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Overcoming Financial Sector Challenges through Value-Based Banking: A Study from Nepal's Banking Sector

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Abstract
The Nepalese banking sector currently faces several challenges. These include worsening asset quality, increased pressure on capital adequacy, declining profitability, difficulties retaining employees, rising cybersecurity threats, a growing number of allegations against financial institutions, and inadequate corporate governance frameworks. In this situation, applying Value-Based Banking (VBB) appears to be a viable approach to promoting sustainable banking practices. VBB helps develop business models that meet the needs of both the real economy and the surrounding community. By connecting banking with the community, many challenges in the banking sector can be addressed. This study aims to look at how VBB principles can help tackle the issues in Nepal's banking sector. It also evaluates the performance of Nepalese commercial banks based on eight quantitative factors linked to value-based banking. Additionally, it examines the regulatory and supervisory actions taken by the Nepal Rastra Bank (NRB) to encourage these banking practices. The findings show various regulatory and supervisory measures that support adopting VBB in Nepal. The analysis further reveals that banks have different competitive advantages across the eight VBB criteria. Specifically, private banks have made more substantial investments in triple bottom line assets than government banks, which tend to struggle with asset quality. Different banks rank as top performers based on the eight criteria of VBB in Nepal. In conclusion, the principles of VBB have considerable potential to address the ongoing challenges in the Nepalese banking sector. Integrating these principles may also strengthen the connection between the banking sector and the community, promoting a shift toward more sustainable banking practices.

Key Words: *NRB, Commercial Banks, VBB(VBB), Financial sector, Challenges.*
JEL Classification: *G21, G28, M15, G3, G21, G29, D19*

Introduction

Building a sustainable financial system involves creating an economic system that serves the real economy rather than dominating it. The goal is to enable a sustainable and intergenerational increase in the community's common welfare and environmental resilience. Ultimately, the financial system should prioritize people's needs (NRB, 2017). In the global financial crisis, several banks that focused on sustainability and values have shown they can provide steady, risk-adjusted returns. They concentrate on the real economy and act as financial middlemen committed to promoting economic, social, and environmental impact. These banks put people before profit, which has helped them gain credibility and recognition. They are also growing in number and influence (NRB, 2017). Value-based financial institutions share the Principles of Sustainable Banking. These principles highlight values like sustainability, transparency, diversity, fairness, and inclusion. In this banking approach, profit comes from maintaining and improving value within the real economy and healthy communities, rather than being the main goal. Recently, more employees in the banking industry have left their jobs. Many are looking for better opportunities, especially abroad. Several factors contribute to this trend, including negative views of banks and financial institutions from certain groups, along with the appeal of better prospects overseas, which has led to lower employee retention (NRB, 2025). The banking sector in Nepal is currently facing multiple challenges due to rising fraud, poor corporate governance, and misinformation. These problems undermine the trustworthiness of banks and make consumer protection a difficult job. According to the bank supervision report for 2023/24 published by the bank supervision department of Nepal Rastra Bank (NRB), incidents of fraud in the sector are on the rise. These activities may involve not only customers but also staff, management, and board members. Examples of fraud include using fake collateral, misusing customer deposits, diverting funds for unauthorized purposes, and inaccurate valuations. In order to address the growing fraud problem, banks need to improve their corporate governance practices, encourage a culture of transparency and openness, implement strong risk management strategies, connect banking activities with societal and environmental needs, and invest in developing employee skills.

Moreover, the banking industry is dealing with coordinated campaigns that spread misinformation and portray banks as greedy entities in society. These campaigns disrupt the sector's operations and increase risks, threats, physical assaults on employees, and attempts to undermine credit services. Additionally, these actions reduce banks' efficiency and negatively affect repayment and recovery processes. As a result, it has become difficult to maintain public trust and confidence in the banking system (NRB, 2025). The application of value-based banking practices is expected to overcome these challenges as value-based BFIs are more stable and perform better (Schafer & Utz, 2021). In the given context, the current study focuses on assessing the level of practice of value-based banking in Nepal's banking sector by analyzing the role of the regulator in promoting value-based banking and suggesting ways it can be used to address current challenges within the sector.

Structure of the Financial System of Nepal:
The financial system of Nepal is structured into three primary categories: financial institutions, financial markets, and financial infrastructure (NRB 2025).

A) Financial Institutions: Financial institutions in Nepal, are composed of financial institutions like commercial banks, development banks, finance companies, micro credit institutions, financial entities, and non-bank financial institutions like insurance companies (life insurance companies, non-life insurance companies, reinsurance companies, and micro-insurance providers), cooperatives, the Employees Provident Fund (EPF), the Citizen Investment Trust (CIT), the Social Security Fund (SSF), and various entities such as national cooperative banks, remittance companies, money changers, hire purchase companies, and hydroelectric investment and development firms. BFIs are regulated by NRB. Insurance companies are regulated by the Nepal Insurance Authority (NIA), and cooperatives fall under the jurisdiction of the Department of Cooperatives (DoC) (NRB, 2025).
B) Financial Markets: The domestic financial market of Nepal is divided into the money market and the capital market. The money market primarily focuses on monetary policy operations and management through open market operations. However, the capital market is regulated by the Securities Board of Nepal (SEBON) and comprises the Nepal stock exchange, listed companies, a central securities depository, stockbrokers, stock dealers, merchant bankers, credit rating agencies, mutual funds, Application Supported by Blocked Amount (ASBA) members, qualified institutional investors, securities dealers, and depository participants (NRB, 2025).
C) Financial Infrastructure: The financial system of Nepal is also composed of critical financial market infrastructure to ensure the effective functioning of financial services and markets. It includes payment systems, clearing and settlement systems, a credit information bureau, a deposit and credit guarantee fund, and a debt recovery tribunal (NRB, 2025).

