

CHAPTER 1

INTRODUCTION

1.1 Background of the study

According to Nepalese Bank and Financial Institution Act, 2073 "Bank or financial institution means a bank or financial institution which has obtained a license pursuant to this Act for carrying on banking or financial transactions. Bank is a financial institution that deals with money and collects the money from surplus units and provides to the deficit unit of the society. According to the World Bank, "Banks is a financial institution that accepts funds in the form of deposit repayable on-demand or short choice". Bank can be defined as a financial intermediary between a loan taker and a loan provider. It is a financial institution, which mobilizes savings and provides easy availability of funds for investment in different sectors like trade, commerce, agriculture, etc. In Nepal the main functions of commercial banks are accepting deposits from the public and advancing them loans. However, besides these functions there are many other functions such as overdraft facility, discounting of bill of exchange, investment of funds, agency function, transfer of money, collect credit instruments etc. Commercial banks are one of the major components of the banking sector and it is also the major component of the financial sector of the Nepalese economy. Commercial banks are usually concerned with handling withdrawals and collecting deposits, as well as supplying individuals and small businesses with short-term loans. Consumers use these banks mainly for basic checking and savings accounts, certificates of deposits (CDs), and house mortgages. Financial sector is the backbone or engine of growth of any country's economy. It mobilizes and allocates financial resources most productively and efficiently and induces investment, increases employment opportunities and productivity, achieves growth targets and attains overall macro-economic development of Nation.

Since its first outbreak during December Month 2019, COVID-19 pandemic has had a high impact upon the lives of many people. People have not been able to get back to their old lives due its COVID-19 impact, not just on health but also on daily business activity, transportation, economy and so on. Flow of cash and funds in financial sectors has been highly impacted by the lockdown that was imposed on Chait 2076. The severity of lockdown can be contemplated by the fact that odd-even rule on vehicles was finally lifted in Push 2077. In early 2020, the people around the world were affected by one of the most far-reaching pandemics and global crises that could be ever remembered due to the occurrence of the Novel Coronavirus (also called Covid-19) outbreak in Wuhan, China. The

virus is transmitted across the globe in a very short time period which has health impact through infection all over the world and has serious economic impact due to lockdown measures adopted to control its spread and increasing health expenses. Closure of almost all economic activities following the lockdown measure has seriously affected both a health and economic perspective.

1.1.1 Financial Performance of Bank and Financial institutions

The financial performance of a bank is the function of internal and external factors. The internal factors are the bank-specific factors which originate from the activity of the bank and are reflected in the Financial Statement of the Bank. The external factors do not originate from the activity of banks but reflect the overall economic environment which affects the financial performance of the banking sector. Some internal Factors are total Loans and Advances, total Deposit, net Liquid Assets, total Capital, Capital Adequacy Ratio, Non-Performing Loan Ratio etc. Though the financial performance is affected by both internal and external factors, in this paper the effect of internal factors is only analyzed.

1.1.2 Nepalese Financial Sector and Covid-19

The history of the Nepalese financial sectors goes as far back as 1937, the financial industry was limited to a small number of players until the 1990s. Following the liberalization of the Nepalese economy in the 1990s, the financial sector was also opened for new investors. Many new banks and financial institutions (BFIs) opened from the mid-1990s with the process accelerating between 2000 and 2012, registering the strong growth in BFIs until FY2012. The Nepal Rastra Bank stopped issuing a new license to the BFIs in FY2012 and since then has encouraged consolidation among the banks and financial institutions through several regulatory relaxations and tax benefits. The process of merger between the BFIs gathered speed after the NRB rolled out higher paid-up capital requirements in July/August 2015. Currently Financial sector reform policy implements which play a crucial role in the economic growth of the country. It is regarded as the engine of growth. It works as the lubricator for the economic engine. As the apex financial institution of the country, NRB has a big role to play. The Insurance Board and Securities Board also have to play their roles to expand security services. Financial experts have been invited to sort out existing problems and run them as vibrant and sound banking institutions. During the period of COVID-19, the borrowers and businesses industries face many business and money transaction related problems, loss on sales, and BFIs experience decreased profits and performance in some cases as the virus continues to spread throughout the country. Customers of financial sectors

are seeking financial relief, and NRB is encouraging BFIs to help them. In addition to managing the direct economic impact of the coronavirus, BFIs came up with a plan to protect employees and customers from its spread. Many BFIs encouraged remote working of some employees with suitable technology implementation in the organization. Customers are provided with a way to conduct financial transactions without physical interaction. Before Covid-19, the Nepalese BFIs were already implementing some new digital technology in a rapid way, driven by changing customer expectations, heightened competitions from incumbents and new entrants, and evolving regulations and advancement in technology. Despite these trends, customer's willingness to adopt and BFIs' willingness to invest in digitization of transactions.

1.1.3 Impact of Covid-19 on Nepalese BFIs

The bank and financial institutions condition is analyzed by various indicators like non-performing loan ratio, total capital, capital adequacy ratio, net liquid assets, investment opportunity, interest income, net profit and so on. We can now look at pre-covid indicators and current indicators to look at where we could be heading and if there are any interventions required on the financial health of banks and financial institutions.

1.1.4 Transformation on BFIs Sector during Covid-19

Since the life for many people has changed beyond recognition compared with just a few before the start of Covid-19, one of the biggest transformations has been doing work from home with the help of technology, which people historically did more in person. Video conferencing in zoom meetings, online payment, mobile banking, digital wallets and digital banking are quite common these days. These are remarkable changes bringing efficiency and effectiveness to human daily life but the question is how much of these changes will continue and sustain. To put it in a simple way, if COVID-19 were to end overnight, would old patterns of the working system remain or would new habits become permanent? For the BFIs sector, the answer is probably more towards permanent change and improvement in new technology, continuity and sustainability. There are both opportunities and challenges of the COVID-19 in the BFIs sector. With an internet penetration rate over 72%, Nepal is well positioned to benefit from digital financial service (DFS). Digital banking solutions consisting of Internet banking, mobile banking, authorized payment apps such as esewa, khalti app, mobile wallets, ATM banking etc. have potential to address challenges such as difficulties accessing banks and the high cost of services.

Digital banking can serve the customers who don't have access to physical branches. Despite this, the BFIs are confronted with unprecedented challenges such as credit risk, retention of digital clients, cyber threats, business continuity, crisis management and shift in innovation from "nice to have" to "must have". The way BFIs address these challenges will determine their role in, and contribution to, mitigating the effects of the current crisis.

1.1.5 Government Responses to Covid-19

In March 2020, the government formed the Highlevel Coordination Committee for the Prevention and Control of COVID-19, which later became the COVID-19 Crisis Management Centre, to curb the spread of the virus across the country. It imposed a nationwide lockdown and a ban on international flights and Point of Entries to stop the inflow of people into the nation. Despite having limited resources at hand, the Government of Nepal was able to tackle the crisis effectively and was able to avoid it turning into a catastrophe. This was only possible because of smooth multi-sectoral engagement, with assistance from the World Health Organization, UNICEF, among other partners. The GON has been responding to mitigate the adverse effects of COVID-19 through various monetary and fiscal measures to reduce or control the further spread of the virus and cushion the effect of lockdown on people and businesses. In the current budget for the Fiscal Year 2020/21, the GON has allocated 32 percent additional budget for the health sector. Of these, NRs. 6 billion has been allocated to address the health sector needs due to COVID-19.

The budget also provides for free insurance of NPR 0.5 million to all the health care workers. GON has also allocated a budget with an objective to create about 6,00,000 additional employment opportunities through the Prime Minister Employment Program, like skill based training, small farmers credit, and Youth and Small Entrepreneur Self Employment.

The budget has also made provisions for the industries affected by COVID-19 such as tourism, agriculture, cottage and small-scale enterprises . This includes exemption in income tax, VAT and custom duties. NRB came up with policies to inject more liquidity into the financial system by using various monetary instruments.

Some of these instruments are: lowering cash reserve ratio and reducing interest on standard liquidity facility rate, relaxing requirement of building countercyclical capital buffer, increased size of refinance fund, etc. Likewise, the NRB also instructed BFIs to accept deferments of the loan repayment by the borrowers and extend need-based working capital loans to the affected business sectors on easy terms.

