consent (manjurinama) to be obtained compulsorily in case of third party's property from the property owner with witness of legal successor mentioning that - in case of default, bank can take the property based on the said executed Manjurinama and recover the loan amount through those liened property.

Re-mortgage: -
If the mortgaged property belongs to the borrower, re-mortgage may not be compulsory for renewal, enhancement or addition in the credit facilities to the same borrower (as per the BAFIA 2073, clause no. 49 (Cha). However, it is compulsory to mention the details of the collateral in sanction letter as well as in fresh loan deed mentioning the registration number and date of the original mortgage deed & the amount enhanced. In case the constitution of the borrower is changed, fresh mortgage to be created. However, if the borrower unit is Proprietorship firm/Parnership firm and it is converted into Pvt.Ltd. Company and in certificate of Incorporation of the company mentioned that – "all assets and liability shall be borne by new company", and if the already mortgaged property was in the name of same firm. In that condition it is not necessary to create Re-mortgage of the same property and in such case the fresh sets of loan documents to be obtained from the newly changed company with board resolution.

Manjurinama: -
If the owner of the property is other than the borrower but the succesor/immediate relatives such as father, mother, wife, son, daughter in law, daughter, of the borrower, the relatives/succesor to be made witness in the mortgage deed/consent letter (Manjurinama) to the extent of their availiability and competancy. One adult member preferablly father or son/ wife or husband of the family must be a witness in consent letter (Manjurinama)/mortgage deed.

Information regarding the Limitation of Land to be taken before creating Mortgage :

Had -Bandi (Limitation on maximum property (land): - As per the prevailing law, an individual and his un-divided family can hold - in Mountain/Hilly Region 70+5=75 ropani, Valley 25+5=30 ropani and in Tarai Region 10+1=11 Bigah is the limitation.

Specific Provision for Special type of Land like; Guthi/Bitauri Land etc.
In Nepal, there are various types of Land and some of them are owned by the different Guthis. Generally Guthi Land is not acceptable for the collateral security however it depends on the decision of the individual Bank and they can accept such Guthi Land by fixing certain criteria to accept such Guthi Land and there is no legal restrictions to accept such Land. The BITAURI land is also private land and sale and purchase transaction is permited and can execute Mortgage as independent and free personal property in concerned Land Revenue Office as other private property. The record of those transactions should be recorded at concerned Land Revenue Office and Concerned Municipality. The BITAURI land shall be taken as collateral security as per individual bank's policy. In these cases, in some Municipality the Land Survey has been conducted by Govt. of Nepal and title deed is distributed and some are in process to distribute the Title deed to such Land owner.

(Mr. Gauli is the Head of Law Department)

"Being a good listener is absolutely critical to being a good leader; you have to listen to the people who are on the front line"

Richard Branson

Best Branch Awards

As a part of its practice to present Awards to the best performers, the Top Management presenting Awards for FY 2073/074

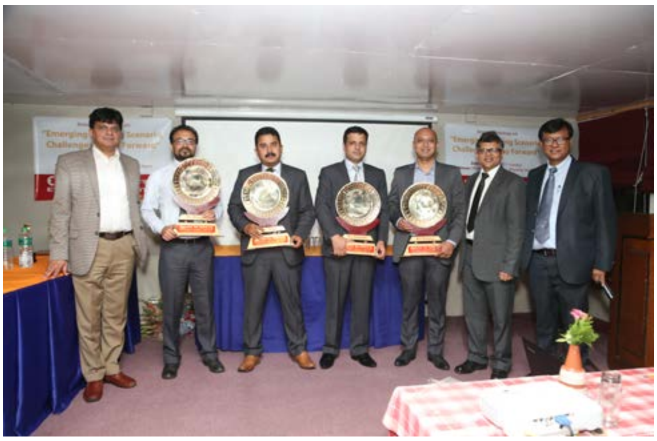
Mr Sumit Amatya receiving the Shield on behalf of B/O Teku under category of business above Rs 400 crore

Mr Pranaya Pradhan receiving the Shield on behalf of B/O Birgunj under category of business above Rs 200 crore upto Rs 400 crore

Mr Dhruba Acharya receiving the Shield on behalf of B/O Bagdole under category of business above Rs 75 crore upto Rs 200 crore

Mr Anil Niraula receiving the Shield on behalf of B/O Bhojpur under category of business below Rs 75 crore

Mr Suraj Khatiwada, Head Office receiving the Trophy of "Employee of the Year"



Group Picture of the Winners

Take off the E from EGO & let it GO

Dev Ranjan Dangal

I would like to recall an old story which I had gone through while browsing the internet. Once Bollywood super star Dilip Kumar was travelling somewhere and in the aircraft, he got his seat beside an old gentle man. The old man dressed in a simple shirt & pants appeared middle class but seemed to be well educated. When Mr. Kumar entered in the aircraft, seeing the most popular celebrity of that time, all other passengers kept glancing at him, but that gentleman appeared to be unconcerned of the superstar sitting beside him. He was reading newspaper, looking out of the window, and when tea came, he sipped it quietly. After having treated ignored, Mr. Kumar felt bad from inside and still reluctantly tried to strike a conversation. He smiled looking at the old man and the old man also smiled back courteously and said 'Hello'. While talking, Mr. Kumar brought the subject to cinema and asked the old man, 'Do you watch films?' The old man replied, 'Oh, very few. I did see one many years ago.' Mr. Kumar mentioned that he worked in the movies. The old man said, 'Oh, that's nice. What do you do?' He replied, 'I am an actor'. The old man nodded, 'Oh, that's wonderful' and again engrossed in reading. When the plane landed, Mr. Kumar held out his hand and said, 'It was good to travel with you. By the way, my name is Dilip Kumar'. The old gentle man shook his hand and smiled, "Thank you, I am J.R.D. Tata". This event finds mentioned in the autobiography of Mr. Dilip Kumar. He stated that it was a humbling experience that reminded him that no matter how big you are, there is someone bigger than you. So, one must be always be humble.

Yes, no matter how big we are, there is always someone bigger than us. Moreover, we should not forget following facts.

- Whoever has come to this world, has to go one day
- Whatever position we hold, we have to hand it over to someone other one day
- Even if we summit Mt. Everest, we cannot stay there for long

Then why to have this 3 lettered poisonous word EGO with us?

Let us discuss, what actually the EGO is? Is it self-respect or something else? In fact, there is a very thin line between EGO & Self respect.