For detailed statistics regarding the major participants in the Nepalese financial sector, please refer to Table 1.

Table 1: Statistics of the Financial sector of Nepal (Source: NRB, Author's elaboration)

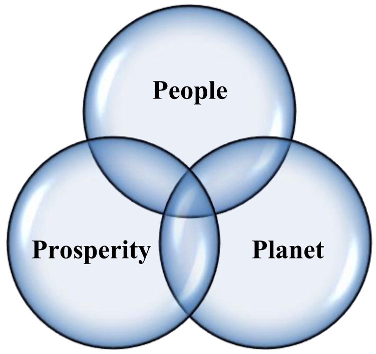
Institutions	2020	2021	2022	2023	2024	2025
Bank and Financial Institutions						
Commercial Banks	27	27	26	20	20	20
Development Banks	20	18	17	17	17	17
Finance Companies	22	17	17	17	17	17
Microfinance Financial Institutions	85	70	65	57	52	52
Infrastructure Development Banks	1	1	1	1	1	1
Total	155	133	126	112	107	107
Insurance Companies						
Life Insurance Companies	19	19	19	14	14	14
Non-Life Insurance Companies	20	20	19	14	14	14
Re-insurance Companies	1	2	2	2	2	2
Micro Life Insurance Companies	0	0	0	2	3	3
Micro Non-Life Insurance Companies	0	0	0	2	4	4
Total	40	41	40	34	37	37
Non-Bank Financial Institutions						
Employees Provident Fund	1	1	1	1	1	1
Citizen Investment Trust	1	1	1	1	1	1
Postal Saving Bank	1	1	1	1	1	1
Social Security Fund	1	1	1	1	1	1
Total	4	4	4	4	4	4
Financial Infrastructure						
Deposit and Credit Guarantee Fund	1	1	1	1	1	1
Credit Information Bureau	1	1	1	1	1	1
Nepal Clearing House Limited	1	1	1	1	1	1
Debt Recovery Tribunal	1	1	1	1	1	1
Total	4	4	4	4	4	4

Source: NRB, Author's Elaboration.

Literature Review

The concept of Value-Based Banking (VBB) was introduced and popularized by the Global Alliance for Banking on Value (GAVB). VBB is based on a Triple "P" Approach: People, Planet, and Prosperity. The GAVB defines "People" as Social Empowerment, "Planet" as Environmental Regeneration, and "Prosperity" as Economic Resiliency. This approach distinguishes itself from traditional banking by positioning banks not merely as financial intermediaries but as agents of change that foster community development and invest in the real economy. The triple bottom line of VBB is presented in Figure 1.

Figure 1: Triple Bottom Line of Value-Based Banking.



Source: GAVB, Author's Elaboration.

According to the Global Alliance for Banking on Values (GABV) 2024, VBB transforms the banking industry from a profit-only model to one that emphasizes transparency, sustainability, and support for people, the planet, and prosperity. It promotes green and inclusive banking. VBB operates on the principle that "banking and finance come with great responsibility." Hence, BFIs are not merely brokers of money; they are often creators of money. Therefore, by deciding how to create money, banks serve as important agents of change.

Value-based intermediation encourages bank and financial institutions (BFIs) to adopt a more structured framework to create value and impact in society, especially in response to changing economic, social, and environmental conditions (Mohamad and Mansor, 2021).

In value-based banking, people take precedence over profit. Bankers focus on societal and planetary development, earning profit only as a byproduct of ethically and properly conducted activities (Benitez, 2017).

The GABV has identified six guiding principles of value-based banking:

1. Social and Environmental Impact and Sustainability at the Heart of the Business Model:
   - Focus on people, planet, and prosperity.
   - Banking products are designed to meet the needs of people while safeguarding the environment.
   - Generating profit is not the sole objective of the bank.
   - Banks should not only avoid causing harm but also use banking to benefit society and the environment.
2. Grounded in Community, Serving the Real Economy, and Enabling New Business Models to Serve Both:
   - Banks and financial institutions need to serve the communities in which they operate.
   - Address the needs of geographically and sector-based communities.
   - Banking and financial institutions (BFIs) should finance a sustainable economy.
3. Long-term Relationships with Clients and an Understanding of Their Economic Activities and Risks:
   - Emphasize building long-term relationships with clients.
   - Assist clients in becoming value-oriented.
   - Understand the economic activities of clients.
   - Conduct thorough risk analysis of client businesses.
4. Long-term Self-Sustaining and Resilient to External Disruptions:
   - Ensure that both the bank and its clients can maintain operations during external disruptions.
   - Recognize that no bank or client can be completely immune to such disruptions.
5. Transparent and Inclusive Governance:

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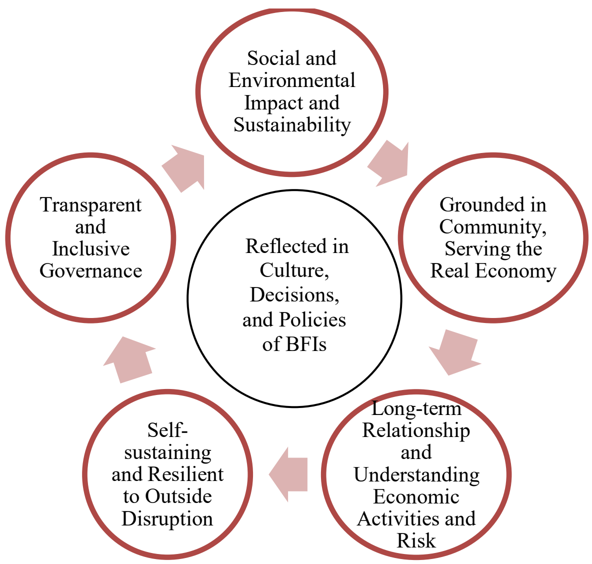
- Maintain a high degree of transparency and inclusiveness in governance and reporting.
- Foster active relationships with stakeholders and communities, in addition to shareholders.