1.1.6 Growth of Digital Banking in Financial Sector During Covid-19

In the lockdown period of COVID-19 pandemic, Nepalese BFIs launched the service of opening bank accounts, opening demat accounts, online trading agreement form through online systems and filling up e-KYC forms. Meanwhile, NRB increased the transaction limit bar for digital payments, encouraging people to carry out digital transactions. About 0.8 million mobile banking customers were added in the first three months of the lockdown period (NRB monthly report). Digital Finance and Digital Nepal Framework and National Payment Gateway became instrumental for the growth of digital banking in the after. The financial performance of a bank is the function of internal and external factors.

The internal factors are the bank-specific factors which originate from the activity of the bank and are reflected in the Financial Statement of the Bank. The external factors do not originate from the activity of banks but reflect the overall economic environment which affects the financial performance of the banking sector.

1.2 Profile of Rastriya Banijya Bank and NABIL Bank Limited

1.2.1 About Rastriya Banijya Bank Limited:

Rastriya Banijya Bank Limited (RBBL) is a leading commercial bank of Nepal which provides various banking services to its customers from more than half of century. The bank then fully owned by the Government of Nepal, was established on 10 Magh 2022 (23 January 1966) under the "Rastriya Banijya Bank Act, 2021" and had operated under the "Commercial Bank Act, 2031" until it was re-registered as a public limited company on 6 Baishak 2063 (19 May 2006). At present, the Bank operates as "A" class financial institution licensed by Nepal Rastra Bank and carries out commercial banking activities as per the provisions of the "Bank and Financial institutions Act 2073". RBBL faced many stressful years of business activity and transaction and faced existential questions at some point of time in the past. But this Bank successfully implemented a restructuring plan; and now it stands as one of the most preferred banks with the highest number of customers in all 77 districts and 7 provinces of the country.

Vision: "The most credible bank for one and all, always contributing towards Nation's prosperity"

Mission: "Enhance the quality of life of all Nepalese by eliminating barriers to financial access and helping them achieve their full potential; and by ensuring safe, innovative and affordable financial services, through vast networks of efficient centers, socially responsible business processes, and empathetic human resource"

Strategy:“Our envisioned intention is to become the leading provider of diverse financial services to all Nepalese.”

Core Value:

- Respect People and their community.
- Effectiveness and efficiency in business processes.
- Value all kinds of resources.
- Responsible and accountable for deliveries.
- Honesty, integrity, and Credibility in each of our actions.

1.2.2 About NABIL Bank Limited:

Established in 1984 AD, Nabil Bank has carved a cornerstone in the development of the financial services industry in Nepal. The Bank has always stayed true to its three strong pillars: Service Excellence, Implement New Technology and Quality Product innovation. This has led to the start of customer-centric banking culture with the development of innovative services and products, enriching customers' livelihoods and setting benchmarks in the Domestic Banking Sector.

Vision Statement:As the nation’s first joint venture Bank, Bank will consistently surge together ahead providing the entire gamut of financial services across all demographic strata and geographic regions of the nation, constantly evolving to better ourselves, to always better serve stakeholders.

Mission Statement:To be the 'Bank of 1st Choice' of all bank stakeholders

Values:To achieve Mission and consistently move closer to the attainment of our Vision, every member of Team Nabil is committed to work within the set of Core Values.

1.3 Objectives of the Study

Every work has certain objectives. Work is done with the motive to achieve certain objectives. Thus, the objective of the study is to analyze the impact of Covid-19 on the financial performance of Commercial banks.

The specific objectives of the study are listed below:

- To analyze the financial performance of Commercial banks as on pre-covid-19 and during-Covid-19.
- To analyze the impact of Covid-19 on the whole performance of Commercial banks.
- To analyze both opportunities and challenges of the COVID-19 in the BFIs sector.

1.4 Significance of the study

Nepalese BFIs are monitoring and dealing with the effects of the COVID-19 pandemic. Through an understanding of the immediate challenges to society and economies, and the long-term impact on the interconnected financial system, BFIs are using their expertise to help themselves and their customers to make good decisions to operate during Covid-19 and ensure resilience on post-Covid-19. It helps to make appropriate strategies and policies to develop financial sectors and run smoothly during Covid-19. It helps to Focus on some internal Factors areas such as total loans and advances, total deposits, net liquid assets, total capital, capital adequacy ratio, non-performing loan ratio, etc.

1.5 Rationale of the study

This project work report is based on the topic "Impact of Covid-19 on Financial Performance of Nepalese Commercial Bank". This Project work Covers some internal Factors areas such as total loans and advances, total deposits, net liquid assets, total capital, capital adequacy ratio, non-performing loan ratio, credit to deposit ratio, profit for the period etc. This helps to analyze the Financial Position and Performance of Commercial banks on pre-covid-19 and during Covid-19.

1.6 Statement of the Problem

Banks and financial institutions have their income highly dependent upon the interest received from borrowers. As such borrowings are financed from the deposits of customers, banks and financial institutions have to pay the cost of interest on depositors. The payment to depositors has to be made on time, while interest to be received from various borrowings could take time- particularly due to lockdown and forbearances allowed by Nepal Rastra Bank. This phenomenon has made the banking sector vulnerable to risk. During the period of COVID-19, the borrowers and businesses industries face job losses, slowed sales, and BFIs experience declining profits and performance in some cases as the virus continues to spread throughout the country. Customers of financial sectors are seeking financial relief, and NRB is encouraging BFIs to help them. In addition to managing the direct economic impact of the coronavirus, BFIs came up with a plan to protect employees and customers from its spread. Many BFIs encouraged remote working of some employees with suitable technology implementation in the organization. Customers are provided with a way to conduct financial transactions without physical interaction. By implementing completely digitized and remote customer transactions, BFIs tried to ensure that both everyday and exceptional processes would be carried out with limited disruption.

1.7 Literature review

The literature review is a written overview of major writings and other sources on a selected topic. Sources covered in the review may include scholarly journal articles, books, government reports, Web sites, etc. The literature review provides a description, summary, and evaluation of each source. It is usually presented as a distinct section of a graduate thesis or dissertation. Although the history of the Nepalese financial industry goes as far back as 1937, the industry was limited to a small number of players until the 1990s. Following the liberalization of the Nepalese economy in the 1990s, the financial sector was also opened for new investors. Many new BFI opened from the mid-1990s with the process accelerating between 2000 and 2012, registering the strong growth in BFIs until FY2012. The Nepal Rastra Bank (NRB) stopped issuing a new license for the BFI in FY2012 and since then has encouraged consolidation among the BFIs through several regulatory relaxations and tax benefits. The process of merger between the BFIs gathered speed after the NRB rolled out higher paid-up capital requirements in July/August 2015. Due to COVID-19, borrowers and businesses face job losses, slowed sales, and BFIs experience declining profits as the virus continues to spread throughout the country. Customers are seeking financial relief, and NRB is encouraging BFIs to help them. In addition to managing the direct economic impact of the coronavirus, BFIs came up with a plan to protect employees and customers from its spread. Many BFIs encouraged remote working of some employees. Customers are provided with a way to conduct financial transactions without physical interaction. By implementing completely digitized and remote customer transactions, BFIs tried to ensure that both everyday and exceptional processes would be carried out with limited disruption. Before Covid-19, the Nepalese BFIs were already evolving digital technology at a rapid pace, driven by changing customer expectations, heightened competitions from incumbents and new entrants, and evolving regulations and advancement in technology. Despite these trends, customer's willingness to adopt and BFIs' willingness to invest in digitization of transactions remained primary concerns across players, and markets. In a matter of weeks, COVID-19 has forced radical changes in customer behavior, moved significant portions of the economy on-line, and increased customers' comfort and willingness to engage digitally. Moreover, for many BFIs, COVID-19 has unlocked hidden potential, stripping away many of the barriers that they traditionally face in digital promise. Nepal Rastra Bank has been diligently looking after the situation of banks and financial institutions. As the lockdown has been lifted and there are not many hurdles in the operation of business as in the past, it is expected that the situation of banks and financial institutions

will get better. The only concern to be heeded are the loans that have been provided with deferrals and forbearance. And to address that too, the refinance limit has been increased to 2 trillion. Unless some unforeseeable events occur and a new strain of coronavirus impacts much, we can expect that banks and financial institutions will recover and soon thrive. Both the monetary policy and fiscal policy of 2077/78 has stressed digital banking and electronic payments and commitment to make the country digital with various initiatives like expansion of digital banking, National Payment Gateway, online tax payment service, implementation of Digital Nepal Framework, etc. Stakeholders engaged in the digital ecosystem are committed to work together to develop the digital financial ecosystem. Customers have felt the transformation on Nepalese banking and financial sector. Digital banking can be a game changer in Nepalese BFI sector, which will potentially alter the way things are done in the sector as a whole. The monetary policy for 2021/22 has been formulated at a time when COVID-19 has adversely affected human life and overall economic activities. Policy measures, implemented to minimize the impact of the pandemic, have assisted in running economic activities, and maintaining macroeconomic and financial stability.