EGO is about over imposing our importance - comparing ourselves to others and trying to prove ourselves the best. Whereas, self respect is about maintaining our confidence with dignity and also logically protecting us while being treated unfairly.

For example: If someone corrects us when we are wrong and we feel offended that means we have EGO problem. We felt offended because we think that we are superior to others.

Whereas when someone criticizes us even when we are right and we gracefully defend ourselves with logical evidence that means we are protecting our self-respect.

Now let us discuss from where EGO comes in to the light. Normally, when people taste success & growth, he or she tends to develop EGO. And the beauty of EGO is every egoistic person thinks that he or she is having self respect not the EGO.

As such, we should conduct our self retrospection without any further delay as the EGO not only ruins individual relations but also the country, region and the religion across the world. We can see even in our holy epics where Ego of Draupadi & Duryaodhana created Mahabharat and EGO of Ravana created Ramayana. We have also witnessed, many wars fought, many countries disintegrated, many negotiations failed, numerous divorce took place and what not all because of EGO. Medical researchers have also proved the fact that many brain and heart diseases are ego related and stress has been the natural outcome of this EGO.

Like a drop of lemon can spoil gallons of milk, similarly a drop of EGO can destroy, every relationship, be it professional or personal.

Now, how to conquer EGO?

The best way to conquer it is transforming EGO into Humility. We just need to bend down, and say the magic 5 lettered word SORRY which cost nothing but we can save the most important things in life i.e. love, relations.

If we say SORRY to someone that doesn't mean we are wrong that just mean we value the person more than being right. We prefer to save the person than being right, we prefer to save the relation than being right. It just means that we value our relationship more than our EGO. It's really better to lose our EGO than the one whom we love.

When EGO is lost, limit is lost; we will become infinite, kind and beautiful. In fact, EGO is just like the dust in our eye, without cleaning the dust, we cannot see anything clearly, so let us clear our EGO and see the world, it is really beautiful.

(Mr. Dangal is the Head of Planning & Development)

"Never doubt that a small group of thoughtful, concerned citizens can change world. Indeed it is the only thing that ever has"

Margaret Mead

Importance of Know Your Customer (KYC) in Banking Sector

Nar Bahadur Rawal

It is extremely important to ensure that funds generated through illegal and criminal activities are not channelized within the financial system of a country irrespective of its origin. Hence, countries need to first identify, assess and understand the risks of money laundering and terrorist finance that they face, and then adopt appropriate measures to mitigate the risk. The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF 40 Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard. Since Nepal is a member of Asia Pacific Group on Anti-Money Laundering (a FATF-Style Regional Body and an associate member of FATF) it is the duty of Nepalese bank to check and control money laundering and terrorist financing related activities.

The regulatory authorities all over the world have issued the guidelines, within the framework of FATF requirements and Money Laundering Prevention Laws, to the banks to follow the Know Your Customer (KYC) procedures meticulously. The main objective of KYC procedures is to prevent the banks from being used intentionally or unintentionally by criminal elements for money laundering or terrorist financing activities, identity theft and financial frauds. Besides, it also enables the banks to know/understand their customers and their financial dealings better which in turn help to manage their risks prudently.

The failure to comply with KYC procedures have resulted in withdrawal of correspondent banking by global banks, huge financial penalty and sanctions to the banks by regulators all over the world. Hence, the adherence to KYC procedures is very important to save the bank from financial risk, legal risk, operational risk and reputational risk.

The KYC is the process through which the bank identifies and verifies the customers, understands the nature of the customer activities, keeps the records of customer's details and monitor customers transactions on an ongoing basis to assess money laundering risk associated with the customers. KYC is required at the time of opening a bank account, availing locker facility, applying for credit card, applying for loan and changing account signatory and nominee.

The KYC not only helps in applying Risk Based Approach to the customers but also helps the regulators and legal enforcement agencies (LEAs) to investigate and find the money trail in case of any illegal activities. The key aspect about KYC is that one should always follow the money or see the money trail to see its origin in case of money laundering activities and destination in case of terrorism financing activities. With the help of money trail, it is easy to investigate and nab the culprits and this is the reason that banks must have proper KYC procedures in place.

There are four below mentioned essential elements of KYC Procedures:

Customer Identification Procedures (CIP)

The CIP mandates that any individual conducting financial transactions needs to have their identity verified. The essence of Customer Identification is to ensure and keep in records the proper identities of the prospective customers and verify the purpose of their intended relationship with the Bank. CIP assists in risk categorization of the accounts and analyzing the deviations in the actual and expected volume and nature of transactions in the accounts to consider if it is suspicious.

The Customer's identity is to be verified through officially valid documents (OVDs) issued by competent authorities. Basic information regarding the customer's addresses, relationships, occupations and sources of income/fund, expected income, expected turnovers/transactions and purpose of establishing a relationship with the Bank is to be obtained. The failure to follow customer identification procedures may results in opening of anonymous or fictitious account in banks. The anonymous or fictitious accounts are those accounts which are being opened by one person in the name of an unknown person, who actually does not exist. Such types of accounts are often used for money laundering and terrorist financing activities.

Customer Acceptance Policy (CAP)

The Customer Acceptance Policy ensures that only those clients whose identity and purpose of opening accounts or performing transactions can be duly established and verified as legitimate by conducting due diligence appropriate to their risk profile/services required is accepted. No relationship is conducted with various prohibited customers like Sanctioned person/entity, Sanctioned Country, Shell entity, Customers from High Risk and Non-Cooperative Jurisdiction, Anonymous or Fictitious Accounts, Offshore Banks, Downstream Correspondent Banking (Nested Accounts), Payable through accounts and Non Face to Face Customers.

Customer Transaction Monitoring Procedure (CTMP)

It is not enough for the bank to just check the customer once at the time of on-boarding but it needs to know the customer on an on-going basis. The Customer Transaction Monitoring procedure (CTMP) includes oversight over financial transactions and accounts based on threshold developed as a part of customer's risk profile. The CTMP is an account/transactions screening mechanism to ensure that the accounts or transactions do have a valid legitimate purpose and by no means are used in money laundering and terrorist financing or any other illegitimate activities. The extent of monitoring of accounts and transactions need to be guided by the degree of risk associated with the accounts/transactions and the anomaly in the transactions with respect to the information disclosed by the customers at the time of on-boarding and review of account.