6. All Principles Embedded in the Culture of Banks and Financial Institutions:
- Routinely apply these principles in decision-making at all levels of BFIs.
- Make deliberate efforts to embed them in the policies of BFIs.
- Establish a reporting framework to measure the impact of VBB within BFIs.

These principles collectively support a banking model that prioritizes societal and environmental benefits alongside financial considerations. The six principles of VBB have been presented in Figure 2.

Figure 2: Six Principles of Value-Based Banking.



Source: GAVB, Author's Elaboration.

The Global Alliance for Banking on Values (GABV) developed the GABV Scorecard to assess how well financial institutions adopt VBB practices. This Scorecard applies to any bank meeting the Basic Requirements and follows a framework with two main parts: Quantitative Factors and Qualitative Factors. Combining these elements allows for a thorough assessment and provides a clear view of the bank's progress in adopting value-based practices.

The Scorecard comprises a total of eight Quantitative Factors and six Qualitative Factors pertinent to value-based banking, listed in Tables 2 and 3 below:

Table 2: Quantitative Factors of Value-Based Banking.

S. N	Factors	Measurement
1	Bank Resiliency through Earnings	Return on Equity (ROE)
2	Bank Resiliency through Capital Strength	Ratio of Equity to Total Assets
3	Bank Resiliency through Asset Quality	Ratio of 90 Days Past Due Loans and Impaired Assets to Total Assets
4	Bank Resiliency through Client-Driven Liquidity	Ratio of Client Deposits to Total Assets
5	Assets Committed to the Real Economy	Ratio of Real Economy Assets to Total Assets
6	Revenue Derived from the Real Economy	Ratio of Real Economy Revenue to Total Revenue
7	Direct Exposure to Clients	Ratio of Directly Sourced and Served Clients to Total Clients

8	Assets Committed to the Triple Bottom Line	Ratio of Triple Bottom Line Assets to Total Assets, encompassing loans and other assets directed towards addressing the needs of people, planet, and prosperity.

Source: GABV Scorecard.

Table 3: Qualitative Factors of Value-Based Banking.

S. N	**Factors**
1	Board Commitment toward Sustainable Banking
2	Management Commitment and Leadership in Sustainable Banking
3	Tracking and Reporting Mechanisms for Sustainable Banking Performance
4	Integration of Sustainable Banking Initiatives throughout the Organizational Framework
5	Organizational Structure that Incorporates Sustainable Banking into Daily Operations
6	Embedding of Sustainable Banking Principles in Incentive, Compensation, and Performance Evaluation Structures

Source: GABV Scorecard.

Challenges of the Nepalese Banking Sector:

The Financial Stability Reports for 2024, published by the Nepal Rastra Bank, indicate the level of resilience of Nepal's economy. The reports show steady improvement in macroeconomic fundamentals, including a decrease in inflation pressures and a better balance of payments and foreign exchange reserves. These changes have eased the strain on price stability and the external sector. The timely introduction of sensible regulations has controlled excessive market excitement and helped maintain macroeconomic stability. Recent positive trends in economic indicators are promising and reflect the strength of our economy and financial system (NRB, 2025). The annual report from the Bank Supervision Department has identified various issues and challenges in the banking sector, including increasing non-performing loans (NPLs) and non-banking assets (NBAs), slow credit growth, excess liquidity, and increased pressure on capital adequacy, the growing issue of misinformation affecting the public and borrowers, and an increase in banking fraud. The major banking frauds include fake collateral, misuse of depositors' funds, not using credit for its intended purpose, and overvaluation of assets. Similarly, the use of digital banking has introduced more technological risks, including cybersecurity threats, data privacy issues, fraud, identity theft, and risks linked to third-party vendors. The report further argues that inadequate oversight by the board and top management in managing risk and audit matters, as well as weaknesses in corporate governance, affect the integrity of the banking sector (BSD, 2025). The report identifies several key challenges facing the banking sector in Nepal. These include improving consumer protection, enhancing compliance with anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations, retaining skilled human resources, promoting green finance, strengthening supervisory skills, ensuring regulatory compliance, reducing informal and shadow banking, keeping up with technological changes, and addressing cybersecurity risks and data breaches. There is also an urgent need to promote financial access and inclusion while managing risks within the banking sector (BSD, 2025).

Empirical Review, Using the structured approach to evaluating VBB practices provides a comprehensive framework for institutions to assess their alignment with sustainable banking principles and enhance their positive impact on society. According to Myrna Hewitt, the Global Alliance for VBB(GAVB) asserts that VBB plays a significant role in creating a better world in several ways. A study by Kocornik-Mina, Bastida-Vialcanet, and Eguiguren Huerta (2021) found a positive social benefit linked to values-based banking. The authors believe values-based banking is critical to the banking sector because it fosters innovation. These institutions are at the forefront of addressing contemporary environmental and social challenges. They also show that adopting best practices within a social impact circular model can have a positive effect on the financial industry.