The COVID-19 pandemic has created hurdles towards the path of economic development and prosperity with social justice. Economic activities have been affected by recurring waves of COVID-19 infection. Though exports have improved well, there has been pressure on the balance of payments due to a widening trade deficit driven by increasing imports. Foreign exchange reserve is in a comfortable position and inflation is within the target. Refinancing and subsidized loan facilities, together with monetary and regulatory easing, aimed to support economic recovery by minimizing the impact of COVID19, have expanded the flows of credit in the economy. The business operating cost has remained at a lower level even during the pandemic because of the low lending rate at a single digit.

Deposit mobilization of the BFIs increased by 21.4 percent to Rs. 4662.73 billion in 2020/21. Deposit mobilization had increased by 18.7 percent to Rs. 3839.73 billion in the previous year. Total paid-up capital of the BFIs (along with MFIs) increased by 10.8 percent to Rs. 390.43 billion in mid-July 2021 compared to Rs. 352.37 billion in mid-July 2020. The capital adequacy ratio of commercial banks, development banks, and finance companies remained at 14.1 percent, 13.2 percent, and 22.0 percent respectively in mid-July 2021. Such ratios were 14.0 percent, 14.4 percent, and 19.6 percent respectively in mid-July 2020. Non-Performing Loan (NPL) of commercial banks, development banks, and finance companies stood 1.5 percent, 1.5 percent, and 6.2 percent respectively in mid-July 2021. Such ratios were 1.8 percent, 1.5 percent, and 6.2 percent respectively in mid-July 2020.

1.8 Research Methodology

Research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a selected topic.

1.8.1 Sources of Data(Primary and Secondary)

For conducting this research, both primary and secondary data are used. To collect primary data, a structured questionnaire is designed in light of the objectives of the research. Secondary data is collected from different articles, books, NRB, RBB, NABIL annual reports from websites of banks etc.

1.8.2 Data Collection Procedure

The data used in this study are primary and secondary. The study is based on secondary data provided by banks and other relevant sources.

The data are collected from the Financial Statement of the Bank, NRB Directives, Monetary Policy issued by NRB, etc.

1.8.3 Techniques for analysis of data

To achieve the objectives of the study, various data analysis tools and techniques are used.

Financial tools: There are different types of financial tools that can be applied to the analysis of the financial performance of a Bank. Some of them are as follows:

- Capital Adequacy Ratio
- Total Capital
- Non-Performing Loan Ratio
- Total Loans and Advances
- Total Deposit
- Capital Fund to RWA
- Profit for the Period

1.9 Definition of Terminologies

1.9.1 Capital Adequacy Ratio(CAR)

CAR is the ratio of a bank Capital Fund in relation to its risk weighted exposures. Capital adequacy is used to describe adequacy of capital resources of a bank in relation to risks associated with its operations. As per NRB Directive minimum CAR for Commercial banks not less than 11% (with capital conservation buffer).

$$CAR = \frac{\text{Total capital fund (Primary capital + Supplementary capital)}}{\text{Total risk weighted exposures}}$$

1.9.2 Total Capital

Sum of Primary capital and Supplementary capital.

1.9.3 Non-Performing Loan Ratio

- Substandard loan +Doubtful loan +Loss loan

1.9.4 Total Loans and Advances

- Loan and advances to B/FIs +Loans and advances to customers

1.9.4 Total Deposit

- Deposits from customers +Deposit from other B/FIs

1.10 Limitation of the Study

However, there are 27 commercial banks operating in Nepal. The research is only focused on two Commercial banks. The reliability of this study will depend upon the data and information of the bank and the conclusion drawn from this may not apply to similar other financial institutions.

Besides this following are some limitations of the study are:

- This study examines the only financial performance of RBBL and NABIL bank Limited.
- This study is based on secondary data such as a published financial statement of the commercial bank along with other related journals, newspapers, magazines, and bulletins, etc. which are also insufficient for the completion of the study.

Chapter 2: Presentation of Data and Results Analysis

2.1 Data Presentation and Result Analysis

This is the main part of research and it includes data presentations, interpretations and analysis. Various financial tools and techniques are used to analyze and interpret the data, it also includes the major finding of the study. Following are the key indicators of banks and financial institutions as on 2076 Poush (pre-covid) and 2078 Ashwin (latest quarter):

Table 1. Key Indicators of Rastriya Banijya Bank Limited(Pre-Covid)

| Particulars | 2075 Chaitra | 2076 Ashad | 2076 Ashwin | 2076 Poush |
|--|---------------|---------------|---------------|---------------|
| Total Loans and Advances | 141 Billion | 149 Billion | 147 Billion | 152 Billion |
| Total Deposit | 172 Billion | 189 Billion | 187 Billion | 194 Billion |
| Credit to Deposit Ratio | 74.08% | 72.78% | 71.97% | 72.66% |
| Total Capital | 18.11 Billion | 20.02 Billion | 21.50 Billion | 20.89 Billion |
| Capital Fund to RWA | 12.57% | 13.20% | 13.95% | 13.15% |
| Non-performing loan(NPL) to total loan | 4.28% | 3.90% | 3.50% | 4.77% |
| Profit for the Period | 1.09 Billion | 1.83 Billion | 1.12 Billion | 1.08 Billion |

Table 2. Key Indicators of Rastriya Banijya Bank Limited(During-Covid)

| Particulars | 2076 Chaitra | 2077 Ashad | 2078 Ashad | 2078 Ashwin |
|--|---------------|---------------|---------------|---------------|
| Total Loans and Advances | 152 Billion | 155 Billion | 194 Billion | 206 Billion |
| Total Deposit | 200 Billion | 230 Billion | 264 Billion | 240 Billion |
| Credit to Deposit Ratio | 70.05% | 62.48% | 66.81% | 85.11% |
| Total Capital | 21.16 Billion | 20.60 Billion | 29.59 Billion | 31.21 Billion |
| Capital Fund to RWA | 13.26% | 12.68% | 14.31% | 14.16% |
| Non-performing loan(NPL) to total loan | 4.64% | 4.08% | 3.07% | 3.01% |
| Profit for the Period | 0.82 Billion | 1.41 Billion | 0.53 Billion | 1.05 Billion |

Figure 1.Total loans and advances(Billion)

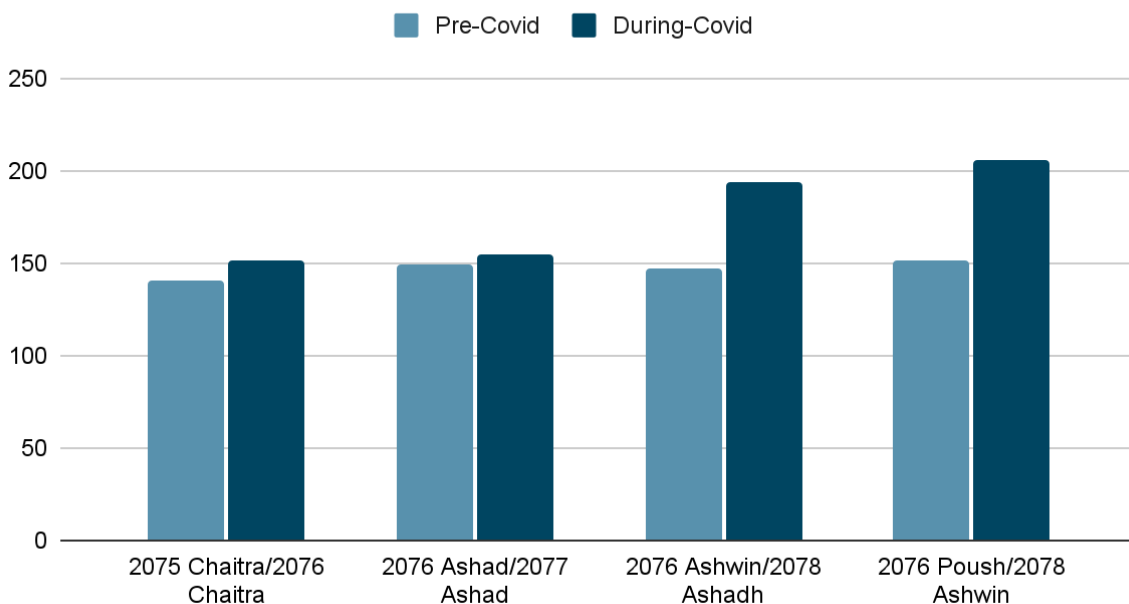


Figure 1. In RBBL the growth of loans and advances for pre-covid and recent periods is 35.5% (from 152 Billion to 206 Billion). This shows that there has not been much impact on loans and advances as expected due to covid. This phenomenon could be due to the fact that banks and financial institutions were promoted to provide additional working capital loans. Similarly, interest rates on loans have been reduced which promoted further growth of loans during covid impacted period- easing loan availability and pushing growth similar to previous period.

