

Banking with Mobile Phones A Case for “Beyond Branch” Banking

The ubiquity of mobile phones today in Nepal as well as in other developing countries lends itself as a formidable medium to bring formal financial services to all, right at their door steps. With a push of a few buttons, users can not only deposit, withdraw and transfer cash from their mobile phones, but also use the stored cash value to make purchases at shops and stores. The mobile banking system requires a good ecosystem of agents and merchants in order to effectively serve the customer base. This method of banking is truly disruptive as it will bring down the barriers and cost of banking to everybody in Nepal.

Why is mobile banking relevant to Nepal? The explosive proliferation of mobile technology across Nepal means that this technology can be leveraged not only as a medium of connectivity, but can also serve as a medium to conduct financial transactions, with the ability to spur various entrepreneurial activities that contribute directly to the socio-economic development of the nation. In order to understand the transformative capability of mobile phones, it is instructive to look at the rapid spread of mobile phones all over Nepal. The year over year growth of mobile subscribers is estimated at 36% for 2009 and beyond. In 2007, of the 3,914 Village Development Committees (VDCs) across the country, 1,886 did not have access to a basic telephone service. Today all of the VDCs have telephone service, thanks to mobile phone technology. And most importantly, developing sustainable financial services in Nepal is fraught with complexities primarily due to the lack of needed infrastructure. Currently, Nepal has approximately the following penetration level of various services:

Penetration per 100,000 people:

1. Bank Branches	4.12
2. ATMs	3.40
3. Debit/Credit Cards	2000
4. Mobile Phones	25000

While looking at the statistics above, it is important to remember that formal banking era in Nepal started about 75 years ago, while mobile phones have only been around for approximately eight years and while only less than 30% of Nepali population has access to formal financial services, the number of mobile phone users in Nepal is currently 75 lakhs and is projected to reach 1.5 crores by 2014. Delivering financial services through mobile phones is a game changer. Traditional banking outlets will never adequately serve the remote areas of Nepal. The economics is simply not there. However, the challenges involved are enormous. In order for this service to realize its potential, it has to be supported by an extensive awareness campaign. In Nepal, Bottom of the Pyramid (BOP) represents 86% of the economically active population. BOP population are those that live on less than USD 2 per day, have no access to financial resources, and are most vulnerable population because of their susceptibility to predatory lending, and are exposed to risks of carrying cash. Making mobile banking successful in Nepal requires this class of people to be made comfortable with technology, to help them overcome illiteracy and their resistance to change. In addition, the regulatory framework in the space is practically non-existent. Overcoming these challenges is a feat that one bank alone cannot achieve. The banks need to think beyond competing with each other and join hands in this quest for social transformation, which not only delivers tangible benefits to society, but also promises good profit potential, not with excessive fees, but with economies of scale.

Announcement



Bhairawa Branch is the winner of “**Branch of the Quarter Award**” for the First Quarter of the Fiscal Year 2067/68.

The award was passed on to **Bhairawa Branch** from **Birgunj Branch**, the winner of the Fourth Quarter of the Fiscal year 2066/67.



CSR

Support to Indra Jatra

Kumari Bank Limited on the occasion of Indra Jatra, participates in organizing Kumari Jatra in-joint hands with local social organization Sinha Swan Khala to preserve country's cultural heritage. Like previous year, as a part of corporate social responsibility, Kumari Bank Limited supports the event by providing 300 pcs of T-shirt to the volunteers and Rs. 50,000.00 to the social organization Sinha Swan Khala. Similarly, Bank has been continuously involved in providing supports to areas; health, education, environment, cultural preservation etc as its CSR initiatives.



Scholarship to HOPAD Children

Kumari Bank has been sponsoring school fee scholarship to orphan children from 'HOPAD', Child and Women Promotion society, Thasikhel-5, Lalitpur for their education at Eris Academy, Sovahity, Lalitpur. The scholarship has been provided to HOPAD Children; **Misan Limbu** and **Sima KC** from Baisakh 2065 with monthly School fees of NPR 800.00 each, payable to Eris Academy.



Humor

Solution for late comers

Tom had this problem of getting up late in the morning and was always late for work. His boss was mad at him and threatened to fire him if he didn't do something about it.

