

CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Financial sectors; the backbone of the country's economy, are related with the monetary and the capital market. Banks and financial institution is the major activist of financial market. Such financial institution play a vital role for the effective and specific companies, commercial banks, micro financing institutions, provident fund, insurance companies, security market, citizen investment fund, and credit security operation etc. are performing in their own way for the national financial strength. But in the context of Nepal, specific institutions are still to be promoted and encouraged. There is scarcity of subsidiary institutions to support economic stability in the country.

With the economic liberalization in the country initiated in mid 1980s, the Nepalese financial system witnessed significant development in the growth of financial institutions. Despite these, the qualitative aspects of the financial system still requires much improvements as reflected in the inadequacy of the banks & financial institutions in providing increased benefits to the general public and in contributing adequately to the economic development through raising income level, creating employment opportunities and building internal strength for the growth of the institution themselves. Though various reforms efforts were undertaken in the past, to create a healthy financial sector as a pre-requisite to sustained economic growth by eliminating the various institutional and structural deficiencies, still Nepalese financial sector is suffering from major problem that is Non Performing Assets (NPA).

A dream of globalization led to huge investment, which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate misutilized the credits and delayed payments have contributed indirectly for

enhancing NPA ratio. The use of existing banks in Nepal as instrument of public policy has been another reason, lending under populist schemes like directed lending to certain sectors like priority sector lending, export financing at reduced return rates are some of the examples at reduced return rates are some of the examples. Lack of vision in appraisal of proposal while loan sanctioning, reviewing and enhancing credit limits, absence of risk management policy of financing, concentration of credit in few groups of parties and sectors, lack of coordination among various financiers, lack of initiative to take timely action against willful defaulters, labor oriented small sized old technology operations, non-transparent accounting policies and poor auditing practices are some factors behind the increment of NPA. (Pradhan, 2058)

1.2 Definition of Non-performing Assets (NPAs)

The specific definition of Non-Performing Assets "NPAs" is bad debt, if repayment of principal and interest is defaulted by more than three months. Non performing assets (NPAs) could wreck bank's profitability both through a loss of interest income and write off the principle loan amount. It tackles the subject of in entire starting from the safe of their identification till the recovery of dues in such amount" (Bindani, 2003)

As assets is classified as non-performing assets (NPAs) if the borrower does not pay dues in the form of principle and interest for a period to 180 days. However with effect from March 2004, default status would be given to borrower if dues were not paid for 90 days. If any advances or facilities granted by bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having regard to the fact that there may still exist certain advances/ credit facilities having performing status. (www.indianinfo.com)

To start with performance in terms of profitability is a benchmark for any business enterprise including the banking industry. However, increasing non-performing assets (NPAs) have a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets." (Manmohan, 2002).

Concept and classification of NPA may differ from one country to other country but overall concert of NPA comprises from the failure of the lending of the banks. Therefore we can say that NPA is that portion of lending or loans, which is irrecoverable by in the specific period as marked up by control bank.

The suitable NPA is only 3-5 percent in the international standard, but in Nepal NPA is adhered 10 percent on average which is most sensitive. So every commercial Bank has to be considering the study of the project appraisal and risk minimizing on providing loan to different institution.

Non Performing Asset in literally meaning is asset those are useless for the certain time frame or say asset that cannot be used in the productive sector and in such condition the asset does not show any performance or positive results. In the banking term, when the borrower takes loan, he should pay interest along principal in the certain time that means the borrower is the asset for the banks. But if that borrower does not show the initiation in payment of interest and principal for the long time, it turns to non-performing assets. Nepal Rastra Bank has segregated the loans according to the ageing of the lending.

1.3 Statement of the Problem

Nepalese banking sector has been becoming a victim of huge Non- Performing Assets. Various journals and dissertations has examined that the level of NPA is high in commercial banks. NPA problem is alarming in Nepal Bank Ltd. and Rastriya Banijya Bank. The government of Nepal has been endeavoring a lot of efforts to make the Nepalese financial system healthy and prudent through various reform initiatives. Despite various efforts within reform programme the

level of NPA in the Nepalese banking system has not come down to an acceptable level.

Therefore, this research is carried out in order to look into the weakness and inefficiencies of concern banks, with the help of the comparative analysis of their financial statement. This research has identified the following research questions regarding to NPA with special reference to selected banks

- J What is the overall impact of NPA on the profitability of the banks under study?
- J What are the major internal and external factors that have significant contribution on the increment of NPA?
- J Whether or not the Nepalese Commercial Banks is following, Nepal Rastra Bank's regulation/directive regarding their lending, especially to maintain the provision for NPA?
- J What is the condition of NPA of the concerned banks?

1.4 Significance of the Study

Problem due to increasing NPA is more or less being faced by every banks and financial institutions. To the extent the nature of problem is similar on every bank. As this problem has already been recognized as serious problem thus obviously this study will have significant contribution to investigate the issues more systematically. This study will have both academic as well as practical significance. The findings and conclusion of the study will add to the literature of Non-Performing Assets in general and review the previous findings. The study will be helpful for the banking industry to identify and to trace the contributing factors causing NPA and to reduce its level. This study will also be helpful for the regulating authority to know existing recovery problem so as to have some modification on directives, laws and other proceedings.

1.5 Objectives of the Study

The main objectives of this research are to examine and study of Non-Performing Assets in Total Assets, Total Deposit and Total Lending of Nepalese Commercial banks.

The specific objectives are

-) To study and examine the level of Non-Performing Assets in Total Assets, Total Deposit and Total lending of Nepalese commercial banks.
-) To find out whether the Nepalese commercial banks are following the NRB directive regarding Loan Loss Provision for Non-Performing Asset or not.
-) To identify the internal and external factors and other causes of NPA growth.
-) To identify the effects of Non-Performing Assets on Return on Assets and Return on Equity of concern bank.
-) To predict the financial distress of the concern banks with Altman's Model using NPA.
-) To provide recommendation and suggestion to overcome the difficulties in managing Non-Performing Assets of the banks.

1.6 Research Methodology

This study aims at presenting, evaluating and finding about the NPA, its causes and implication. Survey type of research design is followed to find out the cause and effect of NPA in Nepalese commercial banks. All the commercial banks are the population of the study. The survey is conducted and the data are collected from the sample banks. Managers and officials of the sample banks,

NRB, SEBON and NEPSE are the respondent of the survey. Data from published annual reports of the sample banks are taken as secondary source for necessary assessment. Besides, some other information and data have been collected from NRB, other published journals, newspapers and books. Statistical tools such as bar diagrammed, regression analysis correlation analysis and SPSS model are applied. The financial analysis and tools such as ratio analysis and mean are also used for the purpose of the research of the financial position of the sample banks.

1.7 Limitations of the Study

There are some limitations while undergoing this study. The main limitation of the study will be:

-) This study has been confined to only five of the commercial banks, namely Nepal Bank Ltd, Nepal Investment Bank ltd., Nepal SBI Bank, Nabil Bank Ltd & Everest Bank Ltd.
-) This study is based on the secondary data and limited primary data of sample banks. It would be based upon published financial documents like balance sheet, profit and loss account and other related journals, magazines and questionnaire.
-) This study follows the specific tools such as ratio analysis, mean correlation and hypothesis.
-) This report is based on five year data for the study, from the fiscal year 2064/65 to 2068/69 B.S. (2008 to 2012 A.D.).
-) This study is limited from the point of view of submission on partial fulfillment of the requirement for the master degree in business study.

1.8 Organization of the Study

This thesis has been divided into the following five chapters

Chapter I- Introduction:

This chapter includes background of the study, introduction of the sample banks, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter II- Review of Literature:

This chapter describes the conceptual/theoretical review and review of related studies from books, journals and previous studies.

Chapter III- Research Methodology:

This chapter contains research design, population and sample size, data collection procedure and tools used for analysis.

Chapter IV- Presentation and Analysis of Data:

This chapter describes the presentation and analysis of data according to research methodology. It also includes major findings.

Chapter V- Summary, Conclusions and Recommendations:

This chapter includes the summary, conclusions and recommendations of the study, in which various conclusions are drawn from the study and recommend actions for improving future performance.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction of Commercial Bank

Simply speaking, a Bank refers to a commercial bank. Therefore, activities of commercial bank are synonymous to Banking. Bank is an institution, which is engaged in monetary transactions. It receives deposit of money from those having saving and lend it to those who need money for some purpose - paying and charging interest at some fixed rates. Beside, a bank also involves of agency services like remitting and collecting cash on behalf of clients, opening bank draft and L.C facilities, underwriting shares of newly established companies, etc. In short a Bank helps people in every sector of economy such as Trade, Agriculture, Industry and Tourism etc. According to Nepal Commercial Bank Act 2031 B.S (1974 A.D), "A Commercial Bank refers to such types of Bank which deals in money exchange, accepting deposits, advancing loans, and other commercial transitioning except some special functions done by some specified bank such as Cooperative Bank, Agricultural Bank and Industrial Banks."

"Principally speaking, a commercial bank accepts deposits and provides loans primarily to business firms thereby facilitating the transfer of funds in the economy". Although in the past, banks were considered acceptors of deposits and providers of loans, modern commercial banks work for the overall development of industries, trade and commerce, service as well as agriculture. There are four functions of the commercial bank, which have been laid down by the American Institute of Banking. They are:

-) Receiving and handling deposits,
-) Handling payments for its clients,
-) Granting loans and investment, and
-) Creating money by extension of credit

The liabilities of a bank represent the sources of its funds, which are employed by the bank in the ordinary course of its business. Similarly, assets of a bank represent the property and investment made by the bank.

2.2 Brief History of Evolution of Banking

The evolution of banking industry had started a long time back, during ancient times. There was reference to the activities of moneychangers in temple of Jerusalem in the New Testament. In ancient Greece, the famous temples of Delphi and Olympia served as the great depositories for people's surplus funds and these were the centers of money lending transactions. However as a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy. The Bank of Venice founded in 1157 A.D was supposed to be the most ancient bank. Following it were established the Bank of Barcelona and the Bank of Geneva in 1401 A.D and 1407 A.D respectively. Subsequently Bank of Amsterdam set up in 1609 A.D, which was very popular then. The Bank of Venice and the Bank of Geneva continued to operate until the end of eighteenth century. With the expansion of commercial banking activities in Northern Europe, there sprang up a number of private banking houses in Europe and slowly it spread throughout the world.

However, the development of banking in Nepal is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient times. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a Sudra merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in Ancient Nepal. The establishment of "Tejarath Adda" during the year 1877 A.D. was the first step in institutional development of banking sector in Nepal. Tejarath

Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy. Reviewing this situation, the "Udyog Parishad" was constituted in 1936 A.D. One year after its formulation, it formulated the "Company Act" and "Nepal Bank Act" in 1937 A.D.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However the stand of Nepal Bank Limited alone in total monetary and financial sector was not sufficient and satisfactory. Thus Nepal Rastra Bank was set up on 2013.01.14 B.S as a central bank under Nepal Rastra Bank Act 2012 B.S. Similarly on 2022.10.10 B.S Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality/competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development Centre was set up in 2013 B.S which was converted to Nepal Industrial Development Corporation (NIDC) in 2016 B.S. Similarly Agricultural Development Bank (ADB) was established in 2024.10.07 B.S with an objective to promote agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

Despite all these efforts of the government, financial sector was sluggish. With the opening of Nabil Bank Limited (early Nepal Arab Bank Limited) in 2041, 03.29, the door of opening commercial banks was opened to the private sector. Nabil emerged as the first joint venture bank when the banking industry was totally dominated by Government and Semi-Government banks mainly to revitalize the economy by accelerating

productivity in various sectors-and to provide efficient customer service. Having observed the success on Nabil based on marketing concept and also .because of liberal economic policy adopted by the successive governments, many commercial banks have been established till date.

2.3 Conceptual/ Theoretical Review

Under this, heading the concept and meaning of some of the terms used in the study has been discussed.

2.3.1 Loan and Advances

Granting loan and advances is important function of the commercial bank. Commercial bank grants loan to the needy individuals and institutions against the security of valuable assets. This is the most important item on the assets side of the balance sheet of the bank; loan and advances generate incomes for the bank. Therefore the profitability of the bank depends upon the extent to which it grants loan and advances (Dahal & Dahal 1999)

2.3.2 Performing Loan/ Assets and Non Performing Loan/ Assets

Generally, Non-Performing Assets relates to Non-Performing financial assets. In this context, Non Performing Assets are defined as debt instrument whose obligors are unable to discharge their liabilities as they become due. The term debt instrument refers to both loans and bonds. Therefore, Non-Performing Assets comprise the wider area of assets portfolio whereas the Non-Performing Loan is referred to distressed loans classified as per regulations of central banks. Loan means loans and bills purchased and discounted by the banks and financial institutions, since the loan being the significant component on financial assets portfolio, Non-Performing Loans and Non-Performing Assets are used interchanging (B.R. Dhungana, NRB, 2063).

Performing Assets are those loan that repay principle and interest to the banks from the cash flow it generates. Loans are risky assets, though a bank interest most of its resources in granting loan and advances. If an individual bank has around 10 percentage Non-Performing Assets (NPAs) loan, it sounds the death knell of that bank other thing remaining constant. The objective of bound loan policy is to maintain the financial health of the banks which result in safety of depositor's money and increase in the return to the shareholder. Since the loan is riskily asset there is inherent risk in every loan. However, the bank should not take risk above the certain degree irrespective of returns prospects (Dahal & Dahal, 1999).

2.3.3 Loan Classification

Loan classification refers to the process banks use to review their loan portfolio and assign loans to categories or grades based on the perceived risk and other relevant characteristics of loans as per guidelines of central banks. The process of continual review and classification of loans enables banks to monitor the quality of their loan portfolio and when necessary to take remedial action to counter deterioration in the credit quality of their portfolios. In most of the countries, a number of days a past due payments represents a minimum condition for loan classification purposes. However, some criteria which exhibit forward looking features are also considered. In the context of Nepal, as per guidelines of NRB, loans are classified into four categories namely, Pass, Substandard, Doubtful and Loss Loan respectively.

2.3.4 Loan Loss Provision

Loan loss provision is the accumulated fund that is provided as a safeguard to cover possible losses upon classification of risk inherited by individual loans. There is risk inherent in every loan. Hence provisioning is made as cushion against possible losses and to reflect the true picture of the bank's

asset. Hence there is practice of showing net loan (Total loans- loan loss provision) in financial statements. The amount required for provisioning depends upon the level of NPAs and their quality. High amount of provision is an indication of that banks credit portfolio needs serious attention. One percent provision of total credit is an ideal position as it is the minimum requirement for all good loans. In Nepal, 1%, 25%, 50% and 100% provisioning should be made for PASS, Substandard, Doubtful and Loss Loans respectively.

2.3.5 Assets Management Company

This is a company to which the bad loans and assets are transferred from the problem banks. The AMC could be owned and funded by the state or by private owners. An Assets Management Company is a special purpose limited liability company (holding or subsidiary), agency or under taking which facilitates the:

-) Transfer of problem assets from financial institutions in exchange for a consideration.
-) Financing and resolution of problem loan and assets.
-) Expert management of problem loans through reconstruction and rehabilitation.
-) Specialist management of loan of loan security (real estate, share, etc)
-) Expert and focused management of the process of maximizing net returns (i.e. after costs) over a reasonable time frame.

(Sources: <http://www.danaharta.com.my/ame/back.html>)

2.3.6 Classification of Assets

The assets are classified in the following broad groups:

- i) Standard assets
- ii) Sub standard assets
- iii) Doubtful assets
- iv) Loss assets

Standard Assets

Standard assets are one, which does not disclose any problem and which does not carry more than normal risk attached to the business. Such assets are not a NPA. For e.g. if an account is regular and there is no problem of repayment, then the collateral placed for that loan is standard assets.

Sub-Standard Assets

Substandard asset is one, which has been classified as NPA in such cases, the current net worth of the borrower/ grantor or the current market value of the security charged is not enough to ensure recovery of the dues to the bank in full. In other words, such an assets has well defined credit weaknesses that jeopardize the liquidation of a debt and is characterized by the distinct possibility that the bank will sustain some loss of deficiencies are not corrected.

However, in respect of accounts where there are potential threat of recovery an account of erosion in the value of security or non availability of security and existence of other factors such as frauds committed by borrowers, it will not be prudent for banks to classify them as substandard and then as doubtful or loss assets as appropriate, irrespective of the period for which it has remained as NPA.

Doubtful Assets

A doubtful asset is one, which has remained NPA for a period exceeding two years. In the case of term loans where installment of principal has remained overdue for a period exceeding two years should be treated as doubtful.

Loss Assets

A loss asset is one where the bank or internal or external auditors or the central banks inspectors have identified loss but the amount has not been written off, wholly or partly. In other words such assets is considered uncollectible and of such little value that its continuance as a bankable assets is not warranted although there may be some salvage or recovery value and where no security is available.

2.4 Highlight on Performance of Nepalese Commercial Banks

Commercial Banking at a Glance

1. The number of commercial bank branches operating in the country reached to 1424 including 31 commercial bank branches and 233 other non commercial banks branched of ADB/N in mid July 2012. Of the total bank branches more than 49.7 percent bank branches are concentrated in the central region. By the end of mid July 2012, 708 branches are being operated in this region. In the eastern, western, mid-western and far-western region 255, 256, 121 and 85 bank branches are in operation respectively.
2. As an increment of number and business of commercial banks contributed to impressive growth in the size of total assets i.e. sources of fund. In the mid July 2012, the total sources of fund of commercial bank increased by higher rate of 21.5 percent compared

to 11.6 percent in preceding year. The total sources of fund of the commercial banks reached to Rs. 1,067,096 million in mid July 2012. It was Rs. 878,364 million in 2011.