Figure 2.Total Deposit(Billion)

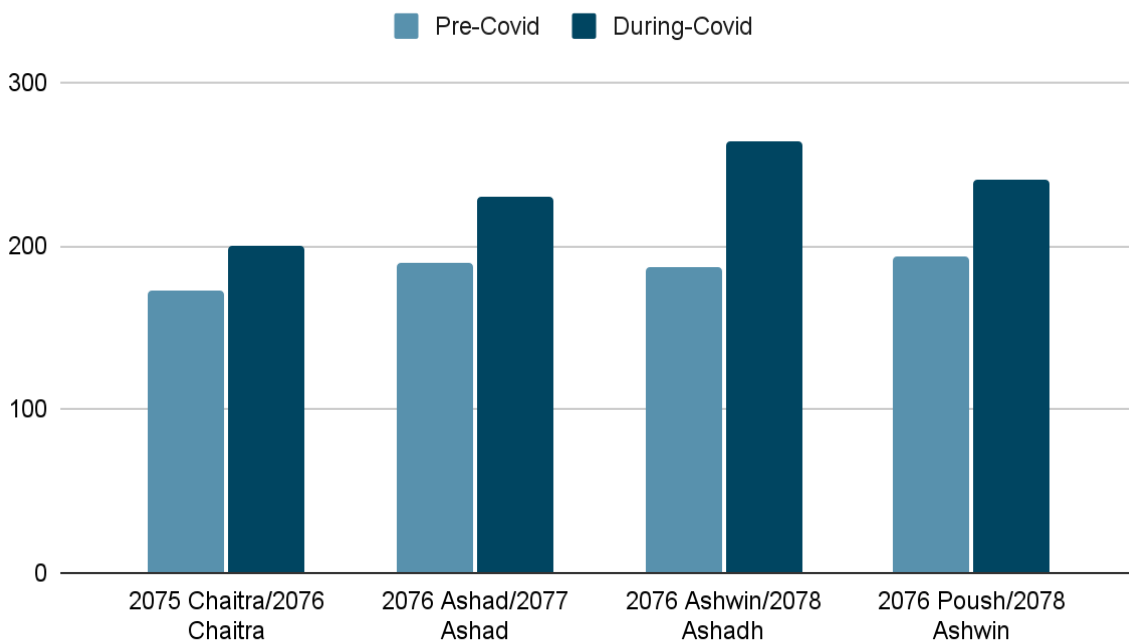


Figure 2. In RBBL the growth of deposits for pre- covid and recent periods is 23.71% (from 194 Billion to 240 Billion).Higher growth during the covid-19 period because most of remittance received through banking channels, most of Nepali migrant workers came into the home country and deposited money in bank, low mobility of fund as per deposit received. Due to the stagnant economy for a longer period of time, increase in deposits, particularly fixed deposits, were seen.

Figure 3. Credit to Deposit Ratio(%)

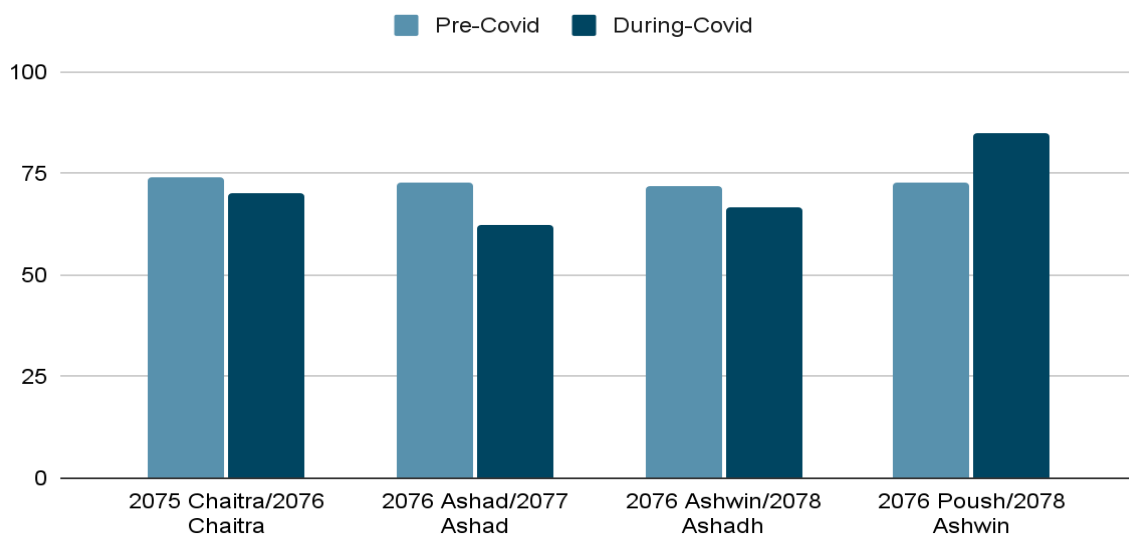


Figure 3. In RBBL during the lockdown period due to low mobility of funds in the period of 2077 Ashad the ratio reduced to 62.48%.

Figure 4. Total Capital(Billion)

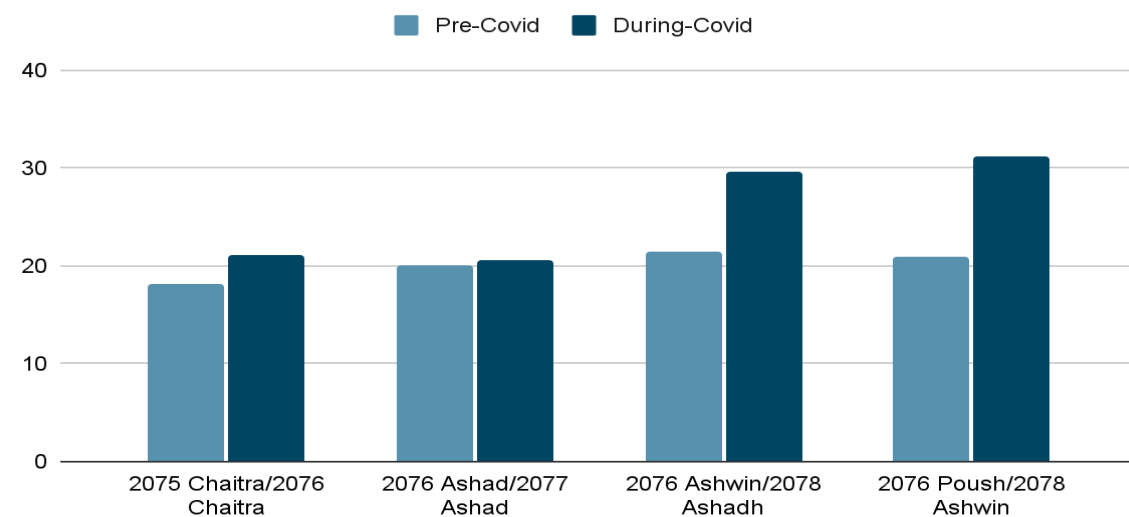


Figure 4. In RBBL capital has been on an increasing trend and has not been affected much. The growth of Capital for pre- covid and recent periods is 49.40% (from 20.89 Billion to 31.21 Billion).