So Tom went to his doctor who gave him a pill and told him to take it before he went to bed.

Tom slept well and in fact beat the alarm in the morning by almost two hours. He had a leisurely breakfast and drove cheerfully to work.

'Boss', he said, 'The pill actually worked!'

'That's all fine' said the boss, 'But where were you yesterday?'



CEO's message

Dear Customer,

We are delighted to come to you in the second issue of our newsletter. With the first quarter of the fiscal year 2010-11 behind us, I would like to share with you the achievements your bank made in the period.

We opened a new branch in Sauraha, Chitwan in the first quarter, bringing our total points of representation now to 29 branches. Furthermore, we have added three new ATMs this quarter; in Nepalgunj, Dhangadi and Surkhet, bringing our total ATM points of service to also 29. With these additions, we continue to be more accessible to you for your banking needs.



In the first quarter, we made available Kumari Mobile Cash, an innovative mobile wallet system to all Ncell subscribers. Now those of our customers that subscribe to Ncell can also take advantage of this state of the art service that until now, had only been extended to NT subscribers.

The first quarter of this fiscal year saw a total deposit growth of Rs. 1.96 Billion compared to the same period last fiscal year, reducing our CD ratio to 85.49%. From a risk management perspective, the reduction in CD ratio was a necessary step in order to consolidate & strengthen our balance sheet. Our deposit composition last year included major concentration of highly volatile call deposits, which have been replaced this year with more stable savings & fixed deposits. With these changes, your bank is primed for long term sustain ability.

	First Quarter FY 09-10	Third Quarter FY 09-10	First Quarter FY 10-11
Savings:	28%	24%	40%
Call:	37%	29%	17%
Fixed:	27%	41%	36%

Your bank's income from fees/commissions & foreign exchange during this year's first quarter was Rs 5.97 crores. Over the same period last year, the bank's total income from these categories was Rs. 3.74 crores. The bank did well in this category, increasing by Rs. 2.23 crores or almost 60 percent. Similarly, the bank's interest income generated from treasury activities showed a strong growth, going from Rs. 1.98 crores to Rs. 4.24 crores, an increase of 114 percent from first quarter last year to the same period this year.

As a concern, we see clear indications that trouble from the real estate sector will continue to prevail for the rest of the year. Your bank has been diligently working on reducing its exposure to this troubled sector and has done so going from 27.08% in first quarter last year to 22.33% first quarter this year. We will be working diligently to curtail this exposure to less than 15% by the end of this fiscal year.

The bank's total operating expenses in the first quarter of this year was Rs. 9.6 crores, an increase of 12% from Rs. 8.6 crores in the same period last year, and was down 19% from Rs. 11.9 crores in the fourth quarter last year. Cost efficiency will continue to be in our limelight as we move forward.

To wrap up, I would like to mention that your bank is focused on further enhancing its customer service capabilities. You, the customers, are the essence of what we do. Thank you for your support.

Kumari Insight

Kumari Bank in Sauraha, Chitwan

Kumari Bank Limited inaugurated its new branch at Sauraha, Chitwan. With a vision to provide access to complete banking services, KBL has commenced its services through the new branch from 2 November 2010. The branch aims to provide full-fledged banking services; Deposit, Loan, Remittances, Letter of Credit etc. to the people from Sauraha, Bharatpur Municipality and nearby rural areas. Similarly, tourist visiting can also have access to banking services.

With this addition of branch, KBL now has 28 branches, 1 Extension counter and 29 ATMs in the country.



Kumari Bank Limited 10th Annual General Meeting

The 10th Annual General Meeting (AGM) of Kumari Bank Ltd. held on Wednesday, 1 December 2010 approved to provide 12 percent cash dividend to its shareholders as proposed by the board of directors.



At the meeting, the Chairman, Mr. Shiva Ratan Sharada, reiterated the bank's commitment on providing quality products and services to its customers and informed the meeting on the overall progress and the growth of the bank and its plans.