3. Loans and advances, the major component of assets, constituted the 58.3 percent of total assets in mid July 2012. Similarly, investment and liquid funds, another component of assets, registered the 17.0 percent and 15.2 percent of total assets in the same year. In the preceding year the respective share of loan and advances, investment and liquid funds were 12.3 percent, 28.9 percent and 59.9 percent.
4. In the current year the loan and advances increased by higher rate of 17.9 percent compare to 12.4 percent in the last year. By the end of mid July 2012 the total outstanding amount of loan and advances of commercial bank reached to Rs.622, 575 million. It was Rs. 528,023 million in mid-July 2011.
5. The total investment including share and other investment of commercial banks in mid-July 2012 increased by 21.2 percent and reached to Rs.181, 273 million from Rs. 149,557 million in mid-July 2012. Similarly liquid fund increased significantly by 65.0 percent and amounted to Rs. 161,785 million in mid-July 2012.
6. The composition of total liabilities shows that, the deposit held more than two third of total liabilities over the period of 2011-12. As of mid July 2012, it constituted the 81.3 percent. Similarly borrowing held the 1.5 percent in the same year.
7. Commercial bank marginally increased by 26.2 percent compare to 9.0 percent growth in the previous year. By the end of mid July 2012 it reached to Rs. 867,978 million from Rs. 687,588 in the last year. Of the component of deposit, current deposit accelerated by higher rate of 18.1 percent compared to 2 percent in last year. Fixed deposit increased slightly higher of 31.8 percent compared to 17.8 percent in the previous year. However, saving and call deposit growth rate rise

to 35.1 percent and 34.4 percent compare to 31.8 percent and 17.8 percent respectively.

8. Of the components of total deposit, saving deposit constituted the highest share of 35.1 percent followed by fixed deposit 34.4 percent, current deposit 10.7 percent and call deposit 18.6 percent in mid July 2012.
9. The share of borrowings to total liabilities accounted to 1.5 percent in mid-July 2012. It was 2.22 percent in the last year. In the mid July 2007 the borrowing of commercial banks grew by slower rate of 33.93 percent compared to 39.12 percent in previous year. Liquid funds increased by 14.45 percent in mid-July 2012 .In the purpose wise credit front, the total outstanding loans and advances reached to Rs.143, 814.83 million in mid July 2012. Out of them the production sector constituted the highest share of 23.1 percent followed by wholesale & retailers 20.5 percent, construction 9.8 percent, service industries 4.9 percent, finance, insurance & fixed assets 10 percent agriculture 3.7 percent transportation, communication & public services 4.0 and consumable loan 6.1 percent.
10. The outstanding of deprived sector credit of commercial banks in the mid- July 2012 by the end of mid-July reached to Rs. 24,150 million. The ratio of deprived sector credit to total outstanding of product wise loans and advances stood at 3.8 percent in the current period. Last year it was 3.6 percent.
11. In mid-July 2012, the credit to deposit ratio of the commercial banks reached to 71.7 percent compared to 76.8 percent in mid-July 2010.
12. By the end of mid July 2012, the credit/deposit ratio of the commercial banks increased to 67.84 percent from 59.53 percent in the last year. Higher growth rate of loans and advances compared to deposit mobilization contributed to increase in this ratio.
13. The non performing loan of commercial banks decreased to 2.6 percent in mid-July 2012 from 3.2 percent in the mid-July 2011. The

total amount of NPA in mid-July 2012 reached to Rs.16, 325 million from Rs.16, 872 million in the mid-July 2011.

(Source: NRB, Banking and Financial Statistics, Mid July 2012)

2.5 N.P.A. in Nepalese Banking Sector

Despite various efforts within reform program, the level of NPL in the Banking system has not come down to an acceptable level. It was 2.39% in July 2010, which was reduced to 3.20% in July 2011 and 2.66% in July 2012. In July 2012 total NPL of commercial banks stand at Rs. 16,325.23 million and the level of NPL in the two public sector commercial banks was 14.60% of NBL and 26.43% of RBB. However, joint venture and other private commercial banks have the level below the two largest public sector commercial banks. Non-performing loan to total loan to total loan is tabulated as follows

Table No. 1: Percentage of NPA to TL

Year	Total Gross loan (in million)	NPL (in million)	NPL to TL (in %)
2064/65	306638.36	18648.50	6.08
2065/66	384315.13	13574.64	3.53
2066/67	469160.83	11223.34	2.39
2067/68	528023.14	16871.58	3.20
2068/69	612935.20	16325.23	2.66

(Source: Banking and financial Statistics, NRB, Mid July 2012)

2.6 NRB'S Directives Regarding Classification of Loan and Advances and Loan Loss Providing for Commercial Bank

Loan loss provision is the amount charged to profit and loss account against the revenue due to credit risk involved in loan and advances disbursed by banks. Nepal Rastra Bank has provided following directives for classification of loan and advances and its loss provisioning for the purpose of minimizing possible risk in banks leading by using the authority given by sub section 1 of section 23 of NRB act 2012 (Revised) and section 198 (ka) of commercial bank act 2031 (Revised)

Loan must be segregated into four categories:

Pass loan: Amount due (excluding interest) not exceeding or exceeding up to three months of duration should be classified under this loan class.

Substandard loan: Amount due exceeding three months but not exceeding six months should be classified under this category.

Doubtful Loan: Amount due exceeding six months up to one year (not exceeding that) are to classified in this group.

Loss loan: Amount due exceeding more than one year and recovery of which has mere chances or not recoverable or doubtful even for partial recovery.

**Table No.2: Loan Loss Provision to be Keep as per N.R. B Directive
Percentage of Loan Loss Provision**

Loan Class	Provision (in %) of outstanding loan amount	Period of due loan
Pass	1%	Up to 3 months
Substandard	25%	3 to 6 months
Doubtful	50%	6 months to 1 year
Loss	100%	More than 1 year

(Source: www.nrb.org.np)

2.7 Importance of Loan and Advances for a Commercial Bank

Loan and advances are the most profitable of all the assets of a bank. Banks universally seek after the assets. These assets constitute primary source of income to banks. According to Dr. Walter leaf "In the term of advances to customers', we have reached the central portion of the activity of bank". Here the banker is brought into direct relation with the public. His capacity and judgments and his usefulness to the community is judged by the way he lends the money left with him by the depositors. As the business institution a bank aims at making a huge profit. Since loan and advances are more profitable than any other assets, he is willing to lend as much as of his found as possible. But he has to be careful about the safety of such loan and advances. In the words of Dr. Leaf, the bankers have to timber liberality with caution. If he is too liberal, he may easily impair his profits by bad debts, if he is too timid, he may face to obtain an adequate return on the fund, which is confined to him for use. It is by his capacity in lending that a bank manager judged", (Radhaswamy and Vasudevan 1979).

"Loan and advances dominate the assets side of balance sheet of any bank. Similarly, earnings from such loans and advances occupy major space in the income statement of the bank. However, it is very important to be

reminded that most of the bank failures in the world is due to shrinkage in the value of the loan and advances. Hence loan is known as risky assets. Risk of non-repayment of loan is known as risky asset. Risk of non-repayment of loan is known as credit risk or default risk". (Dahal and Dahal, 2002).

2.8 Effects of NPA

Every NPA has two effects in final accounts of the banks, firstly its provision must be kept and its total figure must be shown in balance sheet. Even if amount of N.P.A. is fully recovered immediately after balance sheet date, same amount follow provision as that date. Some time some client may borrow amount from them to realize in the present i.e. they represent credit risk that has already materialized and default has already taken place.

On the other hand managing credit risk is a much more forward looking approach and is mainly concerned with managing the quality of credit portfolio before default taken place. In other words, an attempt is made to void possible default by properly managing credit risk. Considering the global recession and unreliable information in the finance statement there is high credit risk in the banking and lending business. To create a defense against such uncertainty, bankers are exacted to develop an effective internal credit risk models for the purpose of credit risk management.

2.9 Global Development N.P.A.

The core banking business is of mobilizing the deposit and utilizing it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes, which results into economic growth.

However, lending also carries credit risk, which arises from the failure of borrower to fulfill its contractual obligation either during the course of transaction or a future

A question that arises is how much risk can a bank afford to take? Recent happenings in the business world Enron, Xerox, Global crossing do not give much confidence to banks. In case after case, these giant corporate became bankrupt and failed to provide investors with clearer and more complete information thereby introducing a degree of risk that investors could neither anticipate nor welcome. The history of financial institutions also reveals the fact that the biggest banking failures were due to credit risk. Due to this, banking are restricting their lending operating to secured avenues only with adequate collateral on which to fall back upon in a situation of default..

(Sources: [http:// www.indianinfo.com](http://www.indianinfo.com)).

2.10 Credit Risk and NPAs

Quite often credit risk management (CRM) is confused with managing non-performing assets (NPA). However, there is an appreciable emergence between the two NPA are two result of past action whose affects are realized in the present i.e. they represent credit risk that has already materialized and default has already taken place.

On the other hand managing credit risk is a forward-looking approach and is mainly concerned with managing the quality of credit portfolio before default takes place. In other word, an attempt is made to avoid possible default by properly managing credit risk.

Considering the current global recession and unreliable information in financial statement, there is high credit risk in the banking and lending business.

To create a defense against such uncertainty, bankers are expected to develop an effective internal credit risk models for the purpose of credit risk management.

(Sources: www.indianinfoline.com)

2.11 Non-Performing Assets/Loans (NPAs/Ls) in East Asia

Introduction

The years go passing by since the financial crisis hit Asian economics in July 1997. As a result, East Asian countries in 1998 recorded negative growth ranging from 5 to 12 percent. In 1999, however, economies improved in several countries; South Korea in particular recorded a "V" type of recovery. Although the growth process has slowed somewhat in 2000, progress continues and based on the recent rapid recovery, there is the opinion that the situation does not warrant optimism, as structural reforms, including non-performing loan (NPLs) problems in the financial and corporate sectors, have not processed sufficiently. This paper looks into the issue based East Asian economies, based on the assessment of the status of NPL restructuring in Malaysia, South Korea, Thailand, and Indonesia.

Immediately preceding the Asian financial crises, Japan was tackling a NPL problem that resulted from the bursting of the so-called bubble economy in 1990. Economic depression has continued for nearly ten years since then, and the Japanese economy has yet to get back to tackle of sustainable growth. The chief cause of this crisis, concisely, was that the government did not take measures to deal with NPLs in a timely manner. Cooperative credit purchasing company was launched in 1993 to buy NPLs, and the housing loans management company was set up in 1996 to deal with the problem of housing-related NPLs. These efforts were inadequate and the real solution had to wait for large-scale public funds

that were made available to financial institutions in March 1998, eight years after the bursting of the bubble economy. The process of NPLs in Japan was indeed too little, too late. Japan adopted the policy of waiting for the economy environment to take a favorable turn, instead of taking swift, decisive action.

On other hand, East Asian countries addressed the problem of NPLs rather swiftly. South Korea, for example, immediately injected large amount of public funds into financial institution. Three years after the financial crisis, the solution to NPLs is progressing relatively well in South Korea and Malaysia, while Thailand and Indonesia are lagging behind. To solve the issue of NPLs, it is necessary to make structural improvements, especially in the financial system and corporate governance that actually caused the NPL problem.

The economic growth rate in each of these countries is projected to register a downward trend in 2000, compared to the previous year, and the current account surplus is diminishing. Since East Asian economies depend heavily upon the US economy, its current slowdown will be a damper to these countries recovery. It is therefore necessary to analyze the status of NPL problems; financial restructuring and corporate governance make sure they can cope with adversely changing economical environment.

Private Debt as Main Cause

The main characteristic of the external debt of East Asian economics was the large amount of private sector debt. As opposed to this, the main characteristic of the external debt issue in Latin America, beginning with Mexico in 1982, was the huge amount of public debt owned by governments to foreign banks. Many South American governments could not raise funds from the marker, as the economic fundamentals of public finance, current account balance and inflation deteriorated, leading to their

failure to repay their debt. In comparison, the fundamentals of East Asian economies were rather strong compared to Latin American nations in the 80s.

Many of the East Asian government closed down unhealthy financial institutions soon after the crisis occurred. While public funds were made available to those that were allowed to continue. The South Korean and Indonesian governments provided guarantees on deferred that it would not close down banks, in order to maintain a policy of not bailing out corporate debt. The miyazawa plan of US\$30 billion also did not cover facilities to private companies.

Status of Bad-Loan Measures

The policies adopted by South Korea, Malaysia, Indonesia and Thailand to deal with the problem of NPLs were as follows:

-) Establishment of assets management companies to gather NPLs
-) Allocation of public funds to banks and other financial institutions
-) Creation of a framework for the promotion of autonomous, non-courtroom negotiations between creditors and debtors.

These governments either revamped existing organizations, or created new ones to implement the above policies in 1998. Further, in Thailand and Indonesia, it was necessary to revise bankruptcy laws, since they were not functioning properly. For this reason, negotiation between creditors and debtors were delayed. For both countries it was only in 1999 but revised bankruptcy laws were enacted, contribution towards smoother negotiations between creditors and debtors on NPLs.

Three years after the crisis, differences in their growth charts are beginning to emerge. The quarters in which the NPL problem was adequately treated

and restructuring of NPLs started to make significant progress and the trend in their bad loan ratio.

2.12 Review of Related Studies

Ms Niva Shrestha (2004) has carried out her research in "A study on Non-performing loan and loan loss provisioning of commercial banks. In 'A study of Nabil Bank Ltd' she recommends that the main factors which leads to Non-performing loan are improper credit appraisal system, ineffective credit monitoring and supervision system e.t.c. Besides that the negligence in taking information from credit information Bureau may also result to bad debts. Hence all the three banks are recommended to be more cautious and realistic while granting loans and advances. After advancing loans there should be regular supervision and follow up for proper utilization of loan.

She concludes that the high portion of NPL accompanied by higher provision of NBL indicates that the bank credit portfolio needs serious attention. So NBL is suggested to take immediate remedial actions for recovering bad debts.

Overall she recommends for all the banks to take preventive measures before the loan goes to default.

Shrestha, (2009) "Non performing assets and profitability of commercial banks in Nepal' the objectives to evaluate the impact of NPA on the profitability of the commercial banks are:

To find out the internal and external factors that influences the performing assets to non performing one is to find out the impact of NPA on the ROA. To find out the relationship between NPA and investment in selected commercial banks.

The major findings are: the case of Nepal Bangladesh bank Ltd, the level of NPA was increased from 9.03% in F/Y 2001/02 to 19.04% in F/Y 2007/08. The NPA of the bank was found to be increased and that causing the gradual decrease in the profitability of the bank. The NPA of the NCC Bank Ltd was decreased up to one fifth from the F/Y 2001/02 to F/Y 2007/08.the level of NPA was found to be decreased from 16.20 % in F/Y 2001/02 to 1.32% in F/Y 2007/08 whereas the ROA was found to be increased from 1.71% to 3.06% over the five years period. In case of the Laxmi bank ltd, the level of NPA was found to be fluctuation in it. Although it was decreasing it was not desirable level. The level of NPA in F/Y 2001/02 was 8.64% and in F/Y 2007/08 it was 6.54%. The NPA of HBL was found to be fluctuating during the study period, though it was found to be decreasing in F/Y 2007/08 in comparison to F/Y 2001/02.the level of NPA was found to be highest for the Nepal Bangladesh Bank Ltd. in the F/Y 2007/08, whereas the lowest was found that of Nepal Investment Bank Ltd in F/Y 2006/07. Overall the performance of the NCC Bank was found to be satisfactory as the level of NPA was gradually decreasing over the years covered by this study.

Dhakal, (2010), entitled ‘Loan management of commercial Banks’ with the following objectives in his study were to analyze the effectiveness of lending policy of the selected sample banks and measure the performance in quality efficiency. To meet the above objective , the sources of data on commercial banks were analyzed by using financial tools such as ratio analysis, frequency, mean, standard deviation are used. Among many commercial banks the researcher took two banks NIBL and NBBL with five years date.

The major findings are: the current ratios of these banks are considerable and non considerable but mean liquidity to total deposit ratios are fewer consistencies and are not above 1 which shows the minimum deposit mobilization. Likewise, assets to total liabilities ratios are also fluctuating.

Similarly, loan and advances to total deposit ratio, mean ratio of loan and advance and investment to total deposit ratio shows the deposit mobilization in income generating sector are being nearly equal to 1. Loan and advances to shareholders equity ratio show how well the investment made by investor. These ratios of both banks are above 10 and are fewer inconsistencies.

In conclusion, the overall performance of NBBL is satisfactory then NIBL, the liquidity position if NBBL is better than that of NIBL, as loans and advances of NBBL is increasing trend in profit of NBBL shows that improvement in performance and success of the firm. Purpose wise loan classification show that the NBBL and NIBL banks have given priority to industrial and commercial sector lending, as well as priority and deprived sector lending NBBL has higher lending portion in these sectors than NIBL. From the selected Bank NBBL has performed well in increasing growth ratio of deposit, loans and advances, investment and profit.

Dahal, Bhuvan & Sarita, (2002) in their book 'A hand book to banking' has expressed the different aspects of banking. In their view, the bank lends and recovers the loan amount in different fields/sectors of the society.

A bank is judged on the basis of capital, assets quality, management, earning, liquidity and sensitivity to the market risk (CAMEL). Almost all the government banks are running at loss. Though almost all the private sector of banks are showing profit, it is very difficult to call them sound if appraised from CAMEL approach. Some banks have very low capital adequacy ratio (CAR) while some banks have piled up Non Performing Assets (NPAs). Similarly, banks don't have proper system in place for management of market risks. The people have been raising questions over the correctness of credit classification and provision of some banks. Should the suspicion come true, it will prove very costly to the depositors, creditors and national economy as a whole. It would be prudent to advice

NRB to strictly implement its recently introduction directive so that other banks avert the fate of NBL, RBB and NIDC. (Dahal and Dahal, 2002:21)

Performing assets are those loans that repay principal and interest to the bank from the cash flow it generates. Loans are risky assets though a bank invests most of its resources in granting loans and advances. If an individual bank has around 10 % non-performing assets /loan , (NPA/Ls) it sounds the death knell of that bank *ceteris paribus* (all other things remain constant).the objective of sound loan policy is to maintain the financial health of the bank, which results in safety of depositor's money and increase in the returns to the shareholders. Since the loan is a risk asset, there is inherent risk in every loan. However, the bank should not take risk above a certain degree irrespective of returns prospect.