Figure 5. Capital Fund to Risk Weighted Assets (RWA)(%)

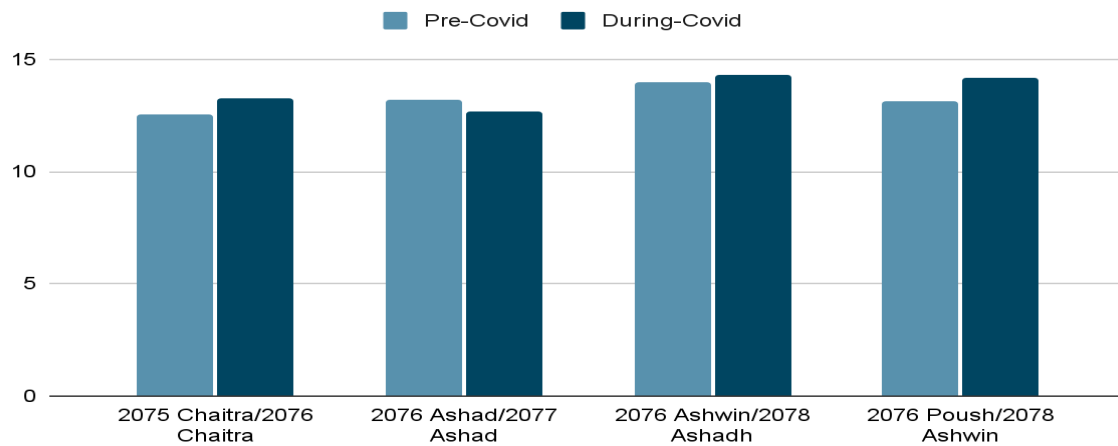


Figure 5. RBBL bank has been adequately capitalized. Covid-19 period has not seen much change in the impact of capital. Regulatory required capital of 11% had been regularly met by banks and financial institutions. Due to Covid-19, the proposed Countercyclical buffer (CCB) of 2% was removed. Even if it had been continued, banks and financial institutions could have been seen to comply with the requirements. This has further eased the operations of the banks and removed the additional burden of countercyclical buffers for the time being.

Figure 6. Non-performing loan(NPL) to total loan(%)

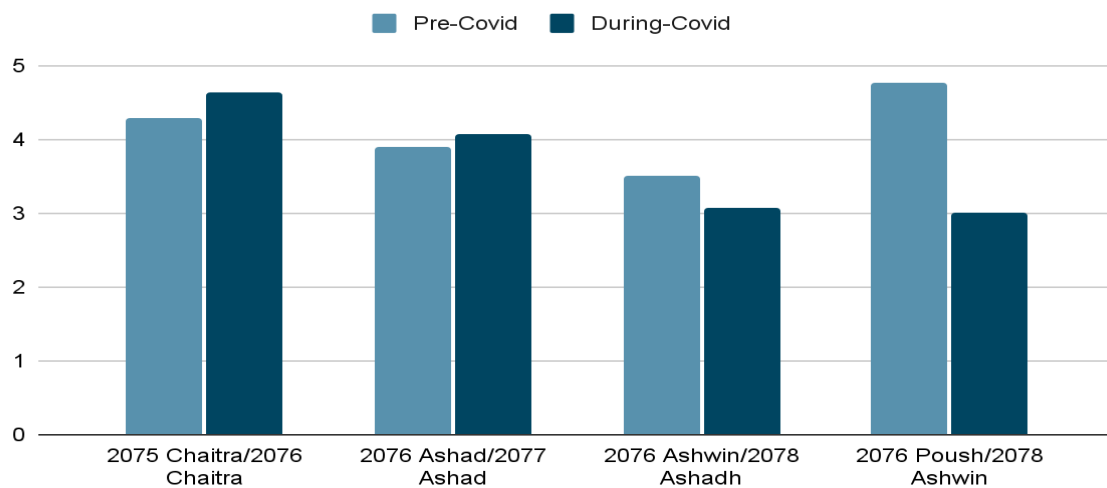


Figure 6. In RBBL the NPL ratio has been more or less constant over the years. This has been the case particularly due to various forbearances allowed to banks and financial institutions. However, categorization on the Watchlist category, which does not fall under non performing loan, has increased due to the amendments allowed.

Figure 7.Profit for the Period(Billion)

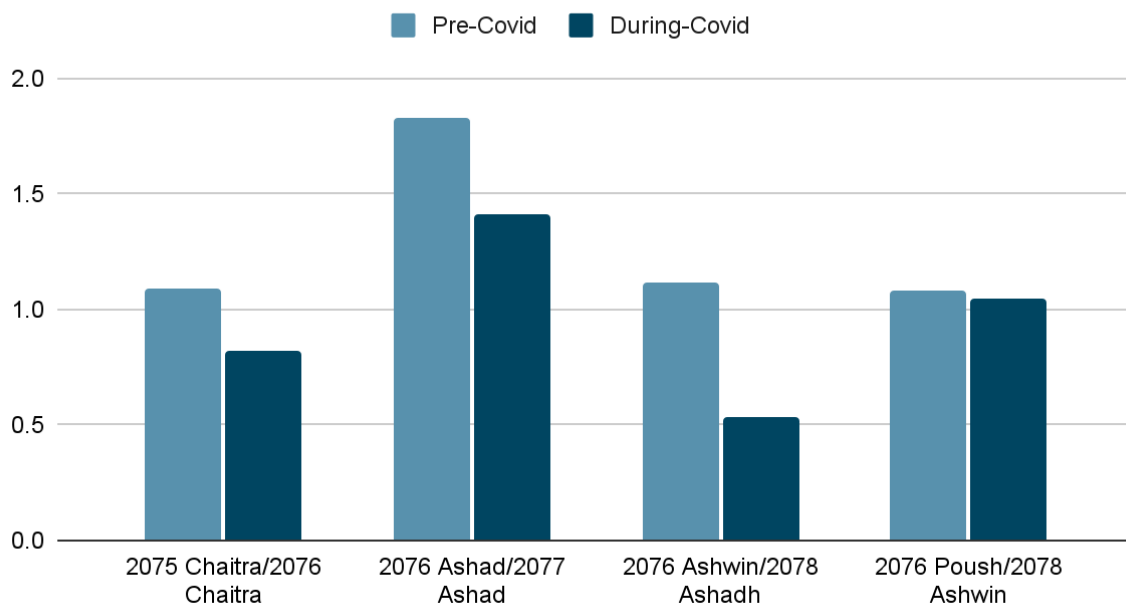


Figure 7. In RBBL during the covid-19 period due to low mobility of funds, low amount of interest and commission fee income, the profit in the period Chaitra 2076 reduced to 0.82 Billion and at Ashadh 2078 reduced to 0.53 Billion.

Table 3. Key Indicators of NABIL Bank Limited(Pre-Covid)

| Particulars | 2075 Chaitra | 2076 Ashad | 2076 Ashwin | 2076 Poush |
|--|---------------|---------------|---------------|---------------|
| Total Loans and Advances | 133 Billion | 135 Billion | 141 Billion | 147 Billion |
| Total Deposit | 153 Billion | 164 Billion | 172 Billion | 164 Billion |
| Credit to Deposit Ratio | 78.85% | 72.90% | 74.09% | 77.28% |
| Total Capital | 20.47 Billion | 21.59 Billion | 22.45 Billion | 21.31 Billion |
| Capital Fund to Risk Weighted Assets (RWA) | 12.57% | 12.78% | 12.29% | 11.62% |
| Non-performing loan(NPL) to total loan | 0.64% | 0.74% | 0.65% | 0.75 % |
| Profit for the Period | 0.99 Billion | 1.12 Billion | 1.12 Billion | 0.90 Billion |

Table 4. Key Indicators of NABIL Bank Limited(During-Covid)

| Particulars | 2076 Chaitra | 2077 Ashad | 2078 Ashad | 2078 Ashwin |
|--|---------------|---------------|---------------|---------------|
| Total Loans and Advances | 155 Billion | 154 Billion | 206 Billion | 215 Billion |
| Total Deposit | 170 Billion | 190 Billion | 223 Billion | 224 Billion |
| Credit to Deposit Ratio | 78.88% | 68.08% | 79.22% | 88.64% |
| Total Capital | 21.57 Billion | 24.62 Billion | 31.60 Billion | 35.64 Billion |
| Capital Fund to Risk Weighted Assets (RWA) | 11.25% | 12.91% | 12.75% | 13.66% |
| Non-performing loan(NPL) to total loan | 0.63% | 0.97% | 0.78% | 1.13 % |
| Profit for the Period | 1.10 Billion | 0.44 Billion | 0.89 Billion | 1.16 Billion |

Figure 8.Total Loans and Advances(Billion)