Similarly, the GAVB (2022) report on the performance of values-based banking claims that Values-based banks exhibit approximately 30% greater customer engagement in both deposit and loan activities. These institutions tend to maintain higher-quality capital and experience lower volatility, attributable to their reduced exposure to the financial economy. Further, Values-based banks demonstrate resilience through robust capital positions, delivering stable and solid financial returns. In addition, collectively, values-based banks manifest superior growth levels across various economic indicators. Similarly, Liudmyla H., Larysa N., and Yuliia O. (2024) have identified customer orientation, inclusivity, and product awareness, protection of client data, social integration, and stability, clarifying the value mission, integrating it into corporate culture, transparency, community interaction, and following ESG norms as the main principles of value-based banking. Similarly, Kocornik-Mina (2021) found that values-based banks consistently deliver financial returns and growth, with a strong focus on the real economy backed by solid capital positions.

These banks help channel funds to individuals and businesses that create positive economic, social, and environmental effects. They operate in various markets, meeting different needs through unique business models, but all share a common set of guidelines called the Principles of Values-based Banking.
Additionally, Schmaltz, Lueg, Agerholm, and Wittrup (2019) examined the factors that influence total shareholder returns (TSR) in commercial banks. They specifically looked at whether banks that use Value-Based Management (VBM) perform better in TSR than those that do not. The study analyzed data from 132 publicly listed commercial banks in Europe and North America. It found that banks that publicly support VBM within their Management Control Systems (MCS) achieve a TSR that is, on average, 5.8 percentage points higher than banks that do not adopt VBM. VBM adopters also perform better in profitability, growth, and liquidity. However, the research suggests that banks focusing on certain key performance indicators (KPIs), like the cost-income ratio, might be using fewer effective indicators of TSR. Furthermore, the study by Tok and Yesuf (2022) showed that Value-Based Islamic Banks (VBIBs) have higher risk-adjusted capital levels and better asset quality, which helps them remain resilient during economic downturns. These banks provide better returns than both Value-Based Banks (VBBs) and Global Systemically Important Banks (GSIBs). Yet, VBBs demonstrate a stronger asset structure and growth rate, contributing to the real economy. A review of the existing literature and empirical studies by various authors indicates a positive relationship between the implementation of value-based banking practices and the overall performance of banks. This performance includes factors such as customer satisfaction, asset quality, profitability, liquidity, growth, social benefits, and contributions to the real economy and the environment. These aspects are currently relevant challenges facing the banking sector in Nepal.

In this context, evaluating the extent to which value-based banking is practiced in Nepal's banking sector, along with an analysis of the regulatory measures implemented by authorities, can provide insights into how value-based banking may help address the current issues and challenges within the industry. Significance of Study, This study systematically examines the concept of VBB(VBB) and its implementation in Nepal as a strategy to address the considerable challenges confronting the financial sector. Furthermore, it analyzes the current regulatory and supervisory frameworks instituted by the Nepal Rastra Bank that have facilitated the integration of VBB within the Nepalese financial sector. Moreover, this research compares the implications of VBB in the commercial banks of Nepal by employing the eight qualitative criteria articulated by Hewitt. Finally, the study also explains how using the concept of value-based banking, current issues and challenges of the banking sector can be resolved. Since few attempts to measure VBB have been made so far, this study will provide a valuable contribution to the literature on VBB and banking regulation.

Objectives of the Study

The primary goal of the study is to evaluate the practices of VBB in Nepal by employing the eight qualitative criteria articulated by Hewitt. Some other objectives include:

a) To assess the regulatory and supervisory measures adopted by NRB for the promotion of VBB in Nepal.
b) To analyze how the concept of VBB can help address the current issues and challenges faced by Nepal's banking sector.

Research Methodology

The current study utilizes a descriptive and exploratory research design. To understand and analyze the issue, previous studies and theories have been referenced. Conclusions are drawn based on the descriptive data analysis and the analysis of earlier research conducted by various authors. Population and Sample: The population of this study includes all A-class (Commercial Banks), B-class (Development Banks), and C-class (Finance Companies) operating from 2011 to 2024. However, this study focuses exclusively on commercial banks as the sample. Given that the banking sector is primarily dominated by commercial banks, analyzing data from 20 of these institutions provides a comprehensive overview of the Nepalese financial sector and enhances the robustness of the study. Data Collection and Sources of Data: This study utilizes secondary data to investigate the research issue. Financial statements covering 14 years, from July 2011 to 2024, have been analyzed to gather relevant variable information. Additionally, data on regulatory and supervisory measures for promoting VBB have been collected from the unified directives and circulars issued by the Nepal Rastra Bank (NRB). The data and information regarding the current issues and challenges of the banking sector of Nepal have been collected from the annual bank supervision report published by the bank supervision department of NRB.

Data Analysis Strategy

This study employs a descriptive analysis to examine the implications of VBB in Nepal. Utilizing annual data from 20 commercial banks, the research calculates average value-based indicators across eight distinct criteria for each institution. Furthermore, it identifies various regulatory and supervisory measures that facilitate the promotion of value-based banking, as delineated in the circulars and directives issued by the Nepal Rastra Bank (NRB).