In their opinion, loan and advances dominate the assets side of the balance sheet of any bank and earning from such loan and advances occupy am major space in income statement. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit or default risk. Performing loans have benefits to the society while non-performing loan erodes even existing capital. If loan is given to disable project not only lenders and borrower but also the whole society gets benefits but society loses its scare capital if loan is given to project, which is not viable.

Mr. Bhisma Raj Dhungana in his article titled, "Why Asset Management Company", is considered the best option to resolve the non performing loan problem?" has tried to highlight one of the approach mainly asset management company (AMC) for resolving the problem of NPL. As per him, AMC is the specialized financial intermediary to manage the non-performing and distress loans of banks and financial institutions who buy the NPL from financial institution and take necessary steps to

recover the maximum value from the acquired assets. As per his view, if NPLs are not resolved in time there would be inherent direct or indirect costs to the economy. As stated by him NPL may arise due to the external factors like decrease in market value of collateral deterioration in borrower's repayment capacity, economic slowdown, borrower's misconduct, improper credit appraisal system, lack of risk management practice, ineffective credit monitoring and supervision system. Hence, he suggested that, NPL should be kept at minimum level and the specialized institution such as AMCs should manage the distressed loans.

He opined that AMCs seem as the only realistic option when the financial sector recovery is the underlying objective in financial system where the institution fails to resolve the NPL problem through their own effort. He states that the main advantage of establishing AMC is that AMC is able to move in an expeditious manner removing the distraction of managing NPLs from the banking system and frees up resources within the financial institutions allowing them to concentrate on their core activities.

Mr. Tula Raj Basyal in the article "Financial sector reforms: need and Strategy" mention that the over changing goal of the F.S.R. is to create a well regulated should market oriented and stable financial system, macro stability, private sector led economic growth momentum and significant reduction in poverty on a sustainable basis.

Again, the same author presenting the challenges of the Nepalese financial sector opines that "the host of challenges and complexities that confront this sector could be categorized as the weak financial position in most of the government owned financial institution, negative net worth and huge accumulated loss of the government owned commercial banks, higher proportions of NPA, predominance of the informal financial system, higher interest rate, differential between the formal and informal sector of the

formal financial sector of the economy, large interest rate spread lending and borrowing rates in the formal financial sector etc.

Dahal, S.R. had written an article entitled "The Non-Performing Loan: An Analytical Overview". In this article, he had emphasized that inferior mortgages against the loans, lack of ample financial information of loaners, extension of bank branches in the least feasible geographical areas, over staffing in the bank are the reason behind the increment of NPL in Nepal.

In this article the writer had concluded that a weak financial system and the rising inferior assets, to some extent, could be considered simultaneously. The poor financial system degrades the assets quality, which is evidenced by the East Asian crises and by the Nepalese financial sector has been had-hit by the domestic factors. Robust economic fundamentals and inadequate regulatory and legislative framework were the factors attracting to the foreign capital which further led to the East Asia economies towards vicious circles of crisis. In order to resolve the problem of financial hardship and impaired assets, several of measures adopted by the East Asia countries have been effective. In the Nepalese context, weak legislative supervisory and regulatory arrangements along with laxity debtors financial behaviors are the factors responsible for worsening financial system and thereby assets quality. In the meantime, it has been observed that that total credit requirement of the country is not adequately supplied by the banking sector. At the same time there is a problem of deteriorating credit quality in the system. In this scenario, conductive monetary policy, adopted by Nepal Rastra Bank, on the one hand, would help extension of more credit into the economy and, on the other hand, strengthening of legal and institutional arrangements along with updated regulatory and supervisory framework would help to improve the financial health as well as the problem of NPLs. Moreover, the fore mentioned suggestions would also be worthy enough to overcome the quality.

Poudel, S.P. in his article entitled "Final System, Impaired Assets and Their Resolution in Nepal" has written "Heavily concentrated lending in a few group beyond normal prudent risk acceptability, larger consortium loans, higher credit risk exposures with a serious collateral shortfalls adversely affects both banks liquidity, profitability, assets quality and capital base."

In his article, he concluded that NRB's role in insuring financial institutions on the basis of micro-prudential indicators is important from the standpoint of preventing distress in the financial system. Efficient market can prevent financial crises by channeling financial resources from relatively lower productive sector to higher ones, and it also implicitly helps on controlling impaired assets of the banking sector. For this, the publication of biannual financial stability reports by NRB can be useful to stakeholder in order to make them aware of the information and able to take decisions. Financial reporting of public and private banks and other financial institutions are to be made public timely. Reports of special studies related to financial sector reforms and banks restructuring also required to be publish so that investors and deposits can give pressures to authorities for prompt implementations of suggestions incorporated in the reports. NRB decisions are expected to support the market. NRB's supports to banks and financial institutions and recently proposed AMC are expected to be useful in the resolution of the impaired assets of the banking system. A separate and independent financial sector reform department in NRB can accelerate the pace of reform.

CHAPTER –III

RESEARCH METHODOLOGY

Research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. Research methodology is a way to systematically solve the problem. It may be understood as a science of studying how research is done scientifically. In this chapter, we study the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them. It refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view. It is the guidelines followed by the researcher in order to give the result to his study. In fact, it is the outline of the research, which the researcher is going to do. Therefore, research methodology is very important as it represent the method of entire research.

3.1 Research Design

Research design is plan, structure and strategy of investigating conceived so as to obtain answer of research question and to control variance. The plan is the overall scheme or program of the research.” (Kerlinger, 1986).

In order to make any type of research a well set of research design is necessary, which fulfills the objectives of the study. Generally, research design is the structure and strategy of investigation conceives to obtain answer to research questions and to control the actual variance. This research is attempted to examine and find out the problem and possibility of generating the investment portfolio of commercial banks with reference to selected banks. Regarding the nature of this research, most of the data and information are concerned with past phenomena of the portfolio performance. In this respect, present study is also based on descriptive as well as analytical research. Descriptive research

design describes the general pattern of the banking investment, Nepalese investors, business structure and problem of the portfolio management etc. for analytical purpose; we evaluate the situation and events occurring at present and past data of selected commercial banks.

3.2 Population and Samples

There were altogether 31 commercial banks in Nepal. A list of licensed commercial banks until the end of fiscal year 2068/69 was obtained from Nepal Rastra Bank. Under the study of Analysis of NPA of commercial banks, the total number of commercial banks operating in Nepal is the population. The populations are as follows:

Table No. 3: Population of Commercial Banks

S.N.	Name of Commercial Bank	ESTD. A.D.
1	Nepal Bank Limited	1957
2	Rastriya Banijya Bank Limited	1966
3	Agriculture Development bank Ltd.	1968
4	Nabil Bank Limited	1984
5	Nepal Investment Bank Limited	1986
6	Standard Chartered Bank Limited	1987
7	Himalayan Bank Limited	1993
8	Nepal SBI Bank Limited	1993
9	Nepal Bangladesh Bank Limited	1993
10	Everest Bank Limited	1994
11	Bank of Kathmandu Limited	1995
12	Nepal Credit and Commerce Bank Ltd.	1996
13	Lumbini Bank Limited	1998
14	NIC Asia Bank Limited	1998
15	Machhapuchre Bank Limited	2000
16	Kumari Bank Limited	2001
17	Laxmi Bank Limited	2002
18	Siddharth Bank Limited	2002
19	Global Bank Limited	2007
20	Citizens Bank International Limited	2007
21	Prime Commercial Bank Limited	2007

22	Grand Bank Nepal limited	2008
23	NMB Bank Limited	2009
24	Kist Bank Limited	2009
25	Mega Bank Limited	2009
26	Sunrise bank limited	2009
27	Janata Bank limited	2009
28	Commerz and Trust bank limited	2010
29	Civil Bank limited	2010
30	Century commercial bank limited	2011
31	Sanima Bank limited	2011

(Source: Nepal Rastra Bank, Banking & Financial Statistics).

The commercial banks of Nepal can be categorized into two type's namely public sector and private sector. Public sector includes two old banks NBL and RBB and private sector comprise remaining 30 banks. Out of total population, 5 commercial banks were selected as samples for this study using judgemental sampling method. The sample banks are as follows:

1. Nabil Bank Ltd.
2. Everest Bank Ltd.
3. Nepal SBI Bank Ltd.
4. Nepal Bank Ltd.
5. Nepal Investment Bank Ltd.

NBL was selected from public sector commercial bank and four major joint venture banks NSBL, Nabil, NIBL and EBL were selected from private sector commercial banks, so that the study could represent true picture of commercial banks.

3.3 Source of Data

The study is based on primary as well as on secondary data. Primary data have been collected by schedule questionnaire distributed among the 25 employees of sample banks and 10 individuals of NRB and conclusions are made, based on their responses. The secondary data have been collected from respective Banks, Nepal Stock Exchange (NEPSE), Security Exchange Board of Nepal (SEBON), newspapers, magazines, various web sites, and journals published and unpublished reports etc.

3.4 Data Collection and Processing Techniques

According to the need and purpose, the primary and secondary data were compiled, processed and tabulated if necessary for the better presentation. The various calculated results obtained through financial and statistical tools are tabulated under different heading.

3.5 Research Variables

As the research was mainly based on NPA, the level of NPA in different parameters was the major research variable. This study also focused on the level of Performing Assets, affect of Non-Performing Assets on ROA and ROE of concerned banks. Other research variables used in the study are Total Deposit, Total Lending, Total Assets and Loan Loss Provision.

3.6 Method of Analysis

The data collected from different sources have been recorded systematically and identified. The available information has also been grouped as per the need of the research work in order to meet research objectives. The collected data are presented in appropriate forms of table charts. From analysis purpose different kinds of appropriate mathematical, statistical and financial tools have

been applied. Further to represent the data in simple form diagrams have also been used.

3.6.1 Financial Tools

While adopting financial tools, ratio is used as benchmark for evaluation the financial position and performance of any firm. "Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of the balance sheet and the profit and loss account" (Pandey, I.M., financial management, 8th edition)

) Ratio Analysis

Various tools are used as per demand of the thesis:

1. Proportion of NPA to TL, TD, and TA.
2. Proportion of Performing Assets to TL, TD and TA.
3. Proportion of SL, DL and LL to total NPA
4. Proportion of Net Profit on Total Assets
5. Proportion of Net Profit on Shareholder Equity
6. Proportion of Loan Loss Provision to the loans of respective class.

) Predicting Financial Distress with Altman's Model

Edward I. Altman employed multiple discriminant analysis to predict bankruptcy using various financial ratios. Altman found that five financial ratios were able to discriminate rather effectively between bankrupt and non bankrupt companies beginning up to five years prior to bankrupt events. The Z-Score model is as follows:

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

Where, x_1 = Working Capital to Total Assets

x_2 = Cumulative Retained Earning to Total Assets

x_3 = Earning Before Interest and Taxes to Total Assets

$x_4 = \text{Market Value of Equity to Total Assets}$

$x_5 = \text{Sales to Total Assets}$

The Z ratio is the overall index of the multiple Discriminant function. The companies with Z scores below 1.81 (including negative amounts) always went bankrupt, whereas Z scores above 2.99 represented healthy firms. From this model one can predict whether or not a institution is healthy or bankrupt in the nearby future. This model is the Zeta Model.

3.6.2 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. "Statistical analysis is one particular language, which describe the data and makes possible to talk about the relation and the difference of the variables." (Gupta, S.P., Statistical method).

) Correlation Analysis

"Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one is accompanied by the change of another variables." (Sthapit, Gautam, Joshi, Dongol).

The most important method of measuring the correlation is "Karl Pearson's coefficient of correlation. On simplification of the equation of correlation, we obtain the following formula.

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus sign signifies the negative correlation and in plus signifies the positive correlation.

) Probable Error

Probable error of correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r

$$\text{P.E.} = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$$

- i) If $r < \text{P.E.}$ it is insignificant, so perhaps there is no evidence of correlation.
- ii) If $r > 6 \text{ P.E.}$ it is significant.
- iii) If $\text{PE} < r < 6 \text{ PE}$ nothing can be concluded.

) Regression Analysis

Regression Analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two types of variables in regression analysis which are dependent variable and independent variable. The dependent variable is also known as regressed or explained variable where as the variable which influences the value or is used for prediction is called independent variable.

Regression equation of Y on X is given by

$$Y = a + bx$$

Where,

Y = Dependent variable

X = Independent variable

a = intercept on line

b = slope of the line (it measures the average change in the value of y as a result of one unit change in value of x). It is also called regression coefficient of Y on X. In other words, it measures the rate of relationship.

3.7 Diagrammatic and Graphical Representation

Diagrams and graphs are visual aid that gives a bird eye view of a given set of numerical data. Graph helps to show the general trend of the ratios in respect to the time. A very common way of presenting data for two, variables, which have a relationship, is in a figure or chart graph that works best when the data is continuous. A figure is used to show the changes of dependent variable in relation to the change of independent variables. It is common practice to place the independent variable along x-axis and dependent variable on y-axis. For the calculation, researcher has selected the financial ratios as dependent variable and the time in years as independent variables.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, data of five fiscal years from 2064/065, 2065/66, 2066/67, 2067/68 and 2068/69 are presented to study and analyze the level of NPA in Total Assets, Total lending and Total Deposits of the concerned banks. Data are collected from secondary sources i.e. banks annual report of given fiscal year and also presented to examine or analyze the effect of NPA on bank's Return on total assets (ROA) and Return on Shareholder's Equity (ROE)

4.2 Data Presentation and Analysis of "Nabil Bank Limited"

Nabil Bank Limited is one of the renowned commercial Bank in the banking industry of Nepal. It has completed successful 28 years of continuous service of its operation in the country. Because of its excellent operation and tremendous success it was awarded as the "Bank of the year 2004". In this chapter data from various sources of the bank are presented and analyzed. Data collected from various sources are presented in the following table in accordance to the nature of data and as per the requirement of the study as follows.

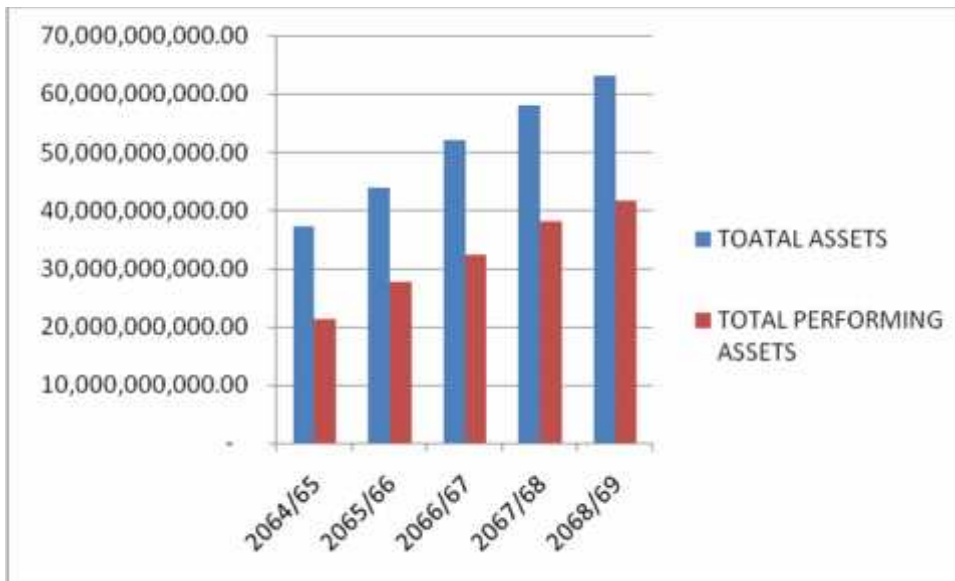
4.2.1 Total Assets and Performing Assets of Nabil Bank Limited (Rs)

Table No. 4.1.1

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total Assets	37,132,759,149	43,867,397,504	52,079,725,697	58,141,437,401	63,257,372,483
2.	Total Performing Assets	21,598,374,339	27,774,194,658	32,543,427,086	38,215,636,116	41,867,708,655

Source: (24TH, 25TH, 26TH, 27TH & 28TH annual report of Nabil)

Figure No.1: Diagram of Total Assets and Total Performing Assets of Nabil Bank Ltd.



Total Assets include sum of all the items at the assets side of balance sheets. The figure of total assets was Rs. 37,132,759,149 at the end of fiscal year 2064/65. This amount gradually increased to Rs. 43,867,397,504 in 2065/66, Rs. 52,079,725,697 in 2066/67, Rs. 58,141,437,401 in year 2067/68 and Rs. 63,257,372,483 in the fiscal year 2068/69.

The performing loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2064/65, the total performing loan in Nabil Bank Ltd. was Rs. 21,598,374,339 which was increased to Rs. 27,774,194,658 in year 2065/66, Rs. 32,543,427,086 in 2066/67, and reached to Rs. 38,215,636,116 in 2067/68 and Rs. 41,867,708,655 in fiscal year 2068/69.