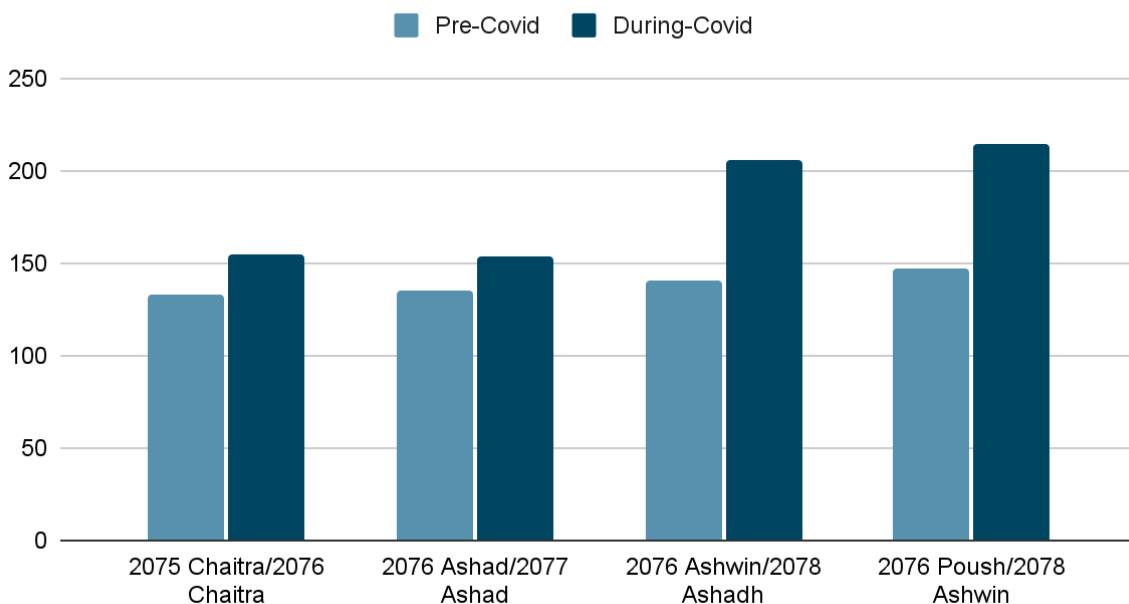


Figure 8. In NABIL bank the growth of loans and advances for pre-covid and recent periods is 46.25% (from 147 Billion to 215 Billion). This shows that there has not been much impact on loans and advances as expected due to covid. This phenomenon could be due to the fact that banks and financial institutions were promoted to provide additional working capital loans. Similarly, interest rates on loans have been reduced which promoted further growth of loans during covid impacted period- easing loan availability and pushing growth similar to previous period.

Figure 9.Total Deposit(Billion)

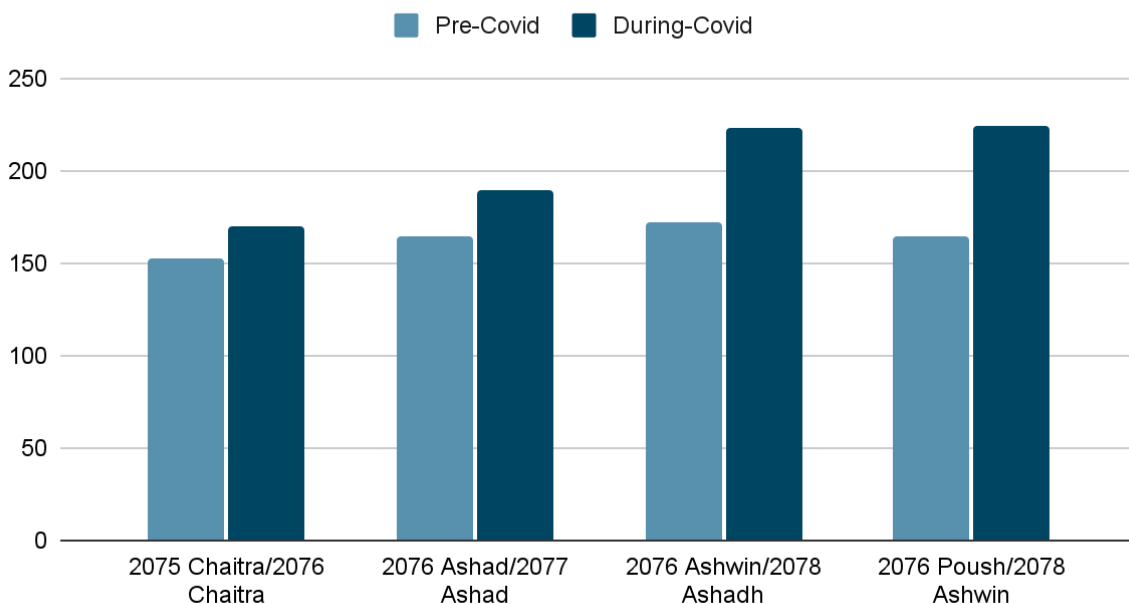


Figure 9. In NABIL bank the growth of deposits for pre- covid and recent periods is 36.58% (from 164 Billion to 224 Billion).Higher growth during the covid-19 period because most of remittance received through banking channels, most of Nepali migrant workers came into the home country and deposited money in bank, low mobility of fund as per deposit received. Due to the stagnant economy for a longer period of time, increase in deposits, particularly fixed deposits, were seen.

Figure 10.Credit to Deposit Ratio(%)

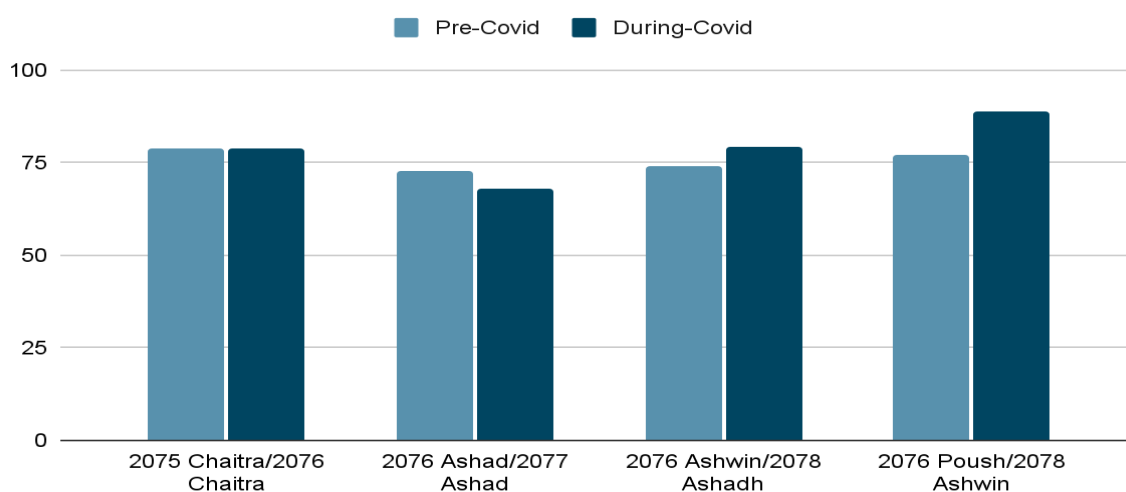


Figure 10.In NABIL bank during the lockdown period due to low mobility of funds in the period of 2077 Ashad the credit to deposit ratio reduced to 68.08%.

Figure 11.Total Capital(Billion)

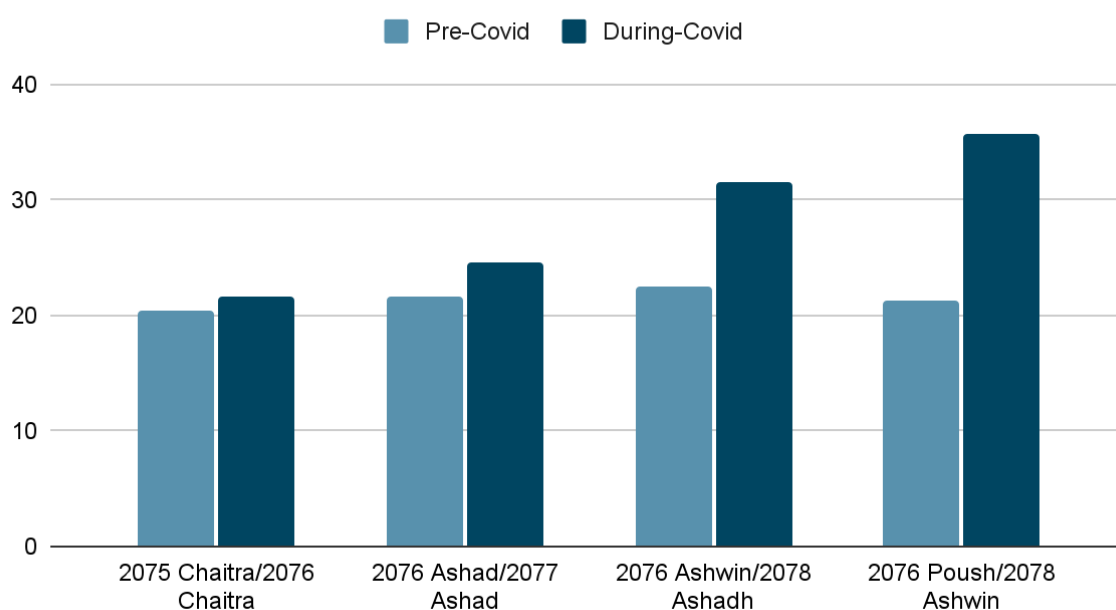


Figure 11.In NABIL bank the total capital has been on an increasing trend and has not been affected much. The growth of Capital for pre- covid and recent periods is 67.24% (from 21.31 Billion to 35.64 Billion).