Result and Discussions

Regulatory and Supervisory Measures for Value-Based Banking in Nepal, the role of the central bank in implementing VBB practices is very critical. The central bank plays a leadership role in encouraging VBB practices. The central bank can play various roles, including developing strategy and planning with coordination of other BFIs, and the Global Alliance for VBB(GAVB), creating awareness among bankers and the public, formulating rules and regulations, and providing incentives and appreciations for VBB practices (Mohamad and Mansor, 2021). Nepal Rastra Bank, with the Nepal government, has had a significant priority for a value-based bank, especially illustrated through its commitment to microfinance. This approach was prominent in the 1990s as a viable mechanism of social mobilization and poverty reduction. As a result, several policy models were introduced, including Grameen Bank models, wholesale microfinance models, guided lending models, project-based microcredit models, as well as financial non-governmental organizations (Fingo) and savings and credit and credit co-operatives (Saccos). Banking and

Financial Institutions (BFIs) need to comply with directives issued by the Nepal Rastra Bank (NRB). By mid-July 2027, commercial banks are required to allocate a minimum of 15 percent of their total credit to the agricultural sector, 10 percent to the energy sector, and 15 percent to small, micro, cottage, and medium-sized enterprises. Similarly, development banks are mandated to direct 20 percent of total credit to agriculture, micro, cottage, and small enterprises, as well as the energy and tourism sectors, by mid-July 2027. Finance companies are also required to allocate 15 percent of their total loans to these sectors by the same deadline. As of mid-July 2024, commercial banks had disbursed 13.12 percent of their total loans to the agricultural sector, 8.08 percent to the energy sector, and 8.76 percent to micro, cottage, small, and medium enterprises. Notably, development banks allocated 25.60 percent of their total loans to agriculture, energy, tourism, and micro, cottage, and small and medium enterprises, while finance companies contributed 19.85 percent to similar sectors (NRB, Unified Directives-2024). Similarly, BFIs have to comply with the regulatory requirements of lending to the deprived sector, achieving an overall deprived sector lending rate of 6.22 percent as of mid-July 2024, which exceeds the regulatory requirement of 5 percent. The contributions from commercial banks, development banks, and finance companies to the deprived sector were recorded at 6.03 percent, 7.74 percent, and 7.27 percent of their total lending, respectively (NRB, Unified Directives-2024).

In addition, the Nepalese banking sector has implemented the principles of Environmental and Social Risk Management (ESRM) and is mandated to allocate at least 1 percent of its profits toward corporate social responsibility initiatives. Similarly, the NRB has instructed microfinance institutions (MFIs) to establish a distinct Client Protection Fund aimed at supporting the institutional development and welfare of borrowers, requiring these institutions to allocate a minimum of 1 percent of their net profits to this fund. In this way, BFIs contribute toward Planet and society (NRB, 2018). Similarly, NRB has recently launched a guideline on Green Finance Taxonomy, which provides an approach and processes for regulators, all financial sector stakeholders, and market participants to transition towards investments in green finance by directing resources through their economic activities in Nepal. BFIs are encouraged to make the investment decision based on defining the list of activities for each of the 17 investment sectors and classifying activities as “green”, “amber”, or “red”. The common ground rules will primarily guide the users of Green Finance Taxonomy with common essential options for activities to be classified as “green” (NRB, 2024). NRB has taken various initiatives to promote financial literacy, access, and inclusion that are important for reducing poverty and encouraging prosperity.

Moreover, the Unified Directives have also addressed governance and consumer protection issues. Recently, the Financial Inclusion and Consumer Protection Division (FICPD) has been established in NRB to expand services and boost financial literacy, and resolve grievances of customers using banking services. However, it has been noted that, as financial inclusion increases, protecting consumers becomes more complicated. This may increase the risks, such as scams and predatory lending. To address these problems, financial education and protective measures are essential (NRB, 2025). Besides, there is a provision of a strong consumer protection framework to enhance the stability of the financial system. The Financial Consumer Protection Division (FICPD) of the NRB handles consumer complaints and resolved 3,430 out of 3,977 complaints received in the fiscal year 2023/24. This helps to enhance trust of the community toward the banking system and promote value-based banking. The current regulatory guidelines promoting VBB in Nepal are detailed in Table 4, which outlines the legal and institutional framework supporting these initiatives.

Table 4: Regulatory Parameters for VBB in Nepal

S.NO	Regulatory Parameters	Requirements	Limit	Related Principle
1	Single Obligor Limit (SOL)	General (up to 25% of Core capital)	≤ 25%	Improve Financial Access

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		Personal Loan up to 1.5 million (up to 5% of the total Loan)	≤ 5%	
		Real Estate Loan (upto25%of total Loan)	≤ 25%	
		Other Real Estate Loans, including land purchase and plotting (up to 10% of the total Loan)	≤ 10%	
2	CSR	1% of Net Profit	≥ 1%	Invest in Community and Build Long-term Relations
3	Employee Training	3% of last year's salary/allowance expenditure	≥ 3%	Invest In Employees
4	Investment in other institutions	Investment in shares/ security/ fund of single institutions (up to 10% of Core capital)	≤ 10%	Diversification of Investment
5	Total investment in shares/Securities	Investment in shares/securities (up to 30% of Core capital)	≤ 30%	Diversification of Investment
6	Investment in a Company having a Financial Interest	Investment in institutions with Financial Interest (up to 20% of Core capital)	≤ 20%	Diversification of Investment
7	Interest Rate	Spread Rate Maximum 4 %	≤ 4%	Reduce Client Financial Burden
		Difference in the Spread of Saving Accounts	≤ 2%	Consumer Protection
		Difference in Interest Rate of Deposit Account	≤ 5%	Consumer Protection
8	Deprived Sector Lending	Minimum 5% of Total Lending	≥ 5%	Improve Financial Access and Inclusion
9	Prescribed Sector Lending	Agriculture	≥ 13% by 2083 and ≥ 15% by 2084 B.S.	Diversification and Improving Financial Inclusion
		Hydropower, Energy	≥ 8% by 2083 and ≥ 10% by 2084 B.S.	Diversification and Improving Financial Inclusion and Environmental Protection
		SME up to 10 million	≥ 12% by 2083 and ≥ 15% by 2084 B.S.	Improve Financial Access and Inclusion

Source: NRB, Author's Elaboration.