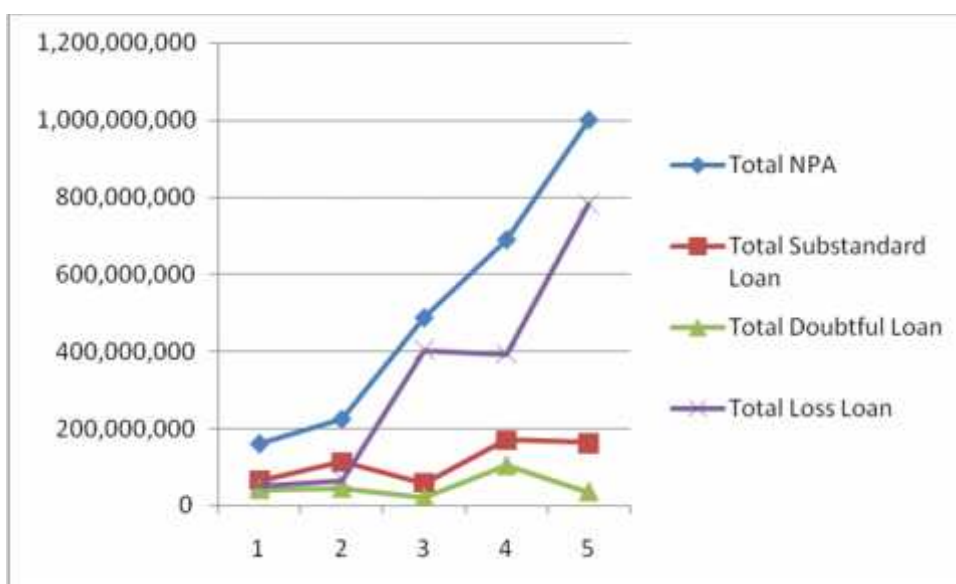
4.2.2 Total NPA Substandard loan, Doubtful loan and Loss loan of Nabil Bank Ltd. (Rs)

Table No. 4.1.2

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total NPA	161,085,995	224,817,413	487,541,602	689,851,773	1,000,059,138
2.	Total Substandard Loan	66,221,308	113,305,139	59,020,380	170,212,819	162,440,668
3.	Total Doubtful Loan	42,575,949	45,756,398	22,730,859	104,659,216	36,784,473
4.	Total Loss Loan	52,288,738	65,755,876	404,530,282	392,836,765	783,629,763

Source: (24th, 25th, 26th, 27th & 28th annual report of Nabil)

Figure No. 2: Diagram of Total NPA, Substandard Loan, Doubtful Loan and Loss Loan of Nabil Bank Ltd.



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and Loss Loan as well. The total figure of total Non-performing Assets was Rs. 161,085,995 at the end of fiscal year 2064/65, which was increased to Rs. 224,817,413 in year 2065/66. The figure had increased to Rs 487,541,602 & gradually increased to Rs. 1,000,059,138 in the fiscal year 2068/69.

The entire loan, which is overdue for more than 3 months to 6 months, falling in this category is known as substandard loan. The amount of such loan was Rs 66,221,308 in the fiscal year 2064/65. It has increased to Rs. 113,305,139 in year 2065/66 and decreased to Rs. 59,020,380 in year 2066/67. It highly increased to Rs. 170,212,819 at the end of fiscal year 2067/68 and decreased to Rs. 162,440,668 at the end of fiscal year 2068/69.

The loan, which is overdue for more than 6 months to one year, falling in this category is called Doubtful Loan. The amount of such loan was Rs. 42,575,949 at the end of fiscal year 2064/65. In the year 2065/66 this amount of loan increased to Rs 45,756,398 and decreased to Rs.22,730,859 in the end of the year 2066/67. It increased to Rs 104,659,216 at the end of fiscal year 2067/68 and Rs. 36,784,473 in year 2068/69.

The entire loan overdue for more than one-year falls in the category is Loss Loan. The figure of such loan was Rs. 52,288,738 in the fiscal year 2064/65, Rs 65,755,876 in the 2065/66. This amount was increased to Rs. 404,530,282 in 2066/67 and declined to Rs. 392,836,765 in 2067/68 and Rs. 783,629,763 at the end of fiscal year 2068/69.

4.2.3 The comparative figure of Total Assets, Total Lending, Total Deposits and Total NPA of Nabil (Rs.)

Table 4.1.3

Year	Total Assets	Total Lending	Total Deposit	Performing Assets	Total NPA
2064/65	37,132,759,149	21,365,053,318	31,915,047,467	21,598,374,339	161,085,995
2065/66	43,867,397,504	27,589,933,041	37,348,255,840	27,774,194,658	224,817,413
2066/67	52,079,725,697	32,268,873,283	46,340,700,628	32,543,427,086	487,541,602
2067/68	58,141,437,401	38,034,097,554	49,308,376,346	38,215,636,116	689,851,773
2068/69	63,257,372,483	41,605,682,634	54,905,676,208	41,867,708,655	1,000,059,138

Source: (24th, 25th, 26th, 27th & 28th annual report of Nabil)

The above table states that the amount of Total Assets, Total lending, Total deposit, Performing Assets is on increasing trend. Total lending has increased with the increasing of Total Deposit. The amount of total NPA has increased from Rs. 161,085,995 in 2064/65 to Rs. 224,817,413 in the fiscal year 2065/66. In fiscal year 2066/67 this amount increased to Rs 487,541,602 and gradually increased to Rs. 689,851,773 in 2067/68 but again increased to Rs. 1,000,059,138 in 2068/69.

Table No. 4.1.4: Percentage of Performing assets, Non-performing Assets, Substandard, Doubtful and Loss Loan to Total Assets, Total Lending, Total Deposits and Total NPA of Nabil Bank

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	% of PA/TA	58.16	63.31	62.48	65.72	66.18
2.	% of PA/TL	101.09	100.66	100.85	100.47	100.62
3.	% of PA/TD	67.67	74.36	70.22	77.5	76.25
4.	% of NPA/TA	0.43	0.51	0.93	1.18	1.58
5.	% of NPA/TL	0.75	0.81	1.51	1.81	2.4
6.	% of NPA/TD	0.5	0.6	1.05	1.39	1.82
7.	% of SL/TNPA	41.11	50.39	12.10	24.67	16.24
8.	% of DL/TNPA	26.43	20.35	46.62	15.17	3.67
9.	% of LL/TNPA	32.46	29.24	82.97	56.94	78.35

Source: (19th, 20th, 21st, 22nd, 23rd annual report of Nabil)

The percentage of Performing Assets to Total Assets has increased from 58.16% in 2064/65 to 63.31% in 2065/66 and 66.18% in 2068/69. The percentage of NPA to Total Assets was 0.43% in 2064/65 which was increased to 1.58 % in 2068/69. Similarly the percentage of Performing Assets to Total Lending has gradually decreased from 101.09% in 2064/65 to 100.62% in

2068/69, whereas the percentage of NPA to Total Lending had increased from 0.75% in 2064/65 to 2.4% in 2068/69.

Out of total deposit in 2064/65 Performing Assets was 67.67% and 76.25% in 2068/69; where as the percentage of NPA to Total Deposit has increased from 0.5% in 2064/65 to 1.82% in 2068/69. Similarly the percentage of Substandard Loan was gradually increased and the percentage of Loss loan was in increasing trend.

4.2.4 Return on total assets (ROA) and Return on shareholder equity (ROE) of Nabil Bank Ltd.

Table No. 4.1.5

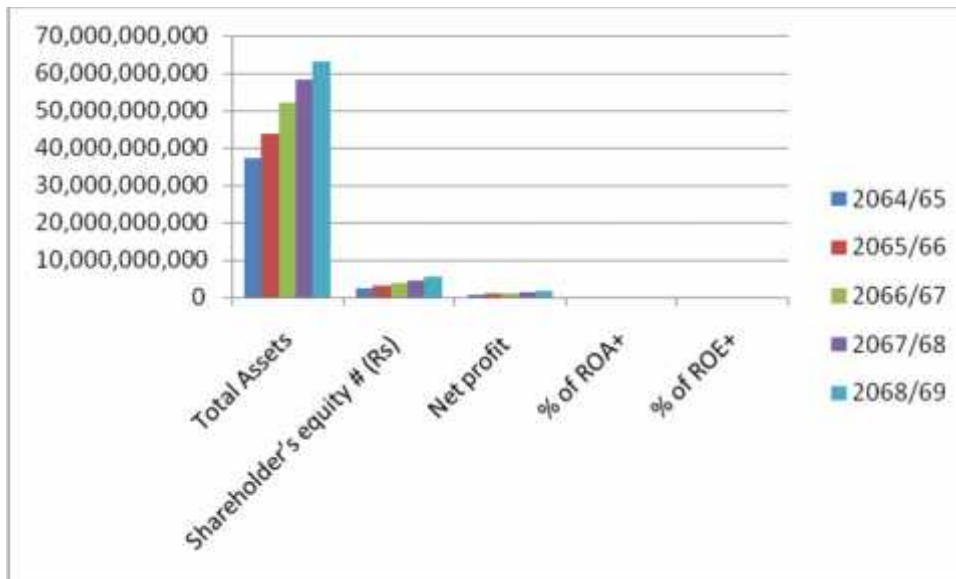
Fiscal Year	Total Assets	Shareholder's equity # (Rs)	Net profit	% of ROA⁺	% of ROE⁺
2064/65	37,132,759,149	2,437,198,989	746,468,394	2.01	30.62
2065/66	43,867,397,504	3,130,240,637	1,031,053,098	2.35	32.93
2066/67	52,079,725,697	3,834,225,929	1,141,051,430	2.19	29.75
2067/68	58,141,437,401	4,572,056,219	1,337,745,485	2.30	29.25
2068/69	63,257,372,483	5,460,524,109	1,700,375,650	2.69	31.14

(Source: (24th, 25th, 26th, 27th & 28th annual report of Nabil)

Shareholder equity includes share capital Reserve & other funds

⁺ Note: The calculation is made on Annex of this report

Figure No.3: Diagram of Total Assets, Shareholder’s Equity and Net Profit of Nabil Bank Ltd.



Return on Assets measures the overall effectiveness of management in generating profit with the available assets. The higher the firm's ROA. The better it is doing in operation. ROA of Nabil is higher in 2068/69, whereas ROA of other fiscal year is satisfactory.

Return on Equity measures the return on the owner's investment in the firm. Higher ratio of the return on Equity is better for the business organization. ROE of Nabil Bank Ltd in 2064/65 was 30.62% which has increased to 32.93% in 2065/66 and decreased to 31.14 % in 2068/69.

4.2.5 Loan Classification and Provisioning of Nabil Bank Ltd.

The higher level of NPA caused the larger amount of provisioning of loan loss. As per the directives issued by NRB to Commercial Banks and Financial Institutions, certain percent of provisional amount has to be maintained against each category of loan. The loan loss-provisioning amount has to be maintained from the operational profit of a bank. So it is necessary to keep the lower level of NPAs in order to avoid the higher loss on cash for the banks. If a bank fails to maintain the loan loss provision as prescribed by NRB, the Bank is under

moral suasion or other necessary action to be taken. The loan loss provisioning maintained by Nabil Bank during the study period is presented in the following table.

Table No.4.1.6: Loan Classification and Provisioning of Nabil Bank Limited

Types of loan	FY 2064/65			FY 2065/66		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	Amount (Rs.)
Pass	21587743031	291714142	1.36	27766997848	280444516	1.01
Sub-Standard	66221308	32305327	48.79	113305139	44073679	38.90
Doubtful	42575949	21265253	49.95	45756398	23525833	51.42
Loss	52288738	46096041	88.16	65755876	59837274	91
Total	21748829026	391380763	1.80	27991815261	407881302	1.46

FY 2066/67			FY 2067/68			FY 2068/69		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	Amount (Rs.)
32543427086	335416998	1.03	38215636116	384882171	1.01	41867708655	420433013	1.01
59020380	14755095	25	170212819	42553205	25	162440668	40610167	25
22730859	11365430	50	104659216	52329608	50	36784473	18392237	50
404530282	400400372	98.98	392836765	388911680	99	783629763	778348684	99.33
33029708607	761937895	2.31	38883344916	868676664	2.24	4850563559	1257784101	2.94

Source: (24th, 25th, 26th, 27th & 28th Annual Report of Nabil)

The amount of provisioning for Pass Loan or overdue up to three months loan falls in this class. As per the directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 291,714,142 in fiscal year 2064/65, which showed 1.36% pass loan of total amount. It had allocated Rs. 280,444,516 at the end of fiscal year

2065/66. This covers 1.01% of Total Pass Loan, which has maintained the slightly excess of required percentage. Similarly the amount of provisioning for Pass Loan at the end of fiscal year 2066/67 was Rs. 335,416,998 which covers the 1.03% of total loans in this class and Rs. 384,882,171 at the end of fiscal year 2067/68, which also covers the 1.01% of total loan of this class. It was Rs. 420,433,013 in fiscal year 2068/69, which covered 1.01% of total loan. It shows that there is compliance with the regulation issued by NRB.

The amount of provisioning for Substandard or overdue loan for more than three months up to six months falls in this class. As per the directives of NRB issued to banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 25% of the total loan in the same class.

The total loan in this class was Rs. 32,305,327 in fiscal year 2064/65 which covered 48.79%. It increased to Rs. 44,073,679 at the end of fiscal year 2065/66, which maintained 38.90% of total loan in the class. This figure inclined to Rs.14, 755,095 in the fiscal year 2066/67, which was 25%. In the fiscal year 2067/68 the amount raised to Rs. 42,553,205 and Rs.40,610,167 as 25% of total in 2068/69. It shows that the bank has compliance with the directive issued by NRB.

The amount of provisioning for Doubtful or overdue loan for more than six months up to 1 year falls in this class. As per the directives of NRB issued to banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 50% of the total loan in the same class.

The amount of provisioning for Doubtful Loan at the end of fiscal year 2064/65 was Rs. 21,265,253 which covers 49.95%. In fiscal year 2065/66 was Rs. 23,525,833 which is 51.42% of the total loan. Similarly, the amount at the end of 2066/67 was Rs. 11,365,430 is provisioned 50% and increased to Rs.

52,329,608 as 50% in 2067/68, and Rs. 18,392,237 as 50% of the total loan in the class in fiscal year 2068/69. The provisioning in all fiscal years covers periphery of 50% of total loan in this class.

The amount of provisioning for Loss or overdue loan for more than 1 year falls in this class. As per the directives of NRB, the percentage of provisioning required for this class loan is 100% of the total loan in the same class.

The amount of provisioning at the end of fiscal year 2064/65 in this class was Rs. 46,096,041 is 88.16% of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2065/66 was Rs. 59,837,274 is allocated 91%. In fiscal year 2066/67 the amount was Rs. 400,400,372 which has provisioned 98.98% of loan in the class. There was Rs. 388,911,680 at the end of fiscal year 2067/68 which covered 99% of total loan and Rs. 778,348,684 in fiscal year 2068/69, it has maintained 99.33% of total loan in this class.

The overall provisioning for NPA of Nabil Bank shows that there is compliance to the prudential regulation issued by NRB.

4.3 Data Presentation and Analysis of "Everest Bank Limited"

Everest Bank Limited is a joint venture commercial bank with Punjab National Bank, India. It was established in 1994 A.D. with a view to encourage efficient banking service, which is a pre-condition for the economic development, industrialization and growth of the country. It has completed successful 18 years of service in the country. The data of EBL is presented and analyzed as follows:

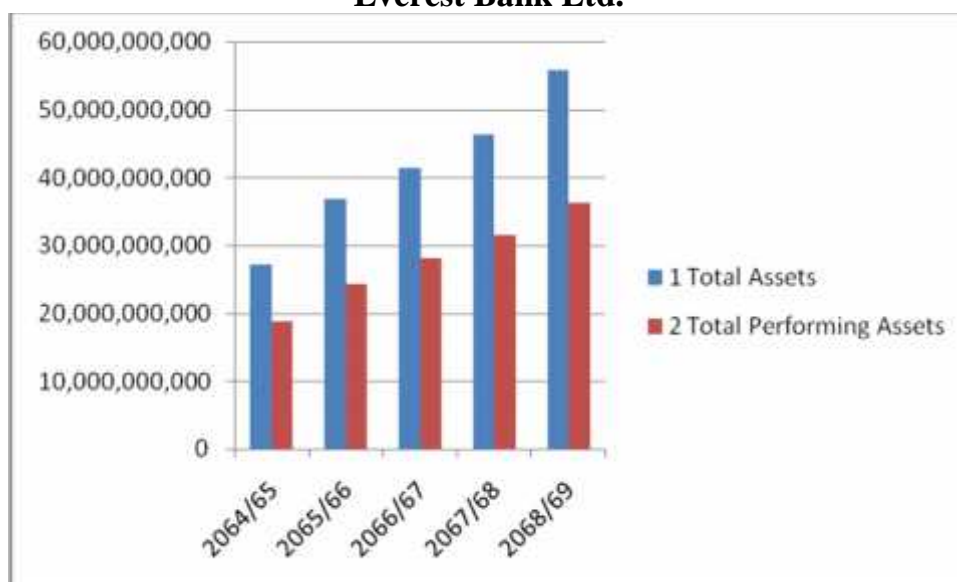
4.3.1 Total Assets and Performing Assets of Everest Bank Limited (Rs.)

Table 4.2.1

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total Assets	27,149,342,884	36,916,848,654	41,382,760,711	46,236,212,262	55,813,129,057
2.	Total Performing Assets	18,709,121,394	24,351,570,294	28,112,693,861	31,553,329,830	36,309,338,831

Source: (14TH, 15TH, 16TH, 17TH & 18TH annual report of EBL)

Figure No.4: Diagram of Total Assets and Total Performing Assets of Everest Bank Ltd.



Total assets include sum of all the items at the assets side of balance sheet. The figure of total assets was Rs. 27,149,342,884 in fiscal year 2064/65, which has increased to Rs. 41,382,760,711 in 2066/67 and Rs. 55,813,129,057 at the end of fiscal year 2068/69.

The performing loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2064/65 the total performing loan of EBL was Rs. 18,709,121,394 which as increased to Rs. 28,112,693,861 in 2066/67 and Rs. 36,309,338,831 at the end of fiscal year 2068/69.