Risk Management (RM)

The essence of risk management is to be compliant with the KYC procedures. The threats of identity disguise, money laundering and terrorist financing can be eliminated to the possible extent through effective Know Your Customer/Customer Due Diligence (CDD) procedures. KYC/CDD policy and procedures is the cornerstone of an effective AML/CFT program/system. In simple words, it is an act of performing background checks on the customer to ensure that they are properly risk assessed before on-boarding and during the banking relationship.

The Bank needs to adopt the risk based approach for Customer Due Diligence and all customer accounts needs to be compulsorily risk categorized under either A (Low Risk), B (Medium Risk) or C (High Risk) Category. The risk-based approach allows banks to adopt a more flexible set of measures, in order to target their resources more effectively and apply preventive measures that are commensurate to the nature of risks, in order to focus their efforts in the most effective way.

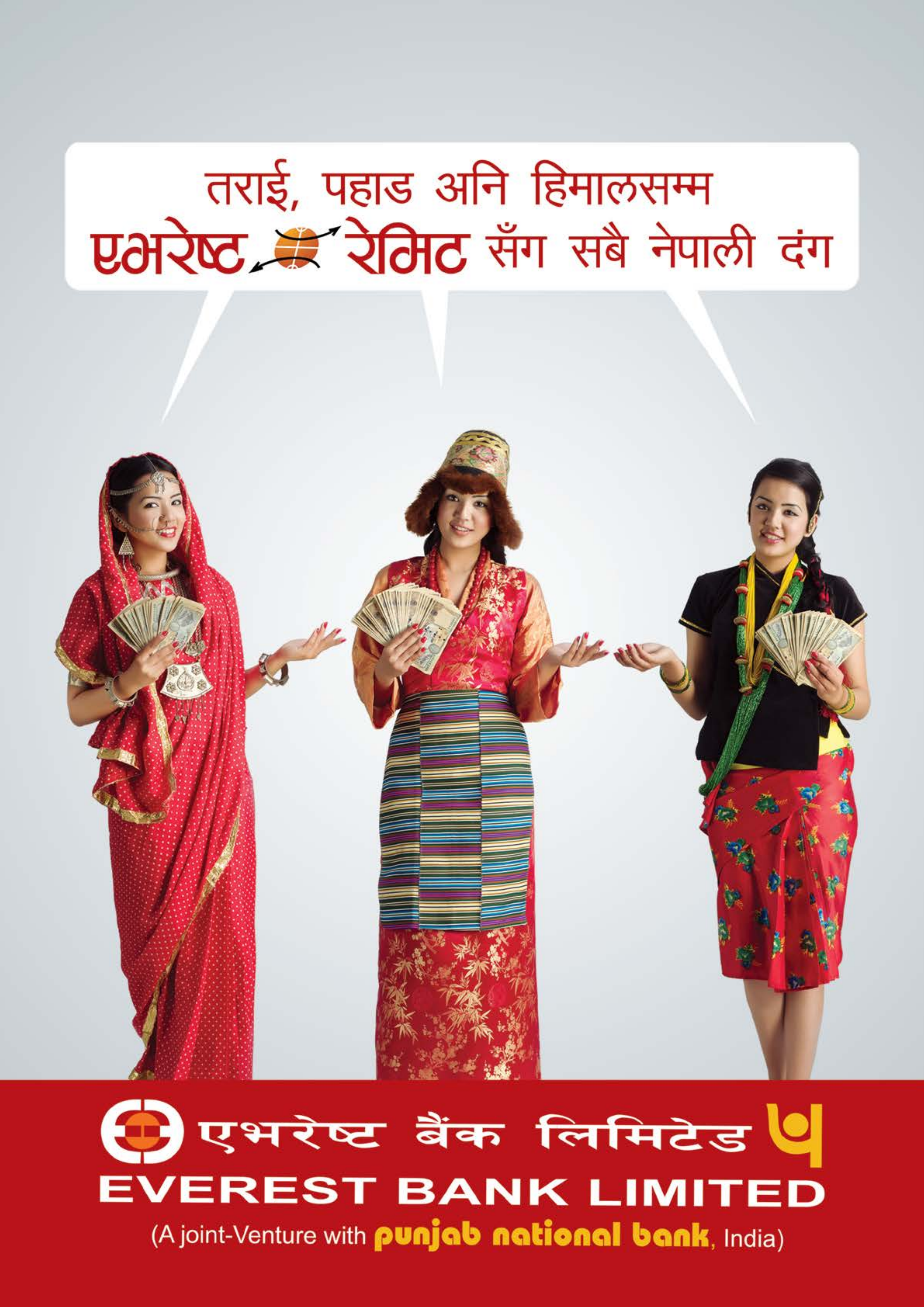
Besides, periodic update of customer profile/information/document need to be done at the frequency mentioned in the KYC procedures.

There are three levels of Customer Due Diligence (CDD):

- Simplified Customer Due Diligence (SCDD) is the process of identifying and evaluating the low risk and small value customer accounts.
- Customer Due Diligence (CDD) is the process of identifying and evaluating the customer and reassessment of customer risk as part of know your customer (KYC) process, allowing banks to better identify, manage, and mitigate the AML related risks.
- Enhanced Customer Due Diligence refers to additional due diligence pertaining to the identity of the customer, source of income, nature and value of transaction etc. for customer transactions other than low risk and medium risk graded customers.

However, it must be remembered that compliance of KYC procedures should not result in denial of service and harassment to the genuine customer's especially small value customer accounts and marginalized community. Further, information already obtained at the time of opening of account shall not be again emphasized upon at the time of updating of KYC and review of account except changed information.