Descriptive Analysis

From 2011 to 2024, we analyzed data on 20 commercial banks in Nepal to assess their performance based on eight VBB criteria outlined by Hewitt. The findings are summarized in Table 5.

Table 5: Performance of Commercial Banks of Nepal based on Eight Quantitative Criteria of VBB.

Banks	Resiliency Through Earning	Resiliency Through Capital Strength	Resiliency Through Asset Quality	Resiliency Through Client-Driven Liquidity	Assets Committed to Real Economy	Revenue Derived from Real Economy	Direct Exposure to Client	Triple Bottom-line Assets	Loan by Other Assets
ADBNL	0.1405	0.1282	0.0454	0.6386	0.7708	0.8312	0.1329	0.7793	0.8276
Citizen	0.1560	0.0985	0.0200	0.8085	0.7374	0.8850	0.0373	0.8631	0.8592
EBL	0.2311	0.0730	0.0043	0.8072	0.6455	0.9744	0.0358	0.8175	0.8884
Global	0.1608	0.0864	0.0198	0.8190	0.7261	0.9375	0.0650	0.8668	0.8373
HBL	0.2061	0.0833	0.0228	0.8331	0.6902	0.9128	0.0292	0.8743	0.8680
Kumari	0.1162	0.0878	0.0230	0.8082	0.7395	0.8996	0.0383	0.8637	0.8618
Laxmi	0.1292	0.0913	0.0142	0.8109	0.7232	0.9164	0.0383	0.8353	0.8836
MBL	0.1240	0.0817	0.0159	0.8284	0.7387	0.9122	0.0422	0.8419	0.8756
NABIL	0.2497	0.0867	0.0177	0.8018	0.6950	0.9215	0.0433	0.8539	0.8582
NBL	0.2645	0.0888	0.0368	0.7986	0.6941	0.8833	0.0772	0.7699	0.7787
NIC	0.1812	0.0684	0.0186	0.8230	0.7395	0.9640	0.0392	0.8419	0.8536
NIMB	0.1868	0.0970	0.0149	0.7680	0.7049	0.8594	0.0694	0.8231	0.8630
NMB	0.1754	0.0979	0.0166	0.7913	0.7082	0.9307	0.0379	0.8240	0.8800
NSBI	0.1699	0.0788	0.0058	0.8218	0.6298	0.9101	0.0342	0.8692	0.8398
Prabhu	0.1660	0.0778	0.0353	0.8306	0.7134	0.8827	0.0715	0.8175	0.8060
Prime	0.1735	0.0951	0.0182	0.8153	0.7215	0.9777	0.0345	0.8501	0.8821
RBB	0.4760	0.0639	0.0500	0.7964	0.5978	0.8535	0.0962	0.7621	1.0864
Sanima	0.1623	0.0978	0.0033	0.8031	0.7453	0.9597	0.0249	0.8808	0.8546
SBL	0.1838	0.0715	0.0154	0.7964	0.7060	0.9181	0.0453	0.8566	0.9244
SCBNL	0.2149	0.1067	0.0065	0.8220	0.5319	0.8345	0.0073	0.8771	0.8370

Source: Author's Elaboration.

An analysis was conducted to evaluate the performance of 20 commercial banks in Nepal based on the eight criteria of VBB as prescribed by Hewitt.

i. Resilience through Earnings: This criterion looks at the average return on equity. The findings show that the top five banks in this area are RBB, NBL, NABIL, EBL, and SCBNL. In contrast, the bottom five banks are Kumari, MBL, Laxmi, ADBNL, and Citizen.
ii. Resilience through Capital Strength: This measure is based on the ratio of equity to total assets. The leading banks are ADBNL, SCBNL, Citizen, NMB, and Sanima. The bottom five in this category is RBB, NIC, SBL, EBL, and Prabhu.
iii. Resilience through Asset Quality: This criterion assesses the level of non-performing loans (NPLs). The banks with better asset quality are Sanima, EBL, NSBI, SCBNL, and Laxmi. The banks with weaker asset quality are RBB, ADBNL, NBL, Prabhu, and Kumari.
iv. Resilience through Client-Driven Liquidity: This aspect looks at customer deposits as a percentage of total assets. The top five banks for client-driven liquidity are HBL, Prabhu, MBL, NIC, and SCBNL. The bottom five are ADBNL, NIMB, NMB, RBB, and SBL.

v. Assets Committed to the Real Economy: This criterion measures the average real economic assets as a percentage of total assets. The banks ranked highest are ADBNL, Sanima, NIC, Kumari, and MBL. The lowest-ranked banks are SCBNL, RBB, NSBI, EBL, and HBL.