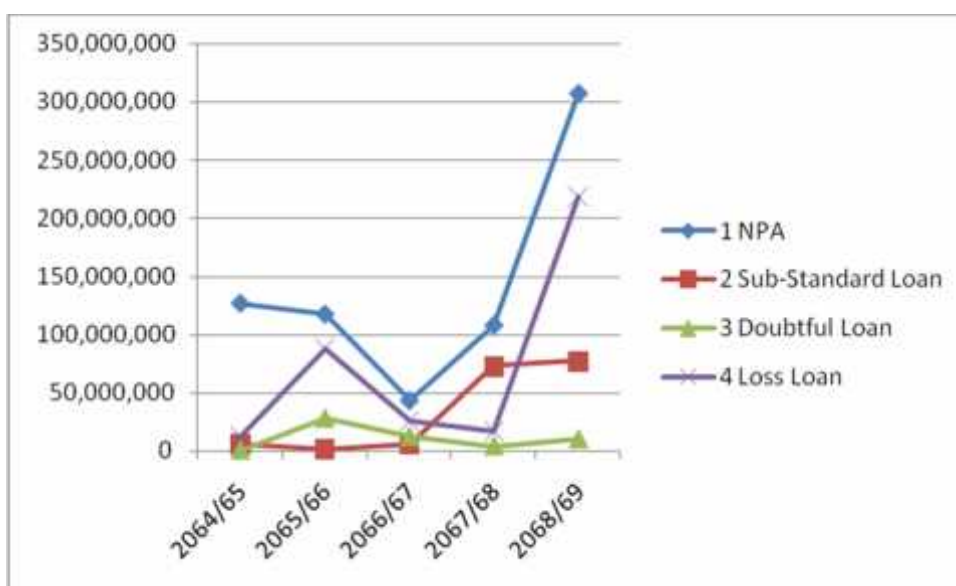
4.3.2 Total NPA, Sub-Standard Loan, Doubtful Loan and Loss Loan of Everest Bank Ltd. (Rs.)

Table No. 4.2.2

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	NPA	127,310,368	117,985,232	43,705,982	108,512,928	307,492,696
2.	Sub-Standard Loan	6,306,745	1,360,792	5,469,421	72,920,643	77,414,569
3.	Doubtful Loan	745,926	28,514,320	12,633,778	4,409,803	10,449,977
4.	Loss Loan	12,025,697	88,110,120	25,602,782	16,974,588	218,878,150

Source: (14TH, 15TH, 16TH, 17TH & 18TH annual report of EBL)

Figure No. 5: Diagram of Total NPA, Substandard Loan, Doubtful Loan and Loss Loan of Everest Bank Ltd.



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-performing assets. This covers substandard loan, doubtful loan and bad loan as well. The total figure of non-performing assets was Rs. 127,310,368 at the end of fiscal year 2064/65, which gradually increased to Rs. 43,705,982 in year 2066/67 and Rs. 307,492,696 at the end of fiscal year 2068/69.

The entire loan which is overdue for more than 3 months to 6 months is known as Substandard loan. The amount of such loan was Rs. 6,306,745 in the fiscal

year 2064/65. It was decreased to Rs. 1,360,792 in fiscal year 2065/66 and Rs. 5,469,421 in the year 2066/67. In fiscal year 2067/68 this amount increased to Rs. 72,920,643 and again increased to Rs. 77,414,569 in fiscal year 2068/69.

The loan which is overdue for more than 6 months to one year is called Doubtful Loan. The amount of such loan in fiscal year 2064/65 was Rs. 745,926 and Rs. 28,514,320 in year 2065/66. In fiscal year 2066/67 this amount decreased to Rs. 12,633,778 and Rs. 4,409,803 in year 2067/68 and again increased in the year 2068/69 to Rs.10,449,977.

The entire loan overdue for more than one-year is Loss Loan. The figure of such loan was Rs. 12,025,697 in the fiscal year 2064/65, Rs. 88,110,120 in the fiscal year 2065/66. This amount was increased to Rs. 25,602,782 in the year 2066/67 and continuously declined to Rs. 16,974,588 and increased to Rs. 218,878,150 in fiscal year 2067/68 and 202068/69 respectively.

4.3.3 The Comparative Figure of Total Assets, Total Lending, Total Deposits and Total NPA of Everest Bank Ltd. (Rs.)

Table No. 4.2.3

Year	Total Assets	Total Lending	Total Deposit	Performing Assets	Total NPA
2064/65	27,149,342,884	18,836,431,762	23,976,298,535	18,709,121,394	127,310,368
2065/66	36,916,848,654	24,469,555,526	33,322,946,246	24,351,570,294	117,985,232
2066/67	41,382,760,711	28,156,399,843	36,932,310,008	28,112,693,861	43,705,982
2067/68	46,236,212,262	31,661,842,757	41,127,914,339	31,553,329,830	108,512,928
2068/69	55,813,129,057	36,616,831,527	50,006,100,272	36,309,338,831	307,492,696

Source: (14TH, 15TH, 16TH, 17TH & 18TH annual report of EBL)

The above table states that the amount of Total Assets, Total Lending, Total Deposit, and Performing Assets is on increasing trend. Total Lending has increased with the increment of Total Deposit. The amount of total NPA has

increased from Rs. 127,310,368 in fiscal year 2064/65 to Rs. 307,492,696 at the end of fiscal year 2068/69.

Table No. 4.2.4: Percentage of Performing Assets, Non-Performing Assets, Sub-Standard Doubtful and Loss Loan to Total Assets, Total Lending, Total Deposits and Total NPA.

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	% of PA/TA	68.91	95.96	67.93	68.24	65.05
2.	% of PA/TL	99.32	99.51	99.84	99.65	99.16
3.	% of PA/TD	78.03	73.07	76.11	76.72	72.6
4.	% of NPA/TA	0.46	0.31	0.1	0.23	0.5
5.	% of NPA/TL	0.67	0.48	0.15	0.34	0.83
6.	% of NPA/TD	0.53	0.35	0.18	0.26	0.61
7.	% of SL/TNPA	4.95	1.15	1.25	6.72	2.51
8.	% of DL/TNPA	0.58	24.16	28.9	4.06	3.39
9.	% of LL/TNPA	9.44	74.67	58.57	15.64	71.18

Source: (14th, 15th, 16th, 17th & 18th annual report of EBL)

The percentage of Performing Assets to total assets has increased from 68.91% in fiscal year 2064/65 to 95.96% in 2065/66 and decreased to 65.05 % in the end of fiscal year 2068/69. The percentage of NPA to total assets was 0.46% in year 2064/65, which declined to 0.1% in 206/67 and 0.0.5% at the end of fiscal year 2068/69. Similarly the percentage of performing assets to total lending had gradually increased from 99.32% in the year 2064/65 to 99.84% in 2066/67 and declined to 99.16% in 2068/69. Whereas the percentage of NPA to total lending had decreased from 0.67% in fiscal year 2064/65 to 0.15% in 2066/67 and increased to 0.83% in 2068/69 which can be taken as the indicator of good performance.

Out of total deposit in fiscal year 2064/65 performing assets was 78.03% and 72.6% in fiscal year 2068/69, whereas the percentage of NPA to total deposit

has increased from 0.53% in fiscal year 2064/65 to 0.61% in the end of the year 2068/69. Similarly the percentage of substandard loan, doubtful loan and Loss Loan to NPA in different fiscal years is in fluctuating manner.

4.3.4 Return on Total Assets (ROA) and Return on Shareholder Equity (ROE) of Everest Bank Ltd.

Table No. 4.2.5

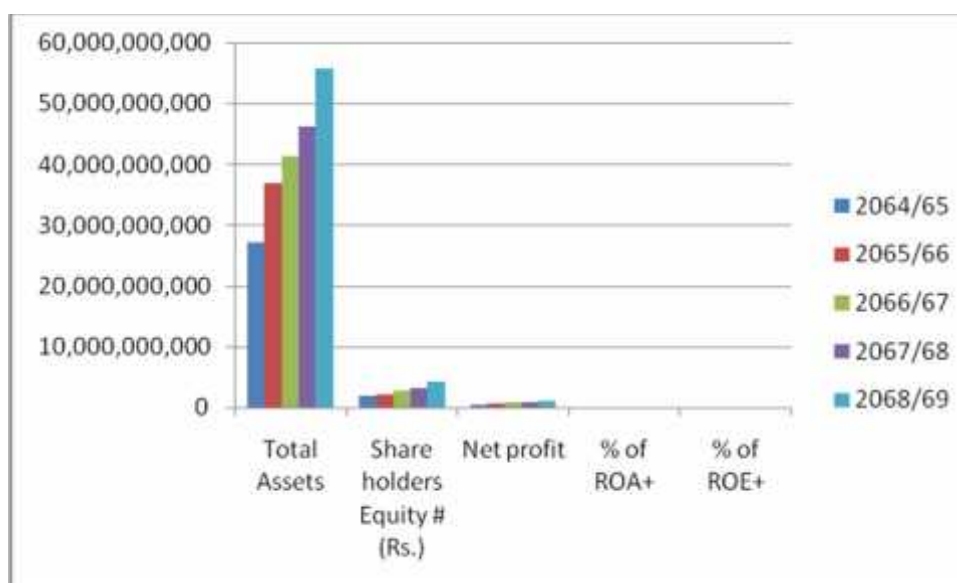
F/Y	Total Assets	Share holders Equity # (Rs.)	Net profit	% of ROA ⁺	% of ROE ⁺
2064/65	27,149,342,884	1,921,237,580	451,218,613	1.66	23.48
2065/66	36,916,848,654	2,203,625,055	638,732,757	1.73	28.98
2066/67	41,382,760,711	2,759,137,855	831,765,632	2.0	30.14
2067/68	46,236,212,262	3,113,546,056	931,303,628	2.01	29.91
2068/69	55,813,129,057	4,177,302,887	1,090,564,222	1.95	26.1

Source: (14th, 15th, 16th, 17th & 18th annual report of EBL)

Shareholder equity includes share capital Reserve & other funds

⁺ Note: The calculation is made on Annex of this report

Figure No.6: Diagram of Total Assets, Shareholder's Equity and Net Profit of Everest Bank



Return on Assets measures the overall effectiveness of management in generating profit with the available assets. The higher the firm's ROA, the better it is doing in operation. ROA of Everest Bank Ltd. is higher in fiscal year 2067/68, whereas ROA of other fiscal year is satisfactory. Return on Equity measures the return on the owner's investment in the firm. Higher ratio of the return on equity is better for business organization. ROE of EBL is fiscal year 2064/65 was 23.48%, which gradually increased to 28.98% in 2065/66, 30.14% in 2066/67, 29.91% in 2067/68 and 26.1% in 2068/69.

4.3.5 Loan Classification and Provisioning of “Everest Bank Ltd.”

The higher level of NPA causes the larger amount of provisioning of loan loss. As per the directives issued by NRB to Commercial Banks and Financial Institutions, certain percent of provisional amount has to be maintained against each category of loan. So it is necessary to keep the lower level of NPAs in order to avoid the higher loss on cash for the banks. If a bank fails to maintain the loan loss provision as prescribed by NRB, the Bank is under moral suasion or other necessary action to be taken. The loan loss provisioning maintained by Everest Bank during the study is presented in the following table.

Table No. 4.2.6: Loan classification and Provisioning of Everest Bank Limited

Types of loan	FY 2064/65			FY 2065/66		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	%
Pass	18555269076	185552691	1.00	24248590584	242485906	1.0
Sub-standard	6306745	1576686	25	1360792	340198	25
Doubtful	745926	372963	50	28514320	14257160	50
Loss	120257697	120257697	100	88110120	88110120	100
Total	15682579444	307760037	1.97	24366575816	345193384	1.42

FY 2066/67			FY 2067/68			FY 2068/69		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
28030839372	280308394	1.00	31553329830	315533299	1.0	36309338831	363093388	1.0
5469421	1367355	25	72920643	18230161	25	77414569	19353644	25
12633778	6316889	50	4409803	2204901	50	10449977	5224988	50
25602782	25602782	100	16974588	16915780	99.66	218878150	218878150	100
28074545353	313595420	1.12	31647634864	352884141	1.12	36616081527	606550170	1.66

Source: (14th, 15th, 16th, 17th & 18th annual report of EBL)

The amount of provisioning for pass loan or overdue up to three months loan falls in this class. As per the directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for pass loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 185,552,691 in fiscal year 2064/65, which showed 1.00% pass loan of total amount. It had allocated Rs. 242,485,906 at the end of fiscal year 2065/66. This covers 1% of total pass loan. Similarly the amount of provisioning for pass loan at the end of fiscal year 2066/67 was Rs. 280,308,394 which covered the 1% and Rs. 315,533,299 as 1% of total loans in the fiscal year 2067/68. It was Rs. 363,093,388 in fiscal year 2068/69, which covered 1 % of total loan.

The amount of provisioning for substandard or overdue loan for more than three months up to six months falls in this class. As per the directives of NRB issued to banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 25% of the total loan in the same class.

The total loan in this class was Rs. 1,576,686 in fiscal year 2064/65., which covered 25%. It declined to Rs. 340,198 at the end of fiscal year 2065/66, as 25% of total loan and 1,367,355 as 25% of total loan in the fiscal year 2066/67. In fiscal year 2067/68 this amount slightly increased to Rs. 18,230,161 which covered the 25% of total loan and remained at Rs. 19,353,644 at the end of fiscal year 2068/69.

The amount of provisioning for doubtful or overdue loan for more than six months up to 1 year falls in this class. As per the directives of NRB the percentage of provisioning required for this class loan is 50% of the total loan in the same class.

The amount of provisioning for doubtful loan at the end of fiscal year 2064/65 had Rs. 372,963 which covers 50% of the total loan. Similarly, this amount was Rs. 14,257,198 and Rs. 6,316,889 in fiscal year 2065/66 and 2066/67 which covered, 50% of total loan amount. In fiscal year 2067/68 and 2068/69, the amount was Rs. 2,204,904 and 5,224,988 which covered the 50% of total loan amount. The provisioning in all fiscal years covers periphery of 50% of total loan.

The amount of provisioning for loss or overdue loan for more than 1 year falls in this class. As per the directives of NRB issued to Banks and Financial Institutions, the percentage of provisioning required for this class loan is 100% of the total loan in the same class.

The amount of provisioning at the end of fiscal year 2064/65 was Rs. 120,257,697 which covered 100% of the total loan in the class. In fiscal year 2065/66 this amount was decreased to Rs. 88,110,120 which was also 100% of total loan. Similarly in fiscal year 2066/67, 2067/68 and 2068/69 the provisioned amount covered the 100% of total loan amount.

4.4 Data Presentation and Analysis of “Nepal SBI Bank Ltd.”

Nepal SBI Bank Limited was established in 1993 A.D. as a joint venture commercial bank with foreign parted state Bank of India. The main objective of the bank was to carry out modern banking business in the country under the company act 1964. It has completed successfully 20 years of service in the country. The data of Nepal SBI Bank is presented and analyzed as follows.

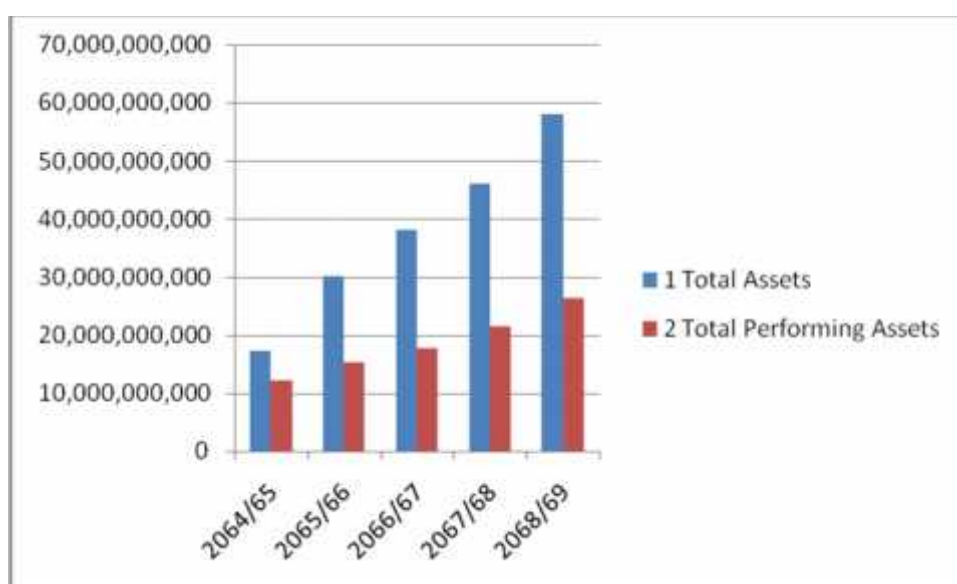
4.4.1 Total Assets and Performing Assets of Nepal SBI Bank Limited (Rs.)

Table No. 4.3.1

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total Assets	17,187,446,174	30,166,439,549	38,047,679,465	46,088,233,975	58,059,707,720
2.	Total Performing Assets	12,257,806,145	15,296,095,646	17,698,507,430	21,479,491,544	26,319,823,276

Source: (15TH, 16TH, 17TH, 18TH & 19TH annual report of NSBL)

Figure No.7: Diagram of Total Assets and Total Performing Assets of Nepal SBI Bank



Total assets include sum of all the items at the assets side of balance sheet. The figure of total assets was Rs. 17,187,446,174 in fiscal year 2064/65. In fiscal year 2065/66 the amount was Rs. 30,166,439,549 which increased to Rs. 58,059,707,720 in fiscal year 2068/69.

The performing loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2064/65, the total performing loan of NSBL was Rs. 12,257,806,145. It reached to Rs. 17,698,507,430 in year 2066/67. In the end of fiscal year 2068/69 the amount was Rs. 26,319,823,276.