(Mr.Rawal is the Branch Manager at Janakpur branch)



तराई, पहाड अनि हिमालसम्म
एभरेष्ट रेमिट सँग सबै नेपाली दंग
एभरेष्ट बैंक लिमिटेड
EVEREST BANK LIMITED
(A joint-Venture with punjab national bank, India)

संङघीयता : बैंकिङ्ग क्षेत्रका चुनौती र अवसरहरु

लव प्रसाद कुइँकेल

पृथ्वीनारायण शाहले एकीकरण गरेपछिको करिब २४८ वर्षको इतिहासमा आधुनिक नेपालले विभिन्न राज्य व्यवस्था र प्रणालीहरु अवलम्बन गरेको पाइन्छ । २३६ बर्षको लामो राजतन्त्र, १०४ बर्षको जाहनिया राणा शासन, ३० बर्षको एकदलिय पञ्चायती ब्यव्स्था, २०४८ साल देखिको बहुदलीय शासन व्यवस्था २०६२/६३ पछिको लोकतन्त्र र त्यसपछिको संङक्रमणकालीन गणतन्त्रमा समेत राज्यले एकात्मक राज्य प्रणाली अपनाएको देखिन्छ । २०६५ सालको मधेस आन्दोलन पश्चात् तत्कालीन अन्तरीम संविधान संसोधन मार्फत नेपालमा संघीयता औपचारिक रुपमा प्रवेश गरेको हो । नेपालको संविधान २०७२ ले नेपाललाई संघीय गणतान्त्रिक मुलुकको रुपमा रुपान्तरित गरेको छ । भर्खरै सम्पन्न स्थानीय निकाय, प्रादेशिक र केन्द्रको चुनावले नेपाल औपचारिक रुपमा संघीयता कार्यन्वयनको चरणमा प्रवेश गर्दैछ ।

विश्व परिवेशलाई नियाल्ने हो भने अस्तित्वमा रहेका १९२ देशहरु मध्ये २६ वटा राष्ट्रले मात्रै संघीयता अपनाएको देखिन्छ । छिमेकी राष्ट भारत देखि संयुक्त राज्य अमेरिका जस्ता महाशक्ति राष्ट्रहरुले पनि संघीय प्रणाली सफल रुपमा संचालन गरेको पाइन्छ । आन्तरिक द्वन्द पछि संघीयतामा गएका मुलुकहरु नेपाल लगायत श्रीलंका, इराक, कंगो, बोस्निया हुन् । सोभियत संघ, युगोस्लाभिया, चेकोस्लोभाकिया जस्ता देशहरु संघीयता कै कारण विघटन भएको तितो यथार्थ पनि हाम्रा सामु छन् । वेल्जियम, स्पेन, इथियोपिया, दक्षिण अफ्रिका जस्ता केहि मुलुकहरु संघीयताबाट फेरि एकात्मक राज्य प्रणालीमा फर्किएका उदाहरण पनि भेटिन्छन् ।

आजभोली प्रचार गरिए जस्तो; संघीयता भनेको सबै समस्याको समाधान किमार्थ होइन । अर्कोतर्फ संघीयताले सबै बर्बाद पार्छ भन्ने यदाकदा आवाज उठाइन्छ; यो पनि यथार्थपरक छैन । संघीयता कसरी कार्यन्वयन गरिन्छ ? संघीयताले देशको आर्थिक सम्वृद्धि र दिगो बिकासमा के कस्तो योगदान गर्न सक्छ ? चुरो कुरो नै यहि हो र यस लेखमा उठाउन खोजिएको विषय पनि यही हो । कुनै पनि व्यवस्था आफैमा राम्रो वा नराम्रो भन्ने हुदैन । राजतन्त्र भएको जापान र बेलायत पनि विकसित राष्ट्र हुन । साम्यवादी /एकदलिय राज्य व्यवस्था भएको चीन विश्वको महाशक्ति राष्ट्र हुदै हो । संघीय गणतान्त्रिक मुलुक भारत र संयुक्त राज्य अमेरिकाको आर्थिक सम्वृद्धि पनि घाम जत्तिकै छर्लङ्ग छ ।

निकै लामो रस्साकस्सी पछि नेपालमा ७ वटा प्रान्तीय राज्यको व्यवस्था गरिएको छ । भौगोलिक क्षेत्र, जातीय उपस्थिती, उपलब्ध स्थानीय श्रोत साधन र केहि राजनैतिक सम्झौता बमोजिम ७ वटा प्रदेशको व्यवस्था गरिएको छ । संघीयता कार्यन्वयन हुदा स्थानीय प्रतिनिधिहरु मार्फत सञ्चालित स्थानिय सरकार केन्द्रीय सरकार भन्दा बढी उत्तरदायी हुने र जनताको सरोकारका विषय, विकास निर्माणले गति लिने कुरा संघीयताको सुन्दर पक्ष हो । जसले गर्दा प्रान्तहरु बीचमा आर्थिक समृद्धि र आफ्नो प्रदेश विकासको लागि होडबाजी नै हुने आकलन गर्न सकिन्छ । यदि आर्थिक विकास र प्रदेशको सम्वृद्धिलाई सबै प्रदेशले उच्च प्राथमिकतामा राख्ने हो भने देशले काचुली फेर्न धेरै बर्ष लाग्दैन । जतिजति आर्थिक कृयाकलाप बढ्छ बैंकिङ्ग क्षेत्रको लागि उतिउति नै अवसर सिर्जना हुन्छ भनेर सायद भनिरहनु पर्दैन ।

अवसरका आयामहरु

नेपाल सरकारले २०७४/७५ को वार्षिक बजेट वक्तव्य मार्फत सबै स्थानीय निकायमा वाणिज्य बैंकको शाखा कार्यालय पुर्‍याउने घोषणा गरिसकेको छ । सोहि घोषणा बमोजिम नेपाल राष्ट्र बैंकले २०७४/७५ को मौद्रिक नीतिमा समेत सबै स्थानीय निकायमा वाणिज्य बैंकको शाखा कार्यालय पुर्‍याउने लक्ष्यलाई उच्च प्राथमिकतामा राखेको छ । कुल ७४४ स्थानीय निकाय मध्ये पहिलो चरणमा नेपाल बैंकर्स संघको सल्लाह र सुझाबमा २४० वटा स्थानीय निकायमा विभिन्न वाणिज्य बैंकहरुको शाखा खोल्ने तयारी गरिएको छ ।