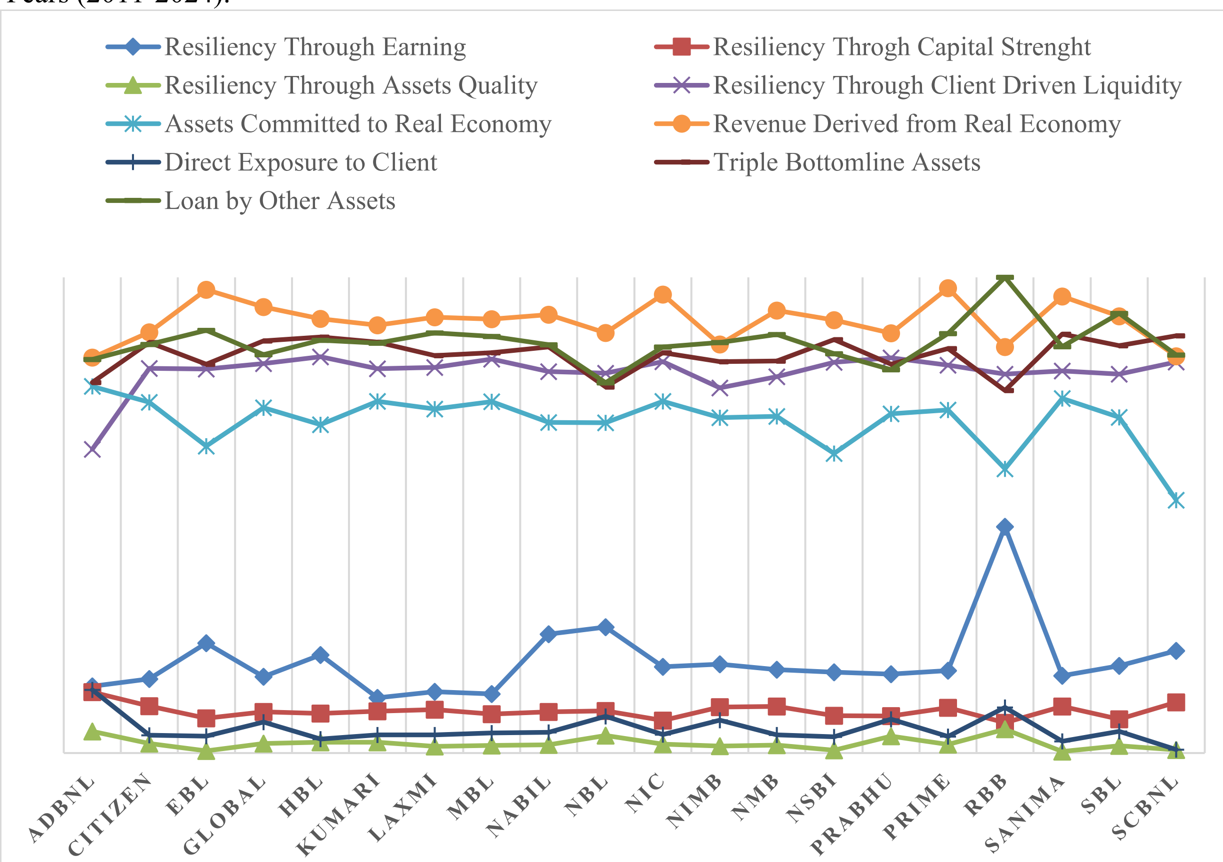
vi. Revenue Generated from the Real Economy: This measure looks at revenue from real economic activities as a percentage of gross revenue. The leading banks here are Prime, EBL, NIC, Sanima, and Global. The lowest performers are ADBNL, SCBNL, RBB, NIMB, and Prabhu.

vii. Number of Direct Exposures to Clients: This criterion uses the share of clients to estimate the number of direct exposures. The top five banks are ADBNL, RBB, NBL, Prabhu, and NIMB. The bottom five are SCBNL, Sanima, HBL, NSBI, and Prime.

viii. Assets Committed to the Triple Bottom Line: This criterion includes two measures. The first looks at triple bottom line assets as a percentage of total assets. The top banks are Sanima, SCBNL, HBL, NSBI, and Global. The bottom five are RBB, NBL, ADBNL, EBL, and Prabhu. The second measure considers loans as a percentage of other assets. RBB, SBL, EBL, Laxmi, and Prime perform best in this area, while NBL, Prabhu, ADBNL, SCBNL, and Global rank lowest.

This analysis helps to understand the resilience and performance of commercial banks in Nepal based on the principles of value-based banking. The comparative chart of commercial banking, which shows the average value of each bank for each criterion, is presented in Figure 3.

Figure 3: Comparative Chart of Commercial Banks of Nepal Based on Average Data of the Last 14 Years (2011-2024).



Source: Author's Elaboration.