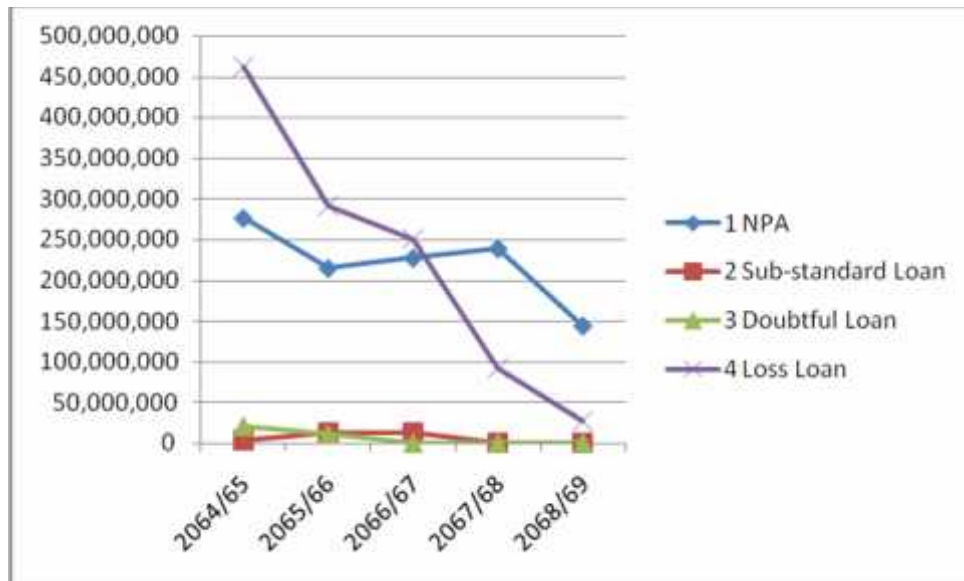
4.4.2 Total NPA, Sub-standard Loan, Doubtful Loan and Loss Loan of Nepal SBI Bank Ltd. (Rs.)

Table No. 4.3.2

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	NPA	276,747,296	214,926,217	227,448,241	239,299,187	143,848,188
2.	Sub-standard Loan	3,874,789	13,235,686	12,975,351	519,179	1,145,990
3.	Doubtful Loan	21,626,680	11,338,722	1,113,939	496,074	1,227,822
4.	Loss Loan	462,908,600	291,380,357	251,044,459	91,799,704	26,867,012

Source: (15TH, 16TH, 17TH, 18TH & 19TH annual report of NSBL)

Figure No. 8: Diagram of Total NPA, Substandard Loan, Doubtful Loan and Loss Loan of Nepal SBI Bank



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and Loss loan as well. The total figure of Non-Performing Assets was Rs. 276,747,296 in the fiscal year 2064/65, which was decreased to Rs. 214,926,217 at the end of fiscal year 2065/66. In fiscal year 2066/67 the total NPA figure was Rs. 227,448,241 which was increased to Rs. 239,299,187 in fiscal year 2067/68 and again decreased to Rs. 143,848,188 in year 2068/69.

The entire loan which is overdue for more than 3 months to 6 months is known as Substandard Loan. The amount of such loan was Rs. 3,874,789 in the fiscal year 2064/65 and Rs. 13,235,686 in year 2065/66. The amount has a fluctuating trend in the fiscal year 2066/67 as Rs. 12,975,351 Rs. 2,396,087 in year 2067/68 and Rs. 4,583,958 in fiscal year 2068/69.

The loan which is overdue for more than 6 months to one year, falling in this category is called Doubtful Loan. The amount of such loan was Rs. 21,626,680 in the fiscal year 2064/65; it was decreased to Rs. 11,338,722 in year 2065/66. It decreased to Rs. 1,113,939 in year 2066/67, and reached to Rs. 1,799,948

and Rs. 2,846,859 in fiscal year 2067/68 and 2068/69 respectively. The entire loan overdue for more than one-year falling in this category is Loss loan. The figure of such loan was Rs. 462,908,600 in the fiscal year 2064/65, Rs. 291,380,357 in the fiscal year 2065/66. It was decreased to Rs. 251,044,459 and Rs. 95,158,572 in fiscal year 2066/67 and 2067/68. It remained at Rs. 30,012,916 in fiscal year 2068/69.

4.4.3 The Comparative Figure of Total Assets, Total Lending, Total Deposits and Total NPA of Nepal SBI Bank Ltd. (Rs.)

Table No. 4.3.3

Year	Total Assets	Total Lending	Total Deposit	Performing Assets	Total NPA
2064/65	17,187,446,174	12,746,216,214	13,715,394,960	12,257,806,145	276,747,296
2065/66	30,166,439,549	15,612,050,411	27,957,220,794	15,296,095,646	214,926,217
2066/67	38,047,679,465	17,963,641,179	34,896,424,201	17,698,507,430	227,448,241
2067/68	46,088,233,975	21,718,790,731	42,415,443,294	21,479,491,544	239,299,187
2068/69	58,059,707,720	26,463,671,464	53,337,264,193	26,319,823,276	143,848,188

Source: (15TH, 16TH, 17TH, 18TH & 19TH annual report of NSBL)

The above figure states that the amount of Total Assets, Total Lending, Total Deposit, and Performing Assets is on increasing trend in five years period. Total Lending has increased with the increment of Total Deposit. The amount of total NPA has slightly decreased from Rs. 276,747,296 in fiscal year 2064/65 to Rs. 214,926,217 in 2065/66. It was decreased to Rs. 143,848,188 at the end of fiscal year 2068/69.

Table No. 4.3.4: Percentage of Performing Assets, Non-Performing Assets, Sub-Standard, Doubtful and Loss Loan to Total Assets, Total Lending, Total Deposits and Total NPA.

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	% of PA/TA	71.31	50.70	46.51	46.60	45.33
2.	% of PA/TL	96.16	97.97	98.52	98.89	99.45
3.	% of PA/TD	89.37	54.71	50.71	50.64	49.34
4.	% of NPA/TA	1.61	0.71	0.59	0.52	0.25
5.	% of NPA/TL	2.17	1.37	1.26	1.10	0.54
6.	% of NPA/TD	2.01	0.76	0.65	0.56	0.26
7.	% of SL/TNPA	1.40	6.15	5.70	0.22	0.79
8.	% of DL/TNPA	7.81	5.27	0.48	0.20	0.79
9.	% of BL/TNPA	167.26	135.57	110.37	38.36	18.67

Source: (10th, 11th, 12th, 13th & 14th annual report of NSBL)

The percentage of Performing Assets to Total Assets has decreased from 71.31% in fiscal year 2064/65 to 46.51% in 2066/67 and 45.33% at the end of fiscal year 2064/65. The percentage of NPA to Total Assets was 1.61% in the fiscal year 2064/65 and 0.59% in the year 2066/67. In fiscal year 2068/69 this indicator was 0.54%.

Similarly the percentage of performing assets to Total Lending was 96.16% in the fiscal year 2064/65, which was increased to 98.52% in the year 2066/67 and 99.45% in the fiscal year 2068/69. Whereas the percentage of NPA to total lending in the fiscal year 2064/65 was 2.17%, which had decreased to 1.26% in the fiscal year 2066/67 and 0.54% in the year 2068/69. Out of total deposit in the fiscal year 2064/65, Performing Assets was 89.37% and 50.71% in the year 2066/67. This has decreased to 49.34% in the fiscal year 2068/69. Whereas the percentage of NPA to Total Deposit was decreased from 2.01% in the fiscal

year 2064/65 to 0.26% in the year 2068/69. Similarly the percentage of Substandard Loan, Doubtful Loan and Loss Loan to NPA in different fiscal years are in fluctuating manner.

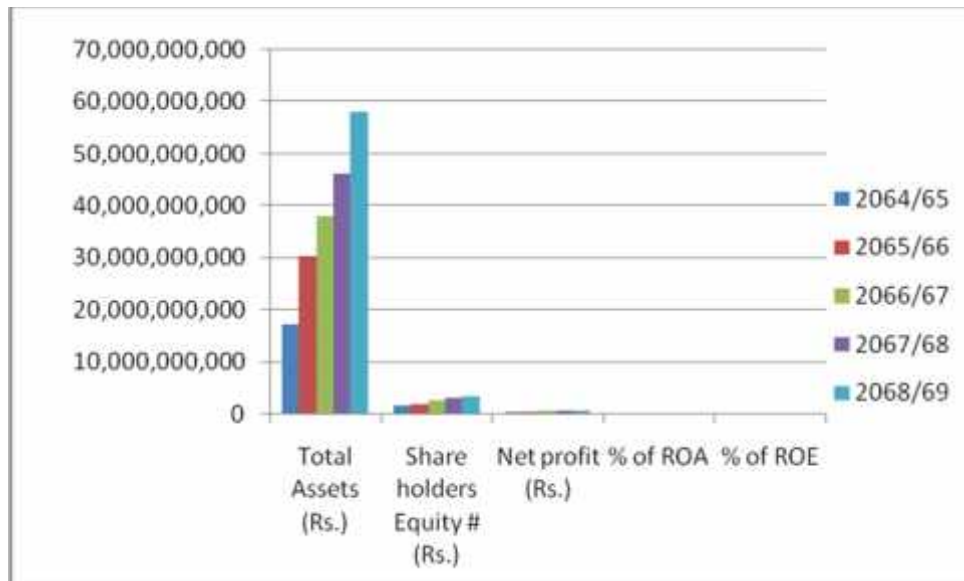
4.4.4 Return on Total Assets (ROA) and Return on Shareholder Equity (ROE) of Nepal SBI Bank Ltd. (Rs.)

Table No. 4.3.5

F/Y	Total Assets (Rs.)	Share holders Equity # (Rs.)	Net profit (Rs.)	% of ROA	% of ROE
2064/65	17,187,446,174	1,414,644,812	247,770,758	1.44	17.5
2065/66	30,166,439,549	1,712,607,195	316,373,495	1.04	18.47
2066/67	38,047,679,465	2,450,554,070	391,742,119	1.02	15.98
2067/68	46,088,233,975	2,879,293,150	464,564,999	1.00	16.13
2068/69	58,059,707,720	3,197,458,863	480,105,493	0.82	15.01

Source: (15TH, 16TH, 17TH, 18TH & 19TH annual report of NSBL)

Figure No.9 : Diagram of Total Assets, Shareholder's Equity and Net Profit of Nepal SBI Bank



Return on assets measures the overall effectiveness of management in generating profit with the available assets. The higher the firm's ROA, the better it is doing in operation. ROA of NSBL is higher in fiscal year 2064/65, whereas ROA of other fiscal year is satisfactory.

Return on Equity measures the return on the owners investment in the firm. Higher ratio of the return on equity is better for business organization. ROE of EBL in fiscal year 2064/65 was 17.50%, which gradually increased to 18.47% in 2065/66, 15.98% in 2066/67, 16.13% in 2067/68 and 15.01% in fiscal year 2067/68.

4.4.5 Loan Classification Provisioning of Nepal SBI Bank Ltd.

The higher level of NPA causes the larger amount of provisioning of loan loss. As per the directives issued by NRB to Commercial Banks and Financial Institutions, certain percent of provisional amount has to be maintained against each category of loan. The loan loss-provisioning amount has to be maintained from the operational profit of a bank. So it is necessary to keep the lower level of NPAs in order to avoid the higher loss on cash for the banks. If a bank fails

to maintain the loan loss provision as prescribed by NRB, the Bank is under moral suasion or other necessary action to be taken. The loan loss provisioning maintained by NSBL during the study period is presented in the following table.

Table No. 4.3.6: Loan classification and Provisioning of Nepal SBI Bank Ltd.

Types of loan	FY 2064/65			FY 2065/66		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	%
Pass	11981058849	117922667	0.98	15081169429	149466541	0.99
Sub-standard	3874789	566279	14.61	13235686	2740744	20.70
Doubtful	21626680	9869035	45.63	11338722	3685439	33.00
Loss	462908600	456395830	98.59	291380357	285338247	98.00
Total	12469468918	584753811	4.68	15397124194	441230971	3.00

FY 2066/67			FY 2067/68			FY 2068/69		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
17471059189	173583537	0.99	21479491544	213793432	1	26319823276	262432500	1
12975351	3189722	24	2396087	519179	22	4583958	1145990	25
1113939	219153	20	1799948	496074	28	2846859	1227822	44
251044459	245754799	97	95158572	91799704	97	30012916	26867012	90
17736192938	422747211	3	21578846151	306608389	2	26357267009	291673324	2

Source: (10th, 11th, 12th, 13th & 14th annual report of NSBL)

The amount of provisioning for Pass Loan or overdue up to three months loan falls in this class. As per the directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 117,922,667 in fiscal year 2064/65, which showed 0.98% pass

loan of total amount. Similarly the provisioning for fiscal year 2065/66 was Rs. 149,466,541 which covered 0.99% of the total loan. Similarly the amount allocated for fiscal year 2066/67 was Rs. 173,583,537, Rs. 213,793,432 in fiscal year 2067/68 and Rs. 262,432,500 for 2068/69 which covered 0.99%, 1.00% and 1.00% respectively.

The amount of provisioning for Substandard or overdue loan for more than three months up to six months falls in this class. As per the directives of NRB issued to banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 25% of the total loan in the same class.

The total loan amount allocated for the provision of Substandard Loan was Rs. 566,279 for year 2064/65, Rs. 2,740,744 for 2065/66, Rs. 3,189,722 for year 2066/67, Rs. 519,179 for 2067/68 and Rs. 1,145,990 for the year 2068/69. This amount was 14.61%, 20.70%, 24.00%, 22.00% and 25.00% of the total loan amount respectively.

The amount of provisioning for Doubtful or overdue loan for more than six months up to 1 year fall in this class. As per the directives of NRB, the percentage of provisioning required for this class loan is 50% of the total loan.

The percentage of provisioning of Doubtful Loan for the fiscal year 2064/65 was 45.63%, 33.00% for the year 2065/66, 19.67% for fiscal year 2066/67, 28.00% for the fiscal year 2067/68 and 44.00% for the year 2068/69.

The amount of provisioning for Loss or overdue loan for more than 1 year falls in this class. As per the directives of NRB, the percentage of provisioning required for this class loan is 100% of the total loan in the same class.

The percentage of provisioning of Loss Loan for the fiscal year 2064/65 was 98.59%, 98.00% for the fiscal year 2065/66, 97.89% for the fiscal year 2066/67, 97.00% for 2067/68 and 90.00% for the fiscal year 2068/69.

The overall provisioning for NPA of Nabil Bank shows that there is compliance to the prudential regulation issued by NRB. This further indicates that the bank's financial transaction is running in healthy manner.

4.5 Data Presentation and Analysis of “Nepal Bank Limited.”

Nepal Bank Limited is the oldest bank of Nepal. Under the international influence and the national necessity Nepal Bank Limited was established on 1938 A.D, under the Nepal Bank act 1994 A.D. After its establishment modern banking system started in Nepal. The data of Nepal Bank Limited is presented and analyzed as follows.

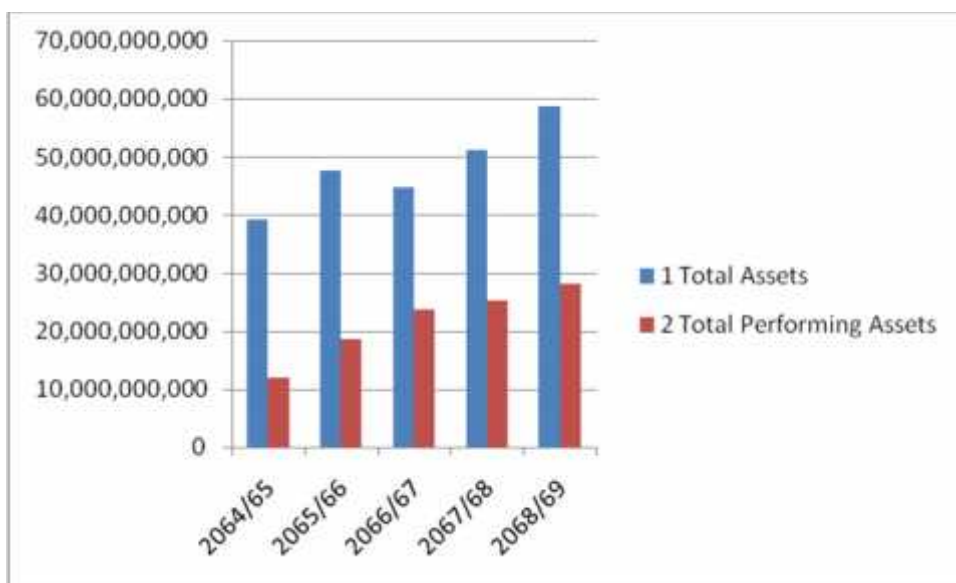
4.5.1 Total Assets and Performing Assets of Nepal Bank Limited (Rs.)

Table No. 4.4.1

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total Assets	39,258,793,505	47,559,110,605	44,736,652,431	51,158,657,445	58,615,520,783
2.	Total Performing Assets	11,900,570,696	18,593,370,396	23,708,233,320	25,171,029,787	28,041,335,800

Source: (Annual reports of Nepal Bank Ltd.)

Figure No. 10: Diagram of Total Assets and Total Performing Assets of Nepal Bank



Total Assets include sum of all the items at the assets side of balance sheet. The figure of Total Assets was Rs. 39,258,793,505 in the fiscal year 2064/65, which was decreased to Rs. 44,736,431 in fiscal year 2066/67 and increased to Rs. 58,615,520,783 at the end of the year 2068/69.

The performing loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2064/65, the total performing loan of NBL was Rs. 11,900,570,696. It was Rs. 23,708,233,320 in the fiscal year 2066/67 and Rs. 28,041,335,800 in 2068/69.