देशमा आर्थिक क्रियाकलाप बढ्नु, स्थाई सरकार बन्नु, बिकास निर्माणले गति लिनु निश्चय नै बैंक तथा वित्तीय क्षेत्रको लागि सुखद पक्ष हो । लामो समयको आन्तरिक द्वन्द र लम्बिएको संक्रमणकालले गर्दा देशको आर्थिक अवस्था अत्यन्तै जर्जर भइसकोको छ । नेपालमा स्थानीय निकाय जनप्रतिनिधि बिहीन भएको २० वर्ष भन्दा बढी भैसकेको थियो । संघीयताले यो अवस्थालाई केहि हद सम्म सम्बोधन गर्नेछ । यसले गर्दा स्थानीय व्यवसायी अत्यन्तै उत्साहित भएका छन् र नयाँ लगानीका अवसरहरुको ढोका खुल्ने प्रक्ष्येपण गर्न सकिन्छ । बैंकिङ्ग क्षेत्रले उत्साहित लगानी मैत्री वातवरणको भरपुर लाभ लिने बेला आएको छ । संक्रमणकाल लगभग लगभग समाप्तीको संघारमा छ । भर्खरै सम्पन्न प्रतिनिधि सभा र प्रदेश सभाको चुनाब पछि बन्ने स्थायी सरकार र प्रान्तीय अङ्गमा कुनै पनि आर्थिक क्रियाकलाप नहुँदा, निक्षेप र कर्जा लगानीमा संकुचन आएको र प्रायः वित्तीय सूचकहरु उति आस लाग्दा छैनन् । अर्को तर्फ, स्थायी सरकारको अभावमा बैदेशिक लगानी पनि आकर्षित गर्न नसकिएको धेरै नै भइसकेको छ । प्रादेशिक सरकारले स्थानीय श्रोत र साधन प्रचुर उपयोग गर्ने सम्भावना रहन्छ । जलस्रोत, बाटो तथा ठूला आयोजनाहरुमा बैदेशिक लगानी आकर्षित गर्न सकिन्छ । आन्तरिक तथा बाह्य पर्यटनमा स्थानीय सरकारको अहम भूमिका रहन्छ । स्थानीय भेषभुषा, रहनसहनमा आधारित पर्यटनले विदेशी पर्यटकको नेपाल बसाई लम्ब्याउन यथोचित मद्दत गर्न सक्छ । माथि उल्लेखित चाहे आन्तरिक आर्थिक क्रियाकलाप होस् वा वैदेशिक लगानीको वातावरण होस् वा पर्यटन विकास होस्, सबैले सिर्जना गर्ने भनेको आर्थिक क्रियाकलाप नै हो । यसले बैंकिङ्ग क्षेत्रमा नसोचिएको अवसरहरु सिर्जना गर्ने आशा गर्न सकिन्छ ।

नेपाल राष्ट्र बैंकले २०७४।०७५ को मौद्रिक नीतिमा व्यवस्था गरे बमोजिम बैंकहरुले आफ्नो कर्जा लगानीको न्यूनतम २५ प्रतिशत कर्जा कृषि, पर्यटन र अन्य प्राथमिकता प्राप्त क्षेत्रमा लगानी गर्नुपर्ने बाध्यकारी व्यवस्था छ । संघीय संरचनामा खोलिने नयाँ शाखाहरु मार्फत लगानीको अबसर प्राप्त गर्न र नेपाल राष्ट्र बैंकले तोकको कर्जा लगानी गर्न सहज वातावरण सिर्जना हुने छ । अर्को तर्फ परम्परागत लगानी जस्तै खुद्रा ब्यापार, होलसेल ब्यापार तथा केहि ठूला घरानियाँ लगानिकर्तामा मात्रै सिमित रहेको नेपाली बैंकिङ्ग कृषि, पर्यटन, स्थानीय ब्यापारहरुमा

बिकेन्द्रिकृत हुँदा जोखिमको हिसाबले कर्जामा विविधिकरण आउनु बैंकको स्वास्थ्यको लागि अति नै उपयोगी सावित हुनेछ। भौगोलिक दृष्टिकोणबाट हेर्दा पनि सिमित भूगोल र शहरी क्षेत्रमा मात्रै केन्द्रित रहेको बैंकिङ्ग सेवा पूर्व देखि पश्चिम तथा उत्तर दक्षिण फैलनु भनेको नयाँ बैंकिङ्ग अवसरहरु सिर्जना गर्न कोशे ढुंगा नै प्रमाणित हुनेछ।

चुनौतीका पर्खालहरु

अवसरको साथमा चुनौती पनि रहनु स्वाभाविक नै हो। संघीय संरचना के कस्तो रहने भन्ने खिचातानीमा नै नेपालले लगभग ७–८ वर्ष खर्चेको छ। अझै पनि केहि राजनीतिक दलहरुले त्यसलाई पूर्ण स्वीकार गरेको अवस्था भने होईन। पहिलो चुनौती यहि नै हो। संघीयता नेपालको सन्दर्भमा नयाँ र नौलो प्रयोग हो। हरेक नयाँ प्रयोगहरु चुनौतीपूर्ण हुने गर्छन्।

नेपालको ठूलो समस्या भनेको नीतिनियम राम्रो बन्छन् तर त्यसको कार्यान्वयन साह्रै फितलो हुने गर्दछ। यसर्थ यसलाई कम चुनौतीपूर्ण भनेर आक्न मिल्दैन। भोली बन्ने प्रदेश सरकार र त्यसले अवलम्वन गर्ने स्थानीय कर प्रसासन के कस्तो हुन्छ ? सो बारे अहिले यसै भन्न सक्ने अवस्था छैन। यसले स्थानीय व्यापार व्यवसायमा पार्ने असरको सोझो प्रभाव बैंकिङ्ग क्षेत्रमा नै पर्ने छ।

कुल ७४४ स्थानीय निकाय मध्ये २४० वटामा बैंकहरु जान तयार भएका छन्। अझैं करीव १६० स्थानीय निकायमा तोक्न बाँकी नै छ। तोकिएका २४० मध्ये पनि धेरै जसो स्थानहरुमा भौगोलिक विकटता, बैंकलाई चाहिने आवश्यक पूर्वाधारको अभाव रहेको छ। कतिसम्म भने बैंकको शाखा खोल्न आवश्यक पर्ने न्यूनतम सुविधा भएको घर समेत पाउन मुस्किल छ। संचार, नगद ल्याउन/लान बाटो र ग्राहकलाई उपलब्ध गराउनु पर्ने न्यूनतम सुविधा समेत पुऱ्याउन गाह्रो छ। अर्को मुख्य समस्या भनेको मानव संसाधन हो। सबै स्थानीय निकायमा बैंकिङ्ग सेवा/सुविधा पुऱ्याउन तालिम प्राप्त कर्मचारीको अभाव हुनेछ। हाल बैंकहरुमा कार्यरत कर्मचारीले मात्र सबै नयाँ शाखाहरुमा धान्न सम्भव हुँदैन र तुरुन्त तालिम प्राप्त कर्मचारीको उत्पादन पनि असम्भव हुन्छ। एकजना सहायक कर्मचारी तयार गर्न कमसेकम २ वर्ष लाग्छ। अधिकृत तयार गर्न त अझै न्यूनतम ५ देखि ८ वर्ष लाग्छ। निश्चित तालिम प्राप्त कर्मचारीको अभावमा चाहेको लक्ष्य प्राप्त गर्न गाह्रो हुन्छ।