Figure 12. Capital Fund to Risk Weighted Assets (%)

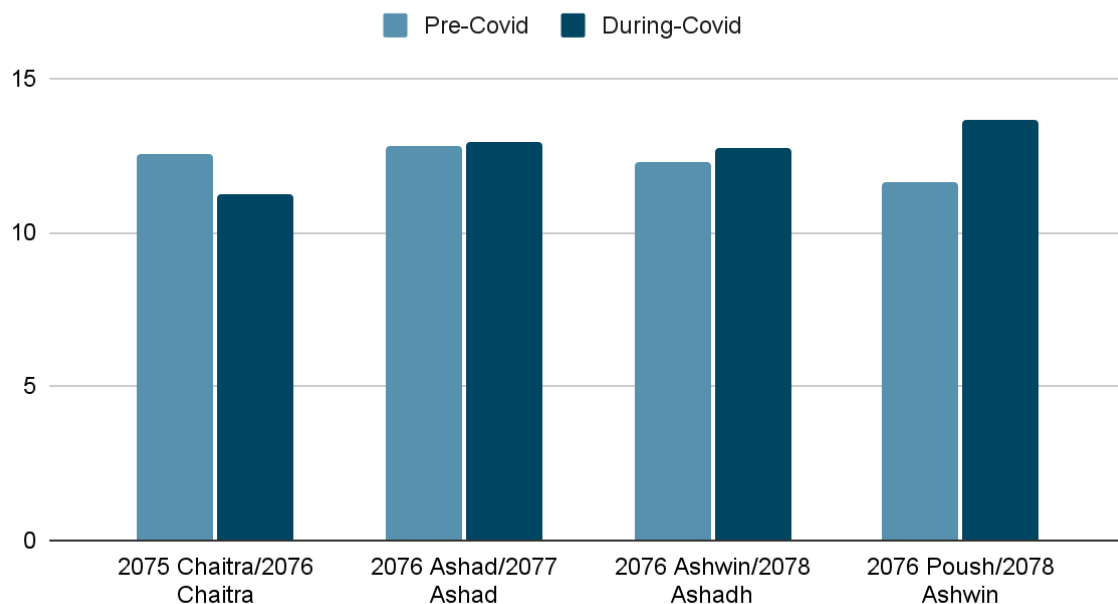


Figure12. NABIL bank has been adequately capitalized. Covid-19 period has not seen much change in the impact of capital. Regulatory required capital of 11% had been regularly met by banks and financial institutions. Due to Covid-19, the proposed Countercyclical buffer (CCB) of 2% was removed. Even if it had been continued, banks and financial institutions could have been seen to comply with the requirements. This has further eased the operations of the banks and removed the additional burden of countercyclical buffers for the time being.

Figure13.Non-performing loan(NPL) to total loan(%)

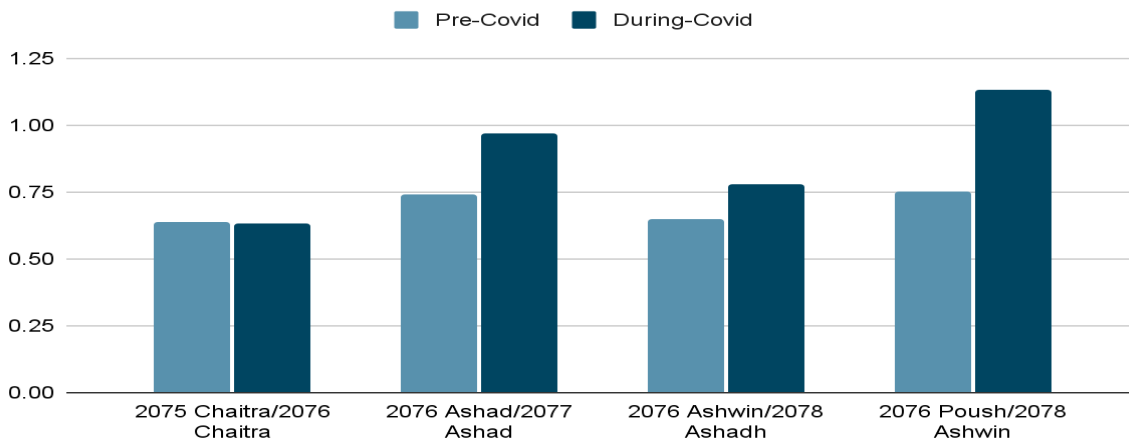


Figure13.In NABIL bank the NPL ratio has been very good. In the case of banking lowering the NPL ratio would be better for bank loans .However, categorization on the Watchlist category, which does not fall under non performing loan, has increased due to the amendments allowed.

Figure 14.Profit for the Period(Billion)

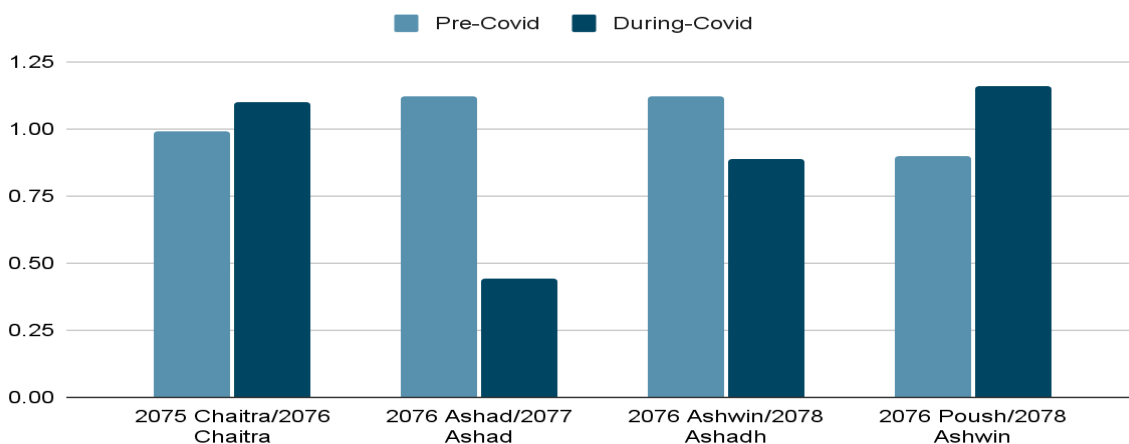


Figure 14.In NABIL bank during the covid-19 period due to low mobility of funds,low amount of interest and commission fee income , the profit in the period Ashadh 2077 reduced to 0.44 Billion and at Ashadh 2078 reduced to 0.89 Billion.