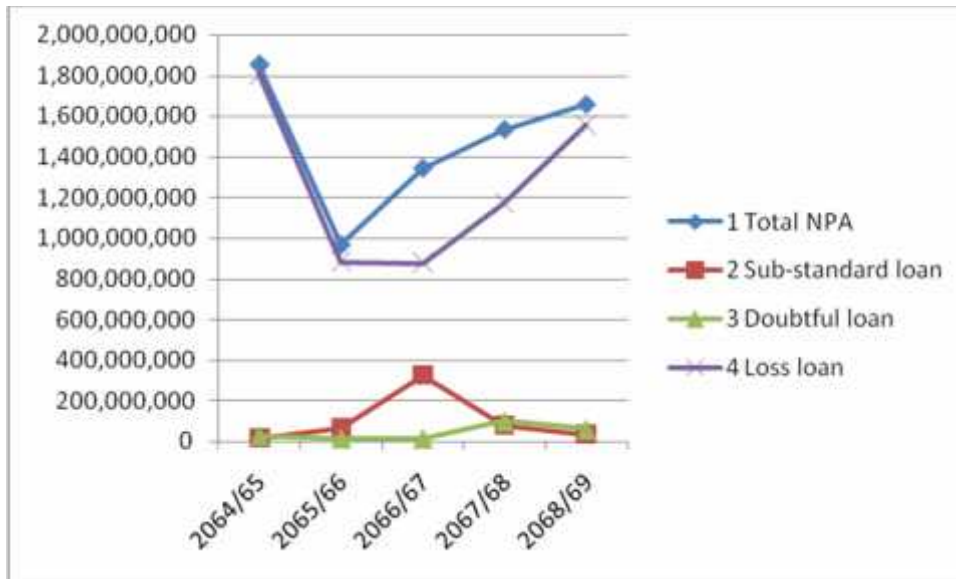
4.5.2 Total NPA, Sub-standard loan, Doubtful loan and Loss loan of Nepal Bank Ltd. (Rs.)

Table No.4.4.2

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total NPA	1,856,048,981	966,723,125	1,344,118,565	1,534,848,743	1,657,527,630
2.	Sub-standard loan	17,246,119	64,764,953	326,034,200	78,184,226	36,155,765
3.	Doubtful loan	29847,790	17,888,488	16,206,776	100,626,014	61,472,865
4.	Loss loan	1,808,955,072	884,069,684	877,432,771	1,172,253,576	1,559,499,000

Source: (Annual reports of Nepal Bank Ltd.)

Figure No. 11: Diagram of Total NPA, Substandard Loan, Doubtful Loan and Loss Loan of Nepal Bank Ltd.



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and Bad Loan as well. The total figure of Non-Performing Assets was Rs. 1,856,048,981 in fiscal year 2064/65 and decreased to Rs. 966,723,125 in fiscal year 2065/66. This amount was increased to Rs. 1,344,118,565 in fiscal year 2066/67 and Rs. 1,534,848,743 in the year 2067/68. At the end of fiscal year 2068/69 the NPA was increased to Rs. 1,657,527,630.

The entire loan which is overdue for more than 3 months to 6 months is called substandard loan. The amount of such loan was Rs. 17,246,119 in fiscal year 2064/65, which was increased to Rs. 64,764,953 in fiscal year 2065/66, Rs. 326,034,200 in the year 2066/67, Rs. 78,184,226 in 2067/68 and Rs. 36,155,765 at the end of fiscal year 2068/69.

The loan which is overdue for more than 6 months to one year is known as Doubtful Loan. The amount of such type of loan in fiscal year 2064/65 was Rs. 29,847,790 and Rs. 17,888,488 in year 2065/66. This amount was decreased to Rs. 16,206,776, Rs. 100,626,014, and Rs. 61,472,865 in the end of fiscal year 2066/67, 2067/68 and 2068/69 respectively.

The entire loan overdue for more than one year is Loss Loan. The figure of such loan was Rs. 1,808,955,072 in fiscal year 2064/65, which was decreased to Rs. 884,069,684 in 2065/66 and Rs. 877,432,771 in 2066/67. The amount of Loss loan in the fiscal year 2067/68 was increased to Rs. 1,172,253,576 and Rs. 1,559,499,000 in the year 2068/69.

4.5.3 The Comparative Figure of Total Assets, Total Lending, Total Deposits and Total NPA of Nepal Bank Ltd. (Rs.)

Table No. 4.4.3

Year	Total Assets	Total Lending	Total Deposit	Performing Assets	Total NPA
20644/65	39,258,793,505	13,756,619,677	39,014,204,359	11,900,570,696	1,856,048,981
2065/66	47,559,110,605	19,560,093,521	45,194,322,465	18,593,370,396	966,723,125
2066/67	44,736,652,431	25,052,351,885	42,882,039,669	23,708,233,320	1,344,118,565
2067/68	51,158,657,445	26,705,878,530	46,808,435,445	25,171,029,787	1,534,848,743
2068/69	58,615,520,783	29,698,963,430	56,052,372,757	28,041,335,800	1,657,527,630

Source: (Annual reports of Nepal Bank Ltd.)

The above figure states that Total Assets had increased within the five years period from Rs. 39,258,793,505 in the fiscal year 2064/65 to Rs. 58,615,520,783 in the fiscal year 20668/69. Similarly the Total Lending had also decreased. The amount of Total Deposit and Performing Assets is on increasing trend. However the amount of NPA had decreased from Rs. 1,856,048,981 in fiscal year 2064/65 to Rs. 1,657,527,630 in the fiscal year 2068/69.

**Table No. 4.4.4: Percentage of Performing Assets, Non-Performing Assets,
Sub-Standard Doubtful and Loss Loan to Total Assets, Total Lending,
Total Deposits and Total NPA**

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	% of PA/TA	30.31	39.09	52.99	49.20	47.83
2.	% of PA/TL	86.51	95.05	94.63	94.25	94.41
3.	% of PA/TD	30.50	41.14	55.28	53.77	50.02
4.	% of NPA/TA	4.72	2.03	3.00	3.00	2.82
5.	% of NPA/TL	13.49	4.94	5.36	5.74	5.58
6.	% of NPA/TD	4.75	2.13	3.13	3.27	2.95
7.	% of SL/TNPA	0.92	6.69	24.25	5.09	2.18
8.	% of DL/TNPA	1.60	1.85	1.20	6.55	3.70
9.	% of LL/TNPA	97.46	91.45	65.27	76.37	94.08

Source: (Annual reports of Nepal Bank Ltd.)

The percentage of Performing Assets to Total Assets was increased from 30.31% in fiscal year 2064/65 to 52.99% in the year 2066/67 and 47.83% at the end of year 202068/69. The percentage of NPA to Total Assets was 4.72% in the year 2064/65, which was decreased to 3.00% in 2066/67 and 2.82% in the fiscal year 2068/69.

Similarly, the percentage of Performing Assets to Total Lending was 86.51% in 2064/65 which increased to 94.63% in the fiscal year 2066/67 and 94.41% in the fiscal year 2068/69. Whereas the percentage of NPA to Total Lending had decreased from 13.49% in 2064/65 to 5.36% in 2066/67 and 5.58% in 2068/69.

Out of Total Deposit in fiscal year 2064/65, Performing Assets was 30.50% and 55.28% in 2066/67 and 50.02% in 2068/69. Whereas the percentage of NPA to Total Deposit had decreased from 4.75% in 2064/65 to 3.13% in 2066/67 and 2.95% in fiscal year 2068/69. Similarly the percentage of

Substandard Loan, Doubtful Loan, and Loss Loan to NPA in different fiscal year is in fluctuating manner.

4.5.4 Return on Total Assets (ROA) and Return on Shareholder Equity (ROE) of Nepal Bank Ltd. (Rs.)

Table No. 4.4.5

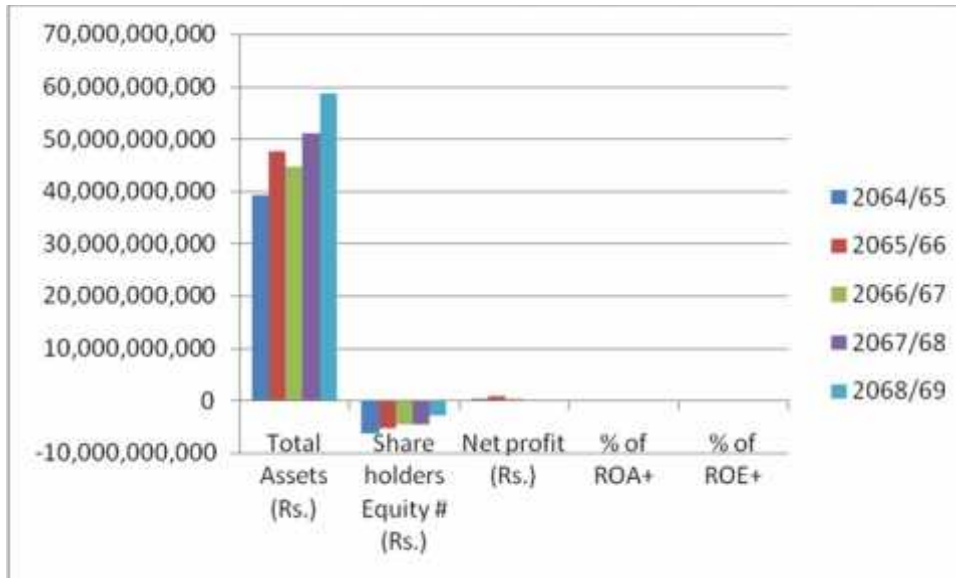
F/Y	Total Assets (Rs.)	Share holders Equity # (Rs.)	Net profit (Rs.)	% of ROA⁺	% of ROE⁺
2064/65	39,258,793,505	(6,247,515,743)	226,952,911	0.01	-0.04
2065/66	47,559,110,605	(5,356,627,548)	894,254,182	0.02	-0.17
2066/67	44,736,652,431	(4,604,929,612)	249,382,295	0.01	-0.06
2067/68	51,158,657,445	(4,476,583,028)	128,346,584	0.01	-0.03
2068/69	58,615,520,783	(2,907,776,423)	176,361,505	0.01	-0.06

Source: (Annual reports of Nepal Bank Ltd.)

Shareholder equity includes share capital Reserve & other funds

⁺ Note: The calculation is made on Annex of this report

Figure No. 12: Total Assets, Shareholder's Equity and Net Profit of Nepal Bank Ltd.



Return on Assets measures the overall effectiveness of management in generating profit with the available assets. The higher the firm's ROA, the better it is doing in operation. ROA of NBL in the fiscal year 2064/65 is 0.01. NBL was suffered through a huge amount of accumulated loss in previous fiscal years which was recovered in the fiscal year 2060/61, so the ROA in the fiscal year 2064/65 to 2068/69 is positive.

Return on Equity measures the return on the owners investment in the firm. Higher ratio of the return on equity is better for business organization. Share holder equity includes share capital and reserve and other funds. Nepal Bank Limited had negative reserve, which result negative shareholder equity. So the ROE of NBL in the fiscal year 2064/65 is -0.04%, after which it is negatively fluctuating.

The overall scenario of ROA and ROE of NBL shows that its financial transaction is not running in healthy manner. Although the ROA after the fiscal year 2059/60 is not positive the bank has to strengthen the credit operation and enhance risk skill in order to have positive ROA and ROE.

4.5.5 Loan Classification and Provisioning of Nepal Bank Ltd. (Rs.)

The higher level of NPA causes the larger amount of provisioning of loan loss. As per the directives issued by NRB to Commercial Banks and Financial Institutions, certain percent of provisional amount has to be maintained against each category of loan. The loan loss-provisioning amount has to be maintained from the operational profit of a bank. So it is necessary to keep the lower level of NPAs in order to avoid the higher loss on cash for the banks. If a bank fails to maintain the loan loss provision as prescribed by NRB, the Bank is under moral suasion or other necessary action to be taken. The loan loss provisioning maintained by NBL during the study period is presented in the following table:

Table No. 4.4.6: Loan classification and Provisioning of Nepal Bank Ltd.

Types of loan	FY 2064/65			FY 2065/66		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	Amount (Rs.)
Pass	13756619677	170161310	2	19560093521	565422603	3
Sub-standard	17246119	5498640	32	64764953	20373343	32
Doubtful	29847790	15112478	51	17888488	10700421	60
Loss	1808955072	1808955072	100	884069684	884069684	100
Total	15612668658	1999727500	13	20526816646	1480566050	8

FY 2066/67			FY 2067/68			FY 2068/69		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
25052351885	508795845	2.0	26705878530	769510883	2.9	29698963430	428351744	1.5
326034200	81508550	25	78184226	19546054	25	36155765	9038941	25
16206776	8103388	50.	100626014	50313007	50	61472865	30733674	50
877432771	877432771	100	1172253576	1172253576	100	1559499000	1559899000	100
26272025632	1475840554	5.6	28056942343	2011623520	7.2	31356091060	2028023359	6.5

Source: (Annual reports of Nepal Bank Ltd.)

The amount of provisioning or Pass Loan or overdue upto three months loans fall in this class. As per the directives of NRB issue to banks and financial institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 170,161,310 which covered 2% of the total loan amount in the fiscal year 2064/65. Similarly the percentage of loan amount covering the portion of the loan in the class was 3%, 2%, 2.9% and 1.5% for fiscal year 2065/66, 2066/67, and 2067/68 and 2068/69 respectively.

The amount of provisioning for Substandard or overdue loan for more than three months upto six months fall in this class. As per the directives of NRB, the percentage of provisioning required for this class loan is 25% of the total loan.

The total amount allocated for the provision of Substandard Loan was Rs. 5,498,640 for the fiscal year 2064/65, which covered 32% of total loan amount in the class. Similarly the percentage of loan amount covering the portion of the

loan in this class was 32%, 25%, 25% and 25% respectively for the fiscal year 2065/66, 2066/67, 2067/68 and 2068/69.

The amount of provisioning for doubtful or overdue loans for more than six months upto 1 year fall in this class. As per the directives of NRB, the percentage of provisioning required for this class loan is 50% of the total loan in the same class.

The percentage of provisioning of the doubtful loan for the fiscal year 2064/65 was 51% where as 60% for the year 2065/66, 50% for the year 2066/67 and 2067/68 and 2068/69 respectively.

The amount of provisioning for loss or overdue loan for more than 1 year fall in this class. As per the directives of NRB, the percentage of provisioning required for this class loan is 100% of the total loan in the same class.

The percentage of provisioning of the loss loan for the fiscal year 2064/65 to 2068/69 was 100%.

The overall loan provisioning of Nepal Bank shows that the amount allocated for provision except loss loan is not perfect. So the NBL had to strictly follow the regulation issued by NRB.

4.6 Data Presentation and Analysis of “Nepal Investment Bank Ltd”

Nepal investment bank ltd (NIBL), previously Nepal Indosuez bank ltd, was established in 1986 as a joint venture between Nepalese and French partners. Its objectives are to develop a customer oriented service culture with special emphasis an customer care and convenience, to increase market share by following a disciplined growth strategy and to explore new avenues for the growth and profitability. The data of NIBL is presented and analyzed as follows:

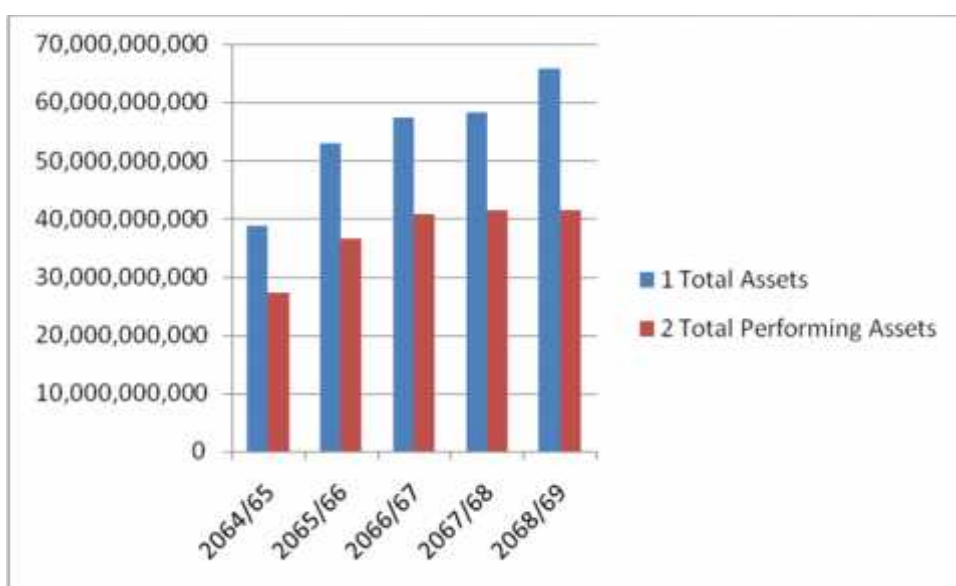
4.6.1 Total Assets and Performing Assets of Nepal Investment Bank Ltd. (Rs.)

Table No. 4.5.1

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total Assets	38,873,306,084	53,010,803,126	57,305,413,482	58,356,827,501	65,756,231,954
2.	Total Performing Assets	27,219,833,753	36,613,250,015	40,694,405,581	41,492,411,058	41,481,296,984

Source: (Annual reports of Nepal investment Bank Ltd)

Figure No. 13: Diagram of Total Assets and Total Performing Assets of Nepal Investment Bank Ltd.



Total assets include sum of all the items at the assets side of balance sheet. The figure of total assets was Rs. 38,873,306,084 in the fiscal year 2064/65, which was increased to Rs. 57,305,413,482 in the fiscal year 2066/67 and remained at Rs. 65,756,231,954 at the end of the year 2068/69.

The Performing Loan comprises the loans, which are not overdue or earning in cash. At the end of fiscal year 2064/65, the Total Performing Loan of NIBL

was Rs. 27,219,833,753, which was Rs. 40,694,405,581 in the fiscal year 206/67 and Rs. 41,481,296,984 at the end of the year 2068/69.