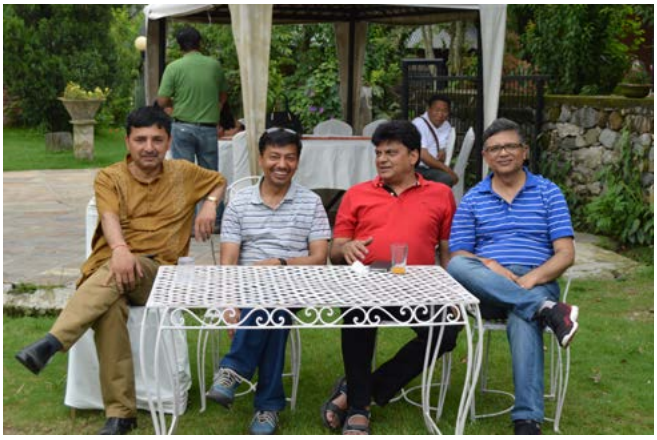
निष्कर्ष

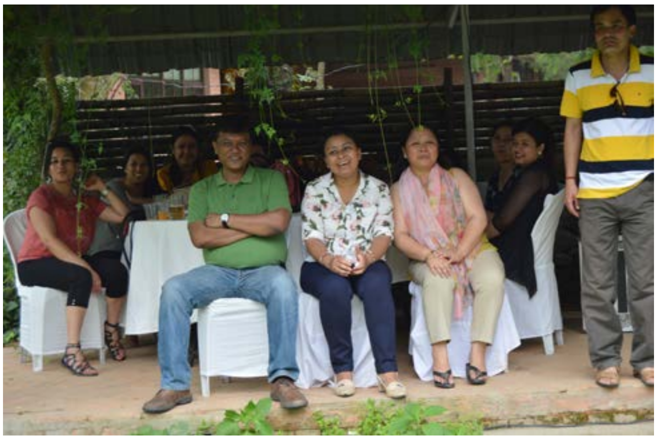
अवसर र चुनौतीको बीचबाट नेपालमा संङघीयता स्थापित गराउनु बाहेक अर्को बिकल्प छैन। नेपाल अधिराज्यको संविधान २०७२ ले नेपालमा संघीय गणतन्त्र घोषणा गरिसकेको र अब छिटै नै यो कार्यान्वयनको चरणमा प्रवेश गर्दै छ। नेपालको केन्द्रीय सरकारले आवश्यक पूर्वाधारको विकास गर्नुपर्छ। भोली बन्ने प्रदेश सरकारले बैंकलाई सजिलो सँग आफ्ना बैंकिङ्ग गतिविधि संचालन गर्न आवश्यक वातावरण सृजना गर्नुपर्छ। बैंकिङ्ग क्षेत्रले पनि भोलिको समृद्ध नेपालको लागि आजै बाट आफ्नो क्षमता अभिवृद्धि र तालिम प्राप्त कर्मचारी उत्पादनमा लाग्नु पर्छ। चुनौती जहाँ पनि हुन्छ; चुनौतीलाई चिर्दै अवसरको सदुपयोग गर्नु नै आजको आवश्यकता हो।

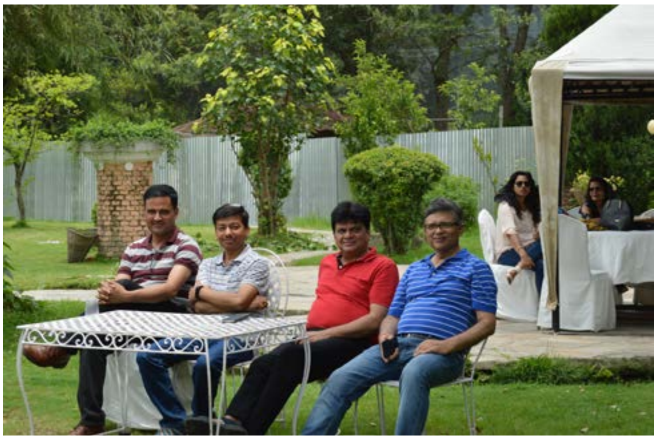
(**श्री कुइँकेल** बैंकको लगनखेल शाखामा
प्रबन्धकको रुपमा कार्यरत हुनुहुन्छ)

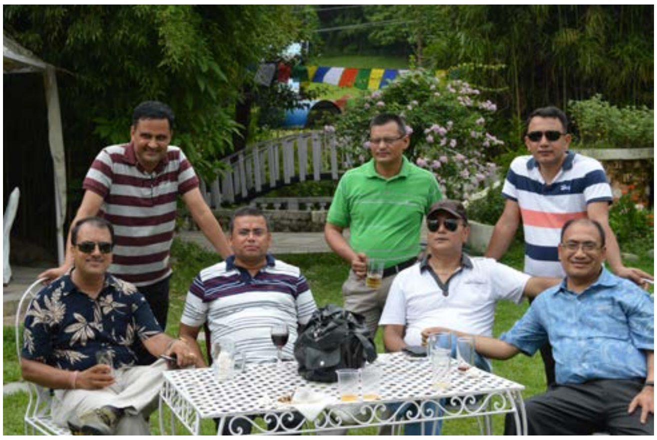
Picnic

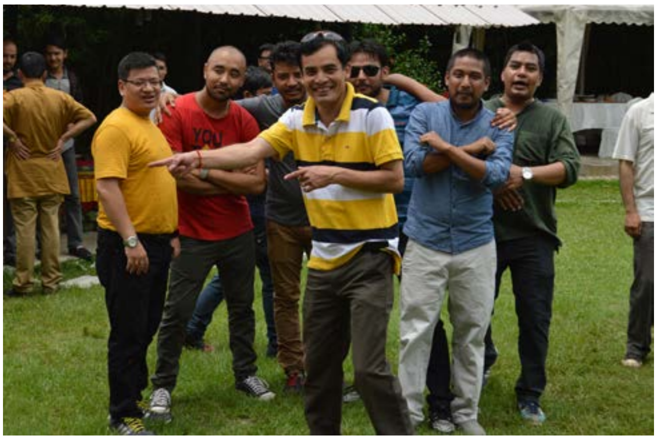
As a part of its practice to rejuvenate its staff members through recreational activities, staff members from Head Office (including Top Management) and B/O Lazimpat participating in the picnic at Norling Resort, Mulpani