Chapter 3: Summary and Conclusion

3.1 Summary

This project work report is based on the topic "Impact of Covid-19 on Financial Performance of Nepalese Commercial Bank". This Project work Covers some internal Factors areas such as total loans and advances, total deposits, net liquid assets, total capital, capital adequacy ratio, non-performing loan ratio, credit to deposit ratio, profit for the period etc. This helps to analyze the Financial Position and Performance of Commercial banks on pre-covid-19 and during Covid-19. In RBBL the growth of loans and advances for pre-covid and recent periods is 35.5% (from 152 Billion to 206 Billion) and in NABIL bank the growth of loans and advances for pre-covid and recent periods is 46.25% (from 147 Billion to 215 Billion). This shows that there has not been much impact on loans and advances as expected due to covid. This phenomenon could be due to the fact that banks and financial institutions were promoted to provide additional working capital loans. Similarly, interest rates on loans have been reduced which promoted further growth of loans during covid impacted period- easing loan availability and pushing growth similar to previous period. In RBBL the growth of deposits for pre- covid and recent periods is 23.71% (from 194 Billion to 240 Billion) and in NABIL bank the growth of deposits for pre- covid and recent periods is 36.58% (from 164 Billion to 224 Billion). Higher growth during the covid-19 period because most of remittance received through banking channels, most of Nepali migrant workers came into the home country and deposited money in bank, low mobility of fund as per deposit received. Due to the stagnant economy for a longer period of time, increase in deposits, particularly fixed deposits, were seen. In RBBL during the lockdown period due to low mobility of funds in the period of 2077 Ashad the credit to deposit ratio reduced to 62.48% and in NABIL bank during the lockdown period due to low mobility of funds in the period of 2077 Ashad the credit to deposit ratio reduced to 68.08%. In RBBL capital has been on an increasing trend and has not been affected much. The growth of Capital for pre- covid and recent periods is 49.40% (from 20.89 Billion to 31.21 Billion) and in NABIL bank the total capital has been on an increasing trend and has not been affected much. The growth of Capital for pre- covid and recent periods is 67.24% (from 21.31 Billion to 35.64 Billion). RBBL and NABIL bank have been adequately capitalized. Covid-19 period has not seen much change in the impact of capital. Regulatory required capital of 11% had been regularly met by banks and financial institutions. Due to Covid-19, the proposed Countercyclical buffer (CCB) of 2% was removed. Even if it had been continued, banks and financial institutions could have been seen

to comply with the requirements. This has further eased the operations of the banks and removed the additional burden of countercyclical buffers for the time being.

In RBBL the NPL ratio has been more or less constant over the years. This has been the case particularly due to various forbearances allowed to banks and financial institutions and in NABIL bank the NPL ratio has been very good. In the case of banking, lowering the NPL ratio would be better for bank loans. However, categorization on the Watchlist category, which does not fall under non performing loan, has increased due to the amendments allowed. In RBBL during the covid-19 period due to low mobility of funds, low amount of interest and commission fee income, the profit in the period Chaitra 2076 reduced to 0.82 Billion and at Ashadh 2078 reduced to 0.53 Billion and in NABIL bank during the covid-19 period due to low mobility of funds, low amount of interest and commission fee income, the profit in the period Ashadh 2077 reduced to 0.44 Billion and at Ashadh 2078 reduced to 0.89 Billion.

3.2 Conclusion

After analyses of various financial indicators of a bank the impact of each indicator should be analyzed and express opinion on this impact on financial performance of whole banks.

Nepalese BFIs are monitoring and dealing with the effects of the COVID-19 pandemic. Through an understanding of the immediate challenges to society and economies, and the long-term impact on the interconnected financial system, BFIs are using their expertise to help themselves and their customers to make good decisions to operate during Covid-19 and ensure resilience on post Covid-19. Digital banking is one of the strategies adopted by the BFIs which will bring major transformation in the traditional banking dominated Nepalese financial ecosystem. Transformation is potentially seen on intensification and diversification of digital banking services, virtualization of workforce and working culture, and digital and contactless payment and institutional re engineering in these fronts in the BFIs sector.

The situation of banks and financial institutions on key indicators is not as annoying as expected or comparatively that of other counterparts of the world.

Nepal Rastra Bank has been diligently looking after the situation of banks and financial institutions. As the lockdown has been lifted and there are not many hurdles in the operation of business as in the past, it is expected that the situation of banks and financial institutions will get better. The only concern to be heeded are the loans that have been provided with deferrals and forbearance. Unless some unforeseeable events occur and new strain of coronavirus impacts much, we can expect that banks and financial institutions will recover and soon thrive

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| | |
|---|--|
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APPENDICES

Table 5. Calculation Process of Data:

| Particulars | RBBL (2078 Ashwin) | NABIL(2078 Ashwin) |
|--|------------------------|-----------------------|
| (a) Loan and Advances to B/FIs | 16,389,403,675 | 8,147,826000 |
| (b) Loans and Advances to Customers | 190,227,984,699 | 207,437,283000 |
| (c) Total Loans and Advances(a+b) | 206617388374 | 215585109000 |
| (d) Total Deposit | 240,851,938,066 | 224,947,720000 |
| (e) Credit to Deposit Ratio(As per NRB Directive) | 85.11% | 88.64% |
| (f) Total Core Capital Fund (Tier I) | 25,617,386,924 | 28,317,840,623 |
| (g) Supplementary Capital Fund (Tier II) | 5,599,719,640 | 7,595,747,074 |
| (h) Total Capital Fund (Tier I + Tier II) | 31,217,106,564 | 35,913,587,698 |
| (i) Total Risk Weighted Exposures | 220,530,033,277 | 262,984,136,876 |
| (j) Total Capital Fund to Risk Weighted Assets (RWA)(h/i) | 14.16% | 13.66% |
| (k) Amount of NPL | 6,211,869,333 | 2,409,178,165 |
| (l) Total Loan | 206,648,658,307 | 2698279544 |
| (m) Non-performing loan(NPL) to total loan(k/l) | 3.01% | 1.12% |
| (n) Profit for the Period | 1,054,511,284 | 1,166,822000 |

Table 6. Non-Performing Loans:

| Non-Performing Loans | RBBL (2078 Ashwin) | NABIL(2078 Ashwin) |
|------------------------------|----------------------|----------------------|
| Restructured and rescheduled | - | 239,296,077 |
| Sub-Standard | 2,308,639,232 | 1,399,787,433 |
| Doubtful | 957,896,854 | 213,911,931 |
| Loss | 2,945,333,247 | 556,182,724 |
| Total | 6,211,869,333 | 2,409,178,165 |

Table 7.Tier 1 Capital (Core Capital):

| Particulars | RBBL (2078 Ashwin) | NABIL(2078 Ashwin) |
|---|---------------------------|---------------------------|
| Paid up Equity Share Capital | 10,184,891,614 | 13,844,451,155 |
| Equity Share Premium | - | 158,758,428 |
| Proposed Bonus Equity Shares | - | - |
| Statutory General Reserves | 10,023,590,294 | 7,338,913,386 |
| Retained Earnings | 4,328,981,990 | 4,885,768,723 |
| Un-audited current year cumulative profit/(loss) | 1,050,614,500 | 1,166,822,310 |
| Capital Adjustment Reserves | 481,195,653 | 976,542,520 |
| Dividend Equalization Reserves | - | - |
| Other free Reserves | 5,500,000 | 7,719,156 |
| Less: Goodwill | - | - |
| Less: Intangible Assets | 57,869,027 | 61,135,056 |
| Less: Deferred Tax Assets | - | - |
| Less: Investment in equity of institutions with Financial Interests | 351,111,100 | - |
| Less: Investment in equity of institutions in excess of the limits | 48,407,000 | - |
| TOTAL COMMON EQUITY TIER I (CET I) CAPITAL FUND | 25,617,386,924 | 28,317,840,623 |

Table 8. Supplementary Capital (Tier II):

| Particulars | RBBL (2078 Ashwin) | NABIL(2078 Ashwin) |
|---|---------------------------|---------------------------|
| Cumulative and/or Redeemable Preference Shares | - | - |
| Subordinated Term Debt | 2,500,000,000 | 4,207,108,000 |
| Hybrid Capital Instruments | - | |
| Stock Premium | - | |
| General Loan Loss Provision | 2,857,762,788 | 2,747,917,569 |
| Exchange Equalization Reserve | 100,249,604 | 615,900,000 |
| Investment Adjustment Reserve | 58,003,700 | 5,447,668 |
| Asset Revaluation Reserve | 38,591,892 | - |
| Other Reserves | 45,111,656 | 19,373,837 |
| TOTAL SUPPLEMENTARY (TIER II) CAPITAL FUND | 5,599,719,640 | 7,595,747,074 |

Table 9. Total Capital Fund:

| Particulars | RBBL (2078 Ashwin) | NABIL(2078 Ashwin) |
|--|---------------------------|---------------------------|
| Common Equity Tier I Capital Fund | 25,617,386,924 | 28,317,840,623 |
| Additional Tier I Capital Fund (AT I) | - | - |
| Total Core Capital Fund (Tier I) | 25,617,386,924 | 28,317,840,623 |
| Supplementary Capital Fund (Tier II) | 5,599,719,640 | 7,595,747,074 |
| Total Capital Fund (Tier I + Tier II) | 31,217,106,564 | 35,913,587,698 |