While talking about the bank's overall progress in the Fiscal Year 2066/067, Mr. Sharada stated that the bank was able to increase its net profit by 22.51 percent in comparison to last fiscal year. The total deposits at the end of the Fiscal Year 2066/067 reached NPR 17.43 Billion, an increment of 10.96 percent in comparison to the last Fiscal Year. Similarly, loans & advances increased by 1.15 percent with a total of NPR 14.96 Billion at the end of the Fiscal Year 2066/067. During the fiscal year 2066/67, the bank was also able to bring down the Non Performing Loans (NPLs) to 0.50 percent.



Kumari Mobile Cash now extended to Ncell Subscribers

Kumari Mobile Cash, a revolutionary service that uses mobile phones to provide access to financial services has now extended its service to Ncell network as well. Earlier the service was limited to Nepal Telecom mobile users only.

With expansion of this service, subscribers of Ncell and NTC network now have access to Kumari Mobile Cash services which enable users to deposit and withdraw cash from their mobile phones, use the stored cash value to remit to anyone, anytime, anywhere, pay utility bills (Electricity Bills, Telephone Bills, Water Bills etc) and purchase merchandise from selected merchant outlets, with the push of a few buttons. Furthermore, Mobile users can also purchase pre-paid NTC mobile talk time pin in a few seconds with Kumari mobile Cash and make payment of Post paid mobile bill instantly, both directly from their mobile phones. For enrolling in this service, one need not have a bank account with Kumari Bank.

At present, this service is available through all of Kumari Bank's 28 branches and its authorized agent locations nationwide.



Market watch

THE GOLD RUSH

Over the past Four Decades Gold Prices has risen by 3,248%. So, if you had invested One Million Rupees in Gold in 1968 your Investment value today would be worth around 32 Million Rupees, a return unmatched by most of available investment avenues. Indeed, gold has proven to be the Story for the decade. A rally which started on 2002 still seems to be advancing towards new highs.

One thing we need to understand is that why has the Gold risen so rapidly over the decades. Is it because of the increase in actual physical demand or is there more to it than meets the eye. Has the demand of Physical Gold risen so sharply that the price has reacted? These questions are not that difficult to answer; yes the demand for Gold has increased over the decades but has not risen to the extent to cause such upward moves in the price of gold, many factors beside the physical demand are in play. With imbalance in the world growing at a rapid pace, countries seem to be exceedingly riskier day by day. The Debt levels which persist in economies today are at historic highs. Hence, investors have been in a lookout for avenues to invest, and they found Gold. Gold unlike other forms of investment protects you from the country risk which you have to assume for any investments. This concept has further been amplified by the 2007-2008 Financial crises which emerged out of the United States. Today, with Europe on a verge of debt crisis and country failure, the benefit which people see in investing in gold surpasses the price it has today, what this means; this means that there is some more room for the price of gold to increase.

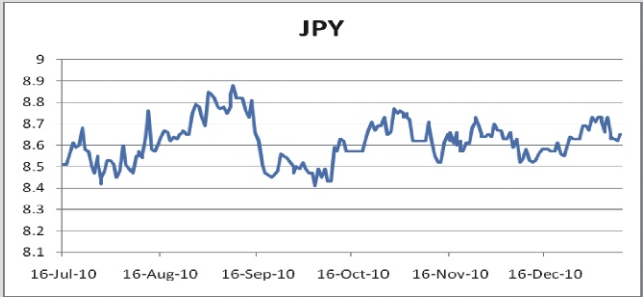
*Interest applicable from NPR.100,000/-

*Conditions Apply

But with such rally on Gold, one can easily assume that prices of Gold will have to fall. What goes up has to come down, but the question is when, this today is the million dollar question on everyone's mind. Traders and Technical Analyst around the world are watching the move on Gold very very closely.