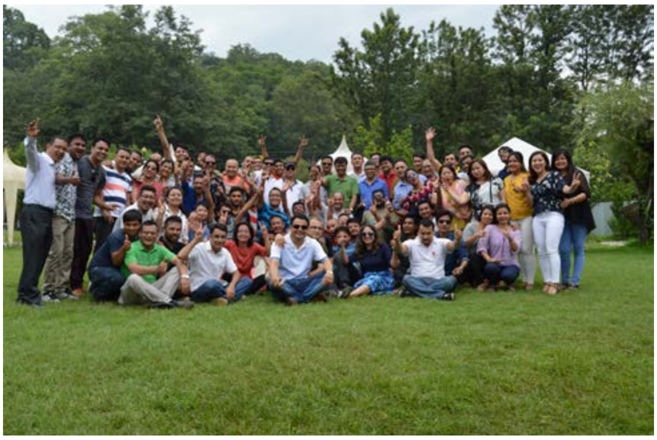


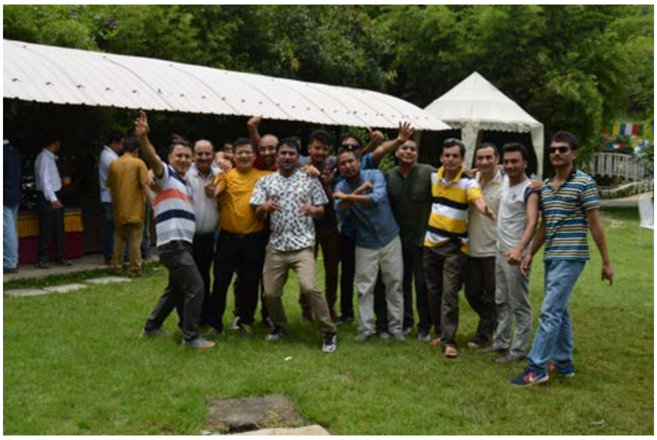


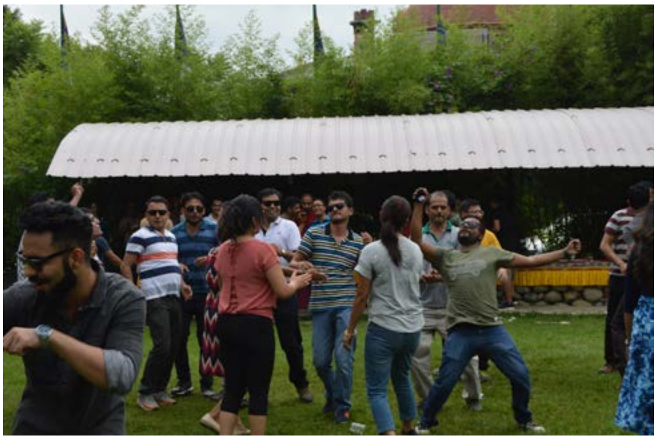


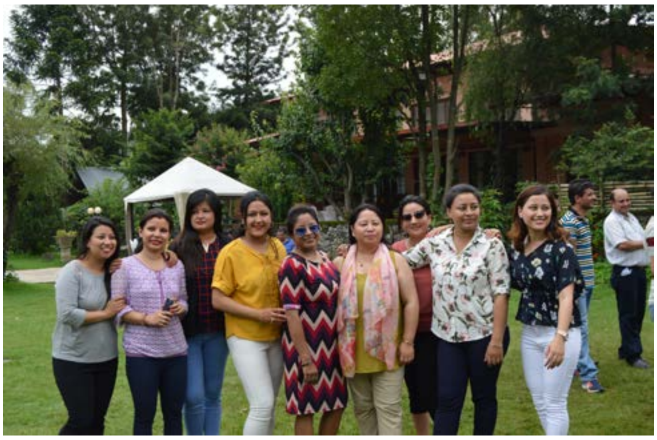


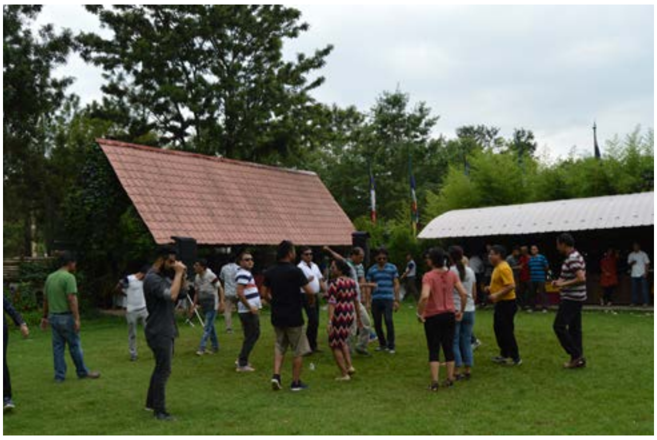


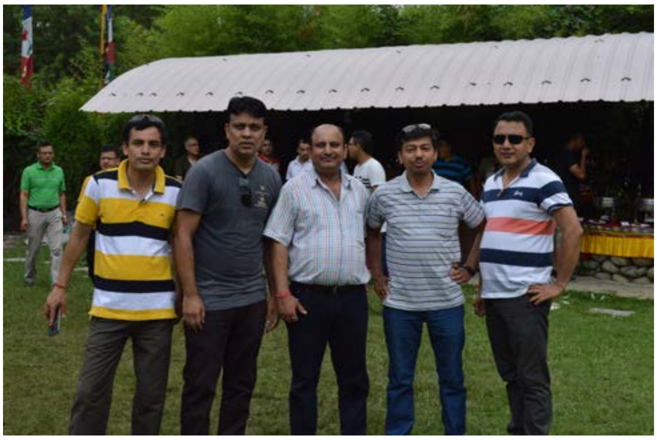


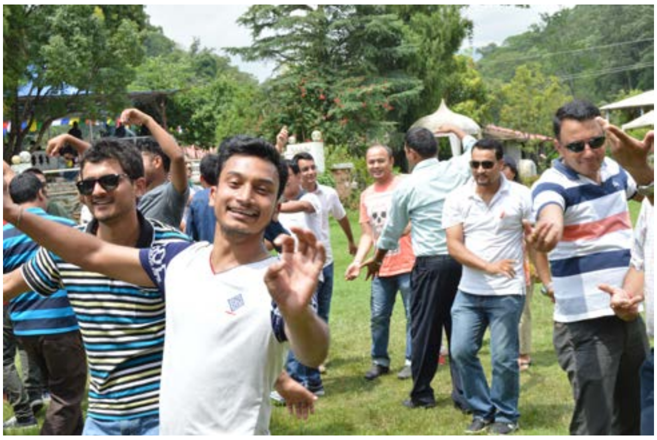












Key Economic Indicators

Annual Government Budget 2074/75	Rs. 1,279 billion
Target of monetary policy 2074/75	
Economic growth rate	7.20%
Inflation rate	7.00%
Tools of Monetary policy 2074/75	
CRR	
A Class Bank	6.00%
B Class Bank	5.00%
C Class Bank	4.00%
SLR	
A Class Bank	12.00%
B Class Bank	9.00%
C Class Bank	8.00%
Bank rate	7.00%
Weighted Average rate of Treasury bill	
28 Days	1.31%
91 Days	2.55%
182 Days	2.99%
364 Days	3.12%
As of end of Ashwin'74	
Consumer inflation	3.90%
Food inflation	2.30%
Non food inflation	5.10%
Increase in broad money (M2) by:	1.80%
Remittance	Rs. 228.95 billion
Governtment expenditure	Rs. 176.70 billion
Government Revenue collection	Rs. 195.43 billion
Budget surplus	Rs. 32.15 billion
Import	Rs. 334.31 billion
Export	Rs. 26.35 billion
Export Import ratio	7.88%
Trade Deficit	Rs. 307.96 billion
BOP Surplus	Rs. 2.40 billion
Gross foreign exchange reserve	Rs. 1105.52 billion
Y-o-Y increase in Deposit of FIs	4.80%
Y-o-Y increase in Advances of FIs	6.70%

Source: www.nrb.org.np

Farewell and Welcome

Management Team jointly presenting Token of Love to Mr & Mrs AK Ahluwalia

Mr Rajesh Gautam (DGM) welcoming present CEO Mr Someshwar Seth