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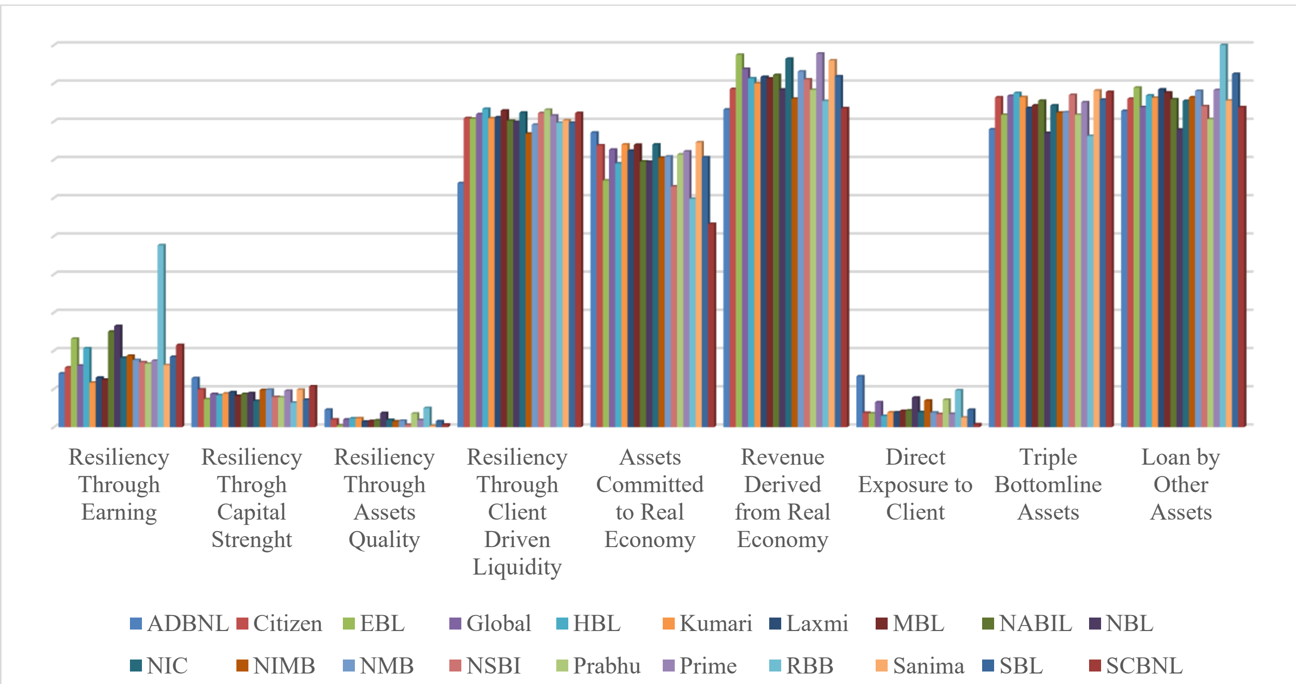
Based on the nine indicators of value-based banking, we can compare each bank. Figure 4 shows the performance of 20 commercial banks in Nepal over the last 14 years. The bar diagram indicates that, in terms of resiliency through earnings, RBB, NBL, Nabil, and EBL are the top-performing banks. For resiliency through asset quality, Sanima, EBL, NSBI, and SCBNL perform better. Similarly, in terms of resiliency through capital, ADBNL, SCBNL, Citizen, NMB, and Sanima are stronger banks. Regarding resiliency through client-driven liquidity, HBL, Prabhu, MBL, NIC, and SCBNL are the better performers. Furthermore, based on assets committed to the real economy, ADBNL, Sanima, NIC, and Kumari rank at the top, while in revenue derived from the real economy, Prime, EBL, NIC, and Sanima perform better. Additionally, in terms of the triple bottom line, Sanima, SCBNL, HBL, and NSBI are among the better banks. Finally, for loans by other assets, RBB, SBL, EBL, and Laxmi show better performance. The details of the comparison are presented in Figure 4.

Figure 4: Performance of Banks Based on Eight Quantitative Factors of Value-Based Banking.



Source: Author’s Elaboration.

Conclusion

The Nepal Rastra Bank (NRB) faces the significant challenge of establishing a financial system that not only fosters economic growth but is also sufficiently dynamic to address the evolving demands of the real economy. In this context, lessons from the experiences of values-based banks that prioritize community welfare, emphasize purpose over profit, and adhere to the principles of "Banking on Values” will help to build sustainable banking. As a regulatory authority, NRB has established various regulatory and supervisory measures aimed at increasing financial access and inclusion, protecting consumer rights, facilitating lending to disadvantaged areas, supporting agriculture and hydropower initiatives, allocating social responsibility funds (CSR), promoting a digital economy, and promoting sustainable and green

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financing by adopting environmental and social risk management guidelines. These measures contribute directly to the promotion of value-based bank practices.

Moreover, Nepal Rastra Bank has published numerous policies, instructions, and circulars to foster VBB in Nepal. Some of the most notable policies include Single Obligor Limit, CSR Spending, training for employees, consumer rights protection, reserving certain interest rates and spreads, restriction of unproductive sector lending, provisions on priority and deprived sector lending, and ESRM instructions. Adoption of these policies has improved the financial education and rights of custodians in the banking sector, broadened the scope of banking and financial services, developed careers of banking professionals, improved environmental responsibility, fostered community banking, reduced banking risks and uncertainties, and supported sustainable banking in Nepal. Implementing the concept of VBB in Nepal will help address the current issues and challenges faced by the country's banking sector by fostering sustainable banking practices. By connecting the community and clients with the bank, it reduces the risk of client businesses, ensures smooth operations, enhances clients' payment capacities, and decreases banking uncertainties, credit risks, and non-performing assets. This also boosts the profitability and reputation of the banking sector. Additionally, this will lower employee grievances and dissatisfaction, resulting in lower employee turnover, as sustainable banks tend to offer higher pay and better career opportunities for their staff. The current study found that different banks vary in their level of value-based banking practices across eight quantitative criteria. Banks with poor VBB practices need to improve in the criteria where they received low scores. By adopting various methods to promote VBB, the issue of banking sectors like employee turnover, increasing NPL and NBA, increasing risk, allegations against the banking sector, miscommunication, and banking fraud can be managed. However, the promotion of VBB should not be perceived as the sole responsibility of the NRB. It requires a collaborative approach involving the government, Banks and Financial Institutions (BFIs), media entities, the business community, and society at large. Moreover, non-bank financial institutions, insurance companies, and the cooperative sector must also embrace VBB principles within their operational frameworks to ensure a comprehensive and unified approach to sustainable financial practices in Nepal.

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