Hence in order to understand the relationship between price and demand let's assume an example, let's take the Price of Salt. What if, from tomorrow the Price of Salt starts to increase in tandem with the rise in price of gold over the decades? What will be the reaction from the consumers, will the demand of salt in the market go down drastically or will the demand for salt have a minimal impact. The most probable scenario will be that people will start taking low quantity of salt, but such fall in demand will not have a major impact on the price of Salt. Now, let's take another example, let's take the price of Tea, what will be the effect on Demand for Tea if the prices rise rapidly, will tea consumption fall or will it stay the same. The most probable scenario in this case is that people will start to cut back on tea consumption and replace it with a more similar substitute, or one that would cost much less. This will ultimately cause the price of tea to fall to the level where a rise in demand is guaranteed. Hence, based on the nature of the product the market re-adjusts price in respect to the gap in demand and supply. Now if we take gold, as price of gold continues to rise over the year's people are going to realize that the price required for buying Gold lacks invariably to the benefit one can derive from it. This is when the substitution effect will take place; People will switch their Gold needs to a less expensive alternative. On the other hand if there was major finding of new Gold mines which could increase the supply of gold rapidly than this can also cause the price of gold to fall. So, will these factors alone be able to control the rapid rise in price of gold, the answer is NO, the most important factor today for the price of gold is the risk associated with economies, US deficit is not getting any smaller,

Currency Watch



Note: Figures regrouped as & where necessary
Above figures may vary with the audited figures if modified by the external auditors or regulators

Publication of Information as Required by Securities Registration and Issuance Regulation 2065 (Related to Sub Rule (2) of Rule 22)

1. Major Financial Indicators (annualized fig.)	
1. Earnings Per Share - Npr. 5.65	2. Market Value Per Share —Npr. 352
3. Price Earnings Ratio (P/E ratio) —62.29 times	4. Net Worth Per Share —Npr. 138
5. Return to Total Assets (ROA) —0.36%	6. Liquidity (CRR) -5.52%

2. Management Analysis:
Under the review period, the bank has strengthened its capital base and deposit and worked to alleviate its real state exposure. The bank was sufficiently liquid throughout the period. Decline in profit has been observed in the quarter. Nevertheless, bank will offset the observed decline in profit in the following months by increasing its lending in SME & other productive sector & increasing fees base income by bringing innovative products in the market.

3. Details Regarding Legal Actions

- Case filed by or to Kumari Bank Ltd. during the quarter. - None
- Case filed by or against the promoter or director of Kumari Bank Ltd. regarding disobedience of prevailing law or commission of criminal offence. - None
- Case filed against any Promoter or Director of Kumari Bank Ltd. regarding commission of financial crime. - None

4. Analysis of Share Transaction of Organized Institutions

- Management's view on share transactions of Kumari Bank Ltd. at Securities Market:
Factors like demand and supply of shares, performance of the bank, dividend policy, decision to distribute bonus and right shares, initial public offering by new banks, government policies, new rules and regulations imposed by regulatory bodies, economic performance play major role in determining the price of shares in the market.
- Maximum, Minimum, and Closing price of shares including total transaction and transacted days during the quarter
Max Price- Rs. 460 Min. Price- Rs. 340 Closing Price- Rs. 352 Total Transaction -298 Transacted Day-54 days

5. Problems and Challenges

Internal Challenges

- Retention of competent and qualified employees.
- Increasing cost of operation on account of inflation.
- Increasing pressure on spread.

External Challenges

- Competition & limited market.
- Lower economic growth.

Strategy to Overcome Problems & Challenges

- Diversification into new areas and services.
- Training and Development of employees for increased capacity development.
- Adopting a proactive internal culture which rewards cost control and increases productivity.
- Continuous reengineering of internal work processes to meet external challenges.

6. Corporate Governance
In order to increase the standard of corporate governance, following actions has been initiated by the bank:

- The Board of Directors of the bank is the topmost body responsible and accountable to ensure that the bank has embraced superior standard of corporate governance. Further, various sub-committees of the Board including the Audit Committee continuously review the workings of various areas of the Bank and provide direction and support where necessary.
- Clear demarcation has been made in the Bank between various conflicting areas of the Bank like Credit, Risk and Operations, with each unit being headed by senior personnel directly accountable to the CEO.
- Management Committee (MANCO), chaired by the CEO and comprising of officers directly reporting to the CEO, meets on a weekly basis to assess the performance of the Bank and take key decisions. Similarly, committees like Asset Liability Committee, Operations Committee etc meet at regular intervals to critically review performance and initiate proactive actions.

7. Declaration by CEO
I hereby declare that the data and information provided in this report is true, complete and factual. No attempt has been made to misguide the investors. I personally take the responsibility and accountability regarding the truthfulness of the information provided in the report till the date 17 October 2010.