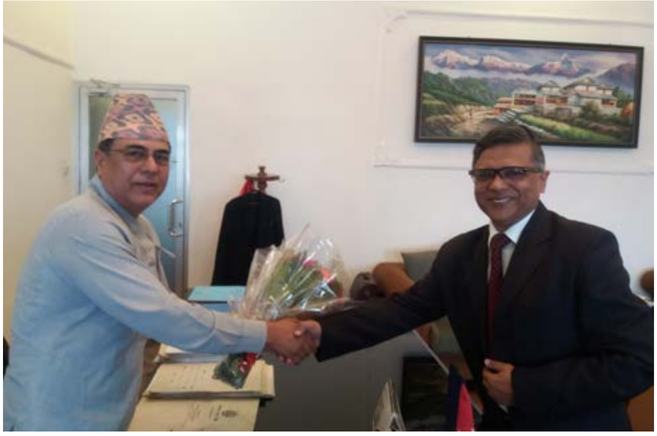
Other CSR Activities

Dr Ram S Sangapure (Executive Director of PNB) and Mr Someshwar Seth (CEO) jointly handing over Agarbatti Stand and Dustbins to Mr Giridhari Sapkota (Executive Director, Manakamana Area Development Committee)

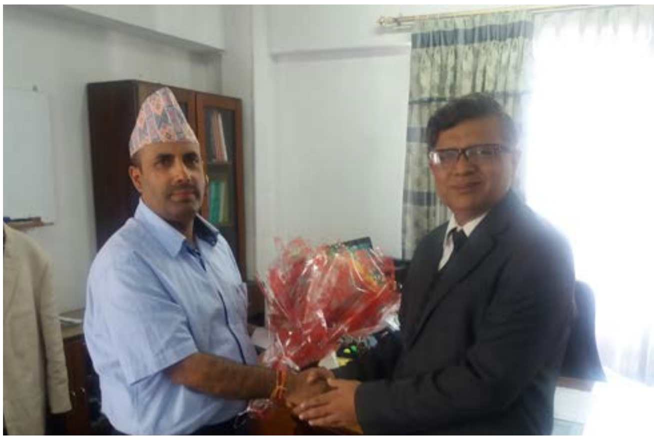
Dr Ram S Sangapure (Executive Director of PNB), Mr Someshwar Seth (CEO), along with Dr. Govinda Tandon (the then Member Secretary, Pashupatinath Area Development Trust) jointly handing over warm clothes (blankets) to Old Age Home at Sh Pashupatinath Temple

Courtesy Visits

Chief Executive Officer called on Rt. Hon'ble President Mrs. Bidhya Devi Bhandari. Her excellency acknowledged current performance of the Bank & its contribution to the society. Mr Rajesh Gautam (DGM), Mr Rajeev Jain (DGM) and Mr Dev Ranjan Dangal (Head- Planning & Development) were also present at the meeting

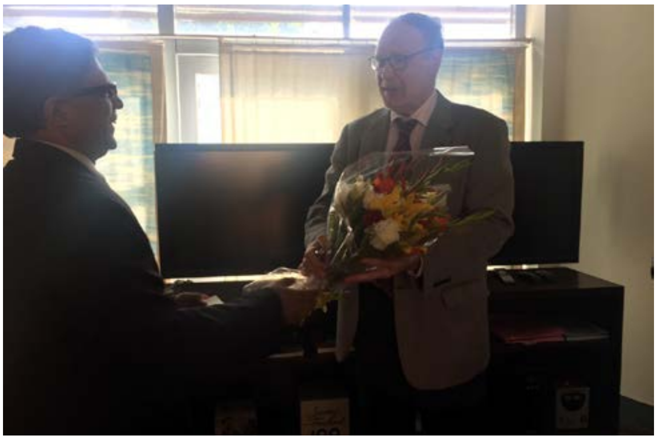


Chief Executive Officer paid Courtesy Visit to Honourable Governor of Nepal Rastra Bank Dr. Chiranjibi Nepal to extend Best Wishes on occasion of New Year 2074



Chief Executive Officer paid Courtesy visit to Nepal Government's Revenue Secretary Mr Shishir Kumar Dhungana

Chief Executive Officer paid Courtesy Visit to the then Nepal Government's Finance Secretary Dr Shanta Raj Subedi



Chief Executive Officer paid Courtesy Visit to Ambassador, Embassy of Finland, Mr Jorma Suvanto

एभरेष्ट बैंक लिमिटेड

EVEREST BANK LIMITED

(A joint-Venture with punjab national bank India)