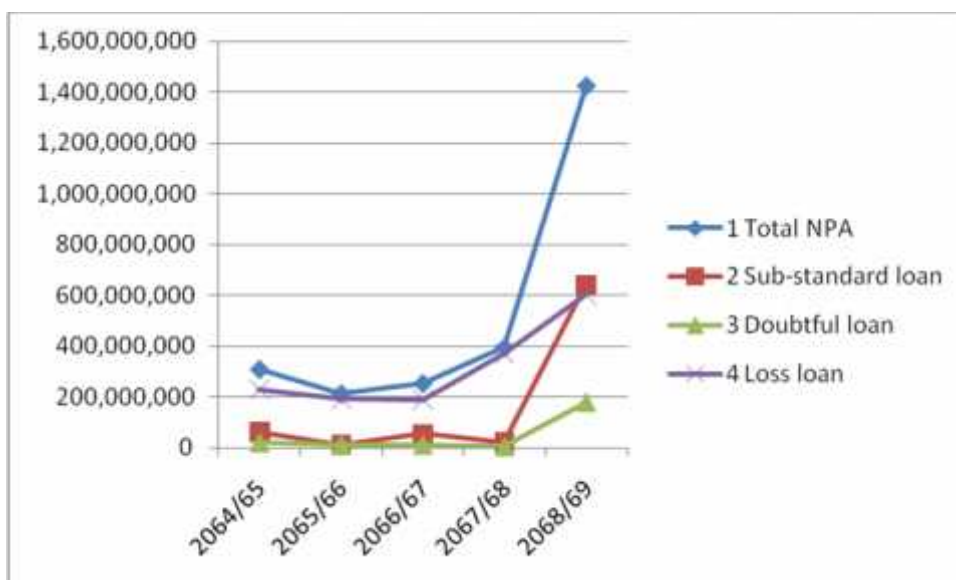
4.6.2 Total NPA, Sub-Standard Loan, Doubtful Loan and Bad Loan of Nepal Investment Bank Ltd. (Rs.)

Table No. 4.5.2

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	Total NPA	309,470,983	213,907,394	254,034,452	395,282,853	1,425,394,070
2.	Sub-standard loan	61,737,243	10,765,503	55,710,406	22,782,633	642,330,782
3.	Doubtful loan	20,724,497	11,485,860	10,994,950	4,159,195	180,410,966
4.	Loss loan	227,009,243	191,656,030	187,329,096	368,341,025	602,652,322

Source: (Annual reports of Nepal Investment Bank Ltd)

Figure No.14: Diagram of Total NPA, Substandard Loan, Doubtful Loan and Loss Loan of Nepal Investment Bank Ltd



The entire loan overdue for more than 3 months to 1 year fall in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and Loss Loan as well. The total figure of non-performing assets was Rs. 309,470,983 in the fiscal year 2064/65 and Rs. 213,907,394 in the fiscal year

2065/66. Similarly the amount was increased to Rs. 395,282,853 in fiscal year 2067/68 and Rs. 1,425,394,070 in the year 2068/69.

The entire loan which is overdue for more than 3 months to 6 months is known as Substandard Loan. The amount of such loan was Rs. 61,737,243 in the fiscal year 2064/65. It declined to Rs. 10,765,503 in the year 2065/66 and again increased to Rs. 55,710,406 in the fiscal year 2066/67. Similarly the amount was Rs. 22,782,633 and 642,330,782 in the fiscal year 2067/68 and 2068/69 respectively. The loan which is overdue for more than 6 months to one year is known as Doubtful Loan. The amount of such type of loan in fiscal year 2064/65 was Rs. 20,724,497 and Rs. 11,485,860 in the year 2065/66. This amount was decreased to Rs. 10,994,950 and Rs. 4,159,195 in the fiscal year 2066/67 and 2067/68 respectively. The amount of such loan remained at Rs. 180,410,966 in the fiscal year 2068/69. The entire loan overdue for more than one year is Loss Loan. The figure of such loan was Rs. 227,009,243 in the fiscal year 2064/65, which has decreased to Rs. 191,656,030 and 187,329,096 in the fiscal year 2065/66 and 2066/67 respectively. The amount of such loan was increased to Rs. 368,341,025 and Rs. 602,652,322 respectively in the year 2067/68 and 2068/69.

4.6.3 The Comparative Figure of Total Assets, Total Lending, Total Deposits and Total NPA of Nepal Investment Bank Ltd. (Rs.)

Table No. 4.5.3

Year	Total Assets	Total Lending	Total Deposit	Performing Assets	Total NPA
2064/65	38,873,306,084	27,176,973,284	34,451,726,191	27,219,833,753	309,470,983
2065/66	53,010,803,126	36,576,257,637	46,698,100,065	36,613,250,015	213,907,394
2066/67	57,305,413,482	40,674,106,181	50,094,725,497	40,694,405,581	254,034,452
2067/68	58,356,827,501	41,492,411,058	50,138,122,242	41,492,411,058	395,282,853
2068/69	65,756,231,954	41,481,296,984	57,010,603,789	41,481,296,984	1,425,394,070

The above figure states that Total Assets had increased with the five years period from Rs. 38,873,306,084 in the fiscal year 2064/65 to Rs. 65,756,231,954 in the fiscal year 2068/69. Similarly the Total Lending had also increased. The amount of total deposit and Performing Assets is on increasing trend. However the amount of NPA had increased from Rs. 309,470,983 in fiscal year 2064/65 to Rs. 1,425,394,070 in the fiscal year 2068/69.

Table No. 4.5.4: Percentage of Performing Assets, Non-Performing Assets, Sub-Standard Doubtful and Loss Loan to Total Assets, Total Lending, Total Deposits and Total NPA.

S.N.	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.	% of PA/TA	70.02	69.06	71.01	71.1	63.08
2.	% of PA/TL	100.15	100.1	100.04	100	100
3.	% of PA/TD	79	78.4	81.23	82.75	72.76
4.	% of NPA/TA	0.79	0.4	0.44	0.67	2.16
5.	% of NPA/TL	1.13	0.58	0.62	0.95	3.43
6.	% of NPA/TD	0.89	0.45	0.5	0.78	0.25
7.	% of SL/TNPA	19.94	5.03	21.93	5.76	45.06
8.	% of DL/TNPA	6.69	5.36	4.32	1.05	1.26
9.	% of LL/TNPA	73.35	89.59	73.74	93.18	42.27

Source: (Annual reports of Nepal Investment Bank)

The percentage of Performing Assets to Total Assets was decreased from 70.02% in fiscal year 2064/65 to 69.06% in the year 2065/66 and increased to 71.01% at the end of year 2066/67. It decreased to 63.08 at 2068/69. The percentage of NPA to Total Assets was 0.79% which was decreased to 0.44% in the year 2066/67 and 2.16% in the fiscal year 2068/69.

Similarly the percentage of Performing Assets to Total Lending was 100.15% in 2064/65 which decreased to 100.04% in the fiscal year 2066/67 and 100% in the fiscal year 2068/69. Whereas the percentage of NPA to Total Lending had

decreased from 1.13% in 2064/65 to 0.62% in the year 2066/67 and 3.43% in the fiscal year 2068/69.

Out of the total deposit in fiscal year 2064/65, Performing Assets was 79%, which was increased to 81.23% in the year 2066/67 and 72.76% in the fiscal year 2068/69. Whereas the percentage of NPA to Total Deposit had decreased from 0.89% in 2064/65 to 0.50% in the year 2066/67 and 0.25% at the end of fiscal year 2068/69.

Similarly the description of percentage of Substandard Loan and Doubtful Loan is in decreasing trend, whereas the percentage of Loss Loan to NPA had decreased from 73.35% in 2064/65 to 42.27% in the fiscal year 2068/69.

4.6.4 Return on Total Assets (ROA) and Return on Shareholder Equity (ROE) of Nepal Investment Bank Ltd (Rs.)

Table No. 4.5.5

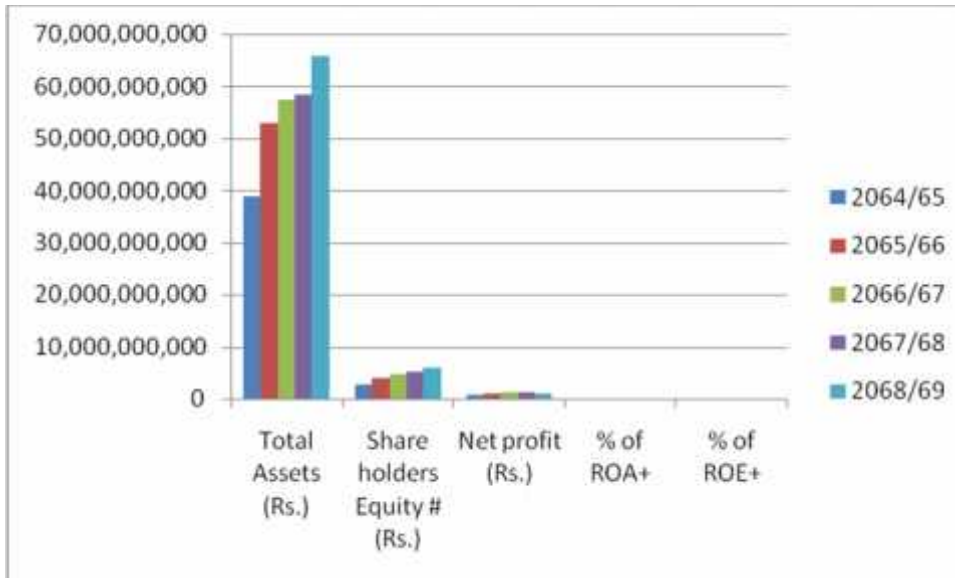
F/Y	Total Assets (Rs.)	Share holders Equity # (Rs.)	Net profit (Rs.)	% of ROA⁺	% of ROE⁺
2064/65	38,873,306,084	2,686,786,049	696,731,516	1.79	2.59
2065/66	53,010,803,126	3,907,839,708	900,619,072	1.69	1.69
2066/67	57,305,413,482	4,612,576,356	1,265,949,588	2.20	2.74
2067/68	58,356,827,501	5,159,759,697	1,176,641,031	2.01	2.28
2068/69	65,756,231,954	6,049,941,175	1,039,275,613	1.58	1.71

Source: (Annual reports of Nepal Investment Bank Ltd)

Shareholder equity includes share capital Reserve & other funds

+ Note: The calculation is made on Annex of this report

Figure No. 15: Diagram of Total Assets, Shareholder's Equity and Net Profit of Nepal Investment Bank Ltd



Return on Assets measures the overall effectiveness of management in generating profit with the available assets. The higher the firm's ROA, the better it is doing in operation. ROA of Nepal Investment Bank in the fiscal year 2064/65 is 1.79%, 1.69% in 2065/66, 2.20% in 2066/67, 2.01 in 2067/68 and 1.58 in 2068/69.

Return on Equity measures the return on the owners investment in the firm. Higher ratio of the return on equity is better for business organization. Shareholders Equity includes share capital and reserve and other funds. So the ROE of NIBL in the fiscal year 2064/65 is 2.59% after which it decreased in year 2065/66 at 1.69 and again increased to 2.74 in 266/67 and decreased to 1.71 in 2068/69.

The overall scenario of ROA and ROE of Nepal Investment Bank shows that the financial transaction of the bank is not running in healthy manner. Although the ROA after the fiscal year 2064/65 to 2068/69 is positive, the bank has to strengthen the credit operation and enhance risk skill in order to have positive ROA and ROE.

4.6.5 Loan Classification and Provisioning of Nepal Investment Bank Ltd

The higher level of NPA causes the larger amount of provisioning of loan loss. As per the directives issued by NRB to Commercial Banks and Financial Institutions, certain percent of provisional amount has to be maintained against each category of loan. The loan loss-provisioning amount has to be maintained from the operational profit of a bank. So it is necessary to keep the lower level of NPAs in order to avoid the higher loss on cash for the banks. If a bank fails to maintain the loan loss provision as prescribed by NRB, the Bank is under moral suasion or other necessary action to be taken. The loan loss provisioning maintained by NIBL during the study period is presented in the following table.

**Table No. 4.5.6 Loan classification and Provisioning of
Nepal Investment Bank Ltd**

Types of loan	FY 2064/65			FY 2065/66		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	%
Pass	27176973284	274449428	1	36576257637	381198976	1.04
Sub-standard	61737243	15434311	25	10765503	2691376	25
Doubtful	20724497	10401937	50.19	11485860	5742930	50
Loss	227009243	227009243	100	191656030	187329096	97.74
Total	27486444267	527294919	1.91	36790165030	576962378	1.56

FY 2066/67			FY 2067/68			FY 2068/69		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
40674106181	420840374	1.03	41492411058	416063103	1	41481296984	416251737	1
55710406	13927601	24.99	22782633	5695658	25	642330782	160582695	25
10994950	5497475	50	4159195	2079598	50	180410966	90205483	50
187329096	187329096	100	368341025	368341033	10	602652322	602652322	100
40928140633	627594546	1.53	41887693911	792179392	1.89	42906691054	1269692237	2.95

Source: (Annual reports of Nepal Investment Bank Ltd)

The amount of provisioning for Pass Loan or overdue upto three months loans falls in this class. As per the directives of NRB issue to Banks and financial institutions licensed by NRB, the percentage of provisioning required for pass loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 274,449,428 which covered 1.00% of the total loan amount in the fiscal year 2064/65. Similarly the amount was over provisioned in the fiscal year 2065/66 as 1.04% which remained at 1.03% in 2066/67 and 1.00 in the end of the year 2067/68 and 2068/69.

The amount of provisioning for Substandard or overdue loan for more than three months upto six months fall in this class. As per the directives of NRB, the percentage of provisioning required for this class loan is 25% of the total loan.

The total amount allocated for the provision of Substandard Loan was Rs. 15,434,311 for the fiscal year 2064/65, which covered 25% of total loan amount in this class. Similarly the percentage of loan amount covering the portion of the loan in this class was 25%, 24.99%, 24.99%, and 25% respectively for the fiscal year 2065/66, 2066/67, 2067/68 and 2068/69.

The amount of provisioning for Doubtful or overdue loan for more than six months up to 1 year fall in this class. As per directives of NRB, to percentage

of provisioning required for the loan of this class is 50% of the total loan in the same class.

The percentage of provisioning of the Doubtful Loan for the fiscal year 2064/65 was 50.19% and remained at 50% for the year 2065/66, 2066/67, 2067/68 and 2068/69.

The amount of provisioning for Loss or overdue loan for more than 1 year falls in this class. As per the directives of NRB, the percentage of provisioning required for the loan of this class is 100% of the total loan in the same class.

The percentage of provisioning of the Loss Loan for the fiscal year 2064/65 was 100% and 97.74% for the year 2065/66. In the fiscal year 2066/67 this amount was over provisioned to 100%, and remained at 100% for the year 2067/68 and 2068/69.

The overall loan provisioning of Nepal Investment Bank shows that the amount allocated for provision is not perfect. So the NIBL had to strictly follow the regulation issue by NRB.

4.7 Correlation Analysis

The correlation analysis is generally used to describe the degree to which one variable is related to another. This analysis enables us in determining degree and relationship between two variables. Two variables are said to be correlated if change in one variable appears to be related or linked with the change in other variables.

**4.7.1 Coorelation Coefficient between NPA and ROA of Sampled Banks
(Nabil, EBL, NSBL, NBL, NIBL)**

Table No. 4.6.1 Correlation between NPA and ROA

Banks	Coefficient of Correlation (r)	Coefficient of Determination (r²)	P.E.	6 P.E.	Significant / Insignificant
Nabil	0.7584	0.5751	0.5010	3.0060	Insignificant
EBL	0.0558	0.0031	0.6737	4.0422	Insignificant
NSBL	0.0510	0.0026	0.6737	4.0422	Insignificant
NBL	-0.3207	0.1028	0.6435	3.8610	Insignificant
NIBL	-0.6265	0.3925	0.8245	4.9470	Insignificant

(Sources: Calculation of data is given in annex)

The table explains the relationship of NPA (denoted here as non performing asset to total lending) and ROA. The correlation coefficient of Nabil, EBL, NSBL, NBL and NIBL (Annex) is 0.7584, 0.0558, 2.6698, -0.3207 and -0.6265 respectively. Here is high degree of negative correlation of NSBL and low degree of negative correlation of Nabil. There was 57.51%, 0.31%, 0.26%, 10.28% and 39.25% coefficient of determination of Nabil, EBL, NSBL, NBL and NIBL respectively. This figure indicates that there is high degree of variation on ROA and NPA of NSBL and low degree variation of ROA by NPA of Nabil.

Similarly probable error (P.E.) of Nabil, EBL, NSBL, NBL and NIBL was 0.5010, 0.6737, 0.6737, 0.6435 and 0.8245 respectively. Likewise, 6 PE of Nabil, EBL, NSBL, NBL and NIBL was 3.0060, 4.0422, 4.0422, 3.8610 and 4.9470 respectively. Since all the banks have negative correlation between ROA and NPA and r is less than 6 times value of PE. So the correlation coefficient is said to be insignificant or there is no evidence of correlation between ROA and NPA, which indicate negative relationship between NPA and ROA of the banks i.e. if NPA increases ROA will decrease and vice versa.

4.7.2 Correlation Coefficient between NPA and ROE of Sample Banks

The correlation between NPA and ROE shows the degree of relationship between these items. Through the measurement of correlation we can find the affect in ROE with increment in a unit of NPA. Here NPA is considered as independent variable and ROE is considered as dependent variable.

Table No. 4.6.2 Correlation between NPA and ROE

Banks	Coefficient of Correlation (r)	Coefficient of Determination (r^2)	P.E.	6 P.E.	Significant/ Insignificant
Nabil	-0.386	0.1495	0.6294	3.7764	Insignificant
EBL	-0.1996	0.0399	0.6625	3.9750	Insignificant
SBI	0.6815	0.4644	0.5344	3.2064	Insignificant
NBL	-0.1809	0.0327	0.646	3.8760	Insignificant
NIBL	-0.4915	0.2415	0.6017	3.6102	Insignificant

(Sources: Calculation of data is given in annex)

The above table explains the relationship of NPA (denoted here as non performing assets to total lending) and ROE. Here the correlation coefficient of Nabil, EBL, NSBL, NBL and NIBL (Annex) is -0.386, -0.1996, -0.6815, -0.1809 and -0.4915 respectively. There is high degree of negative correlation of EBL and NSBL and low degree of negative correlation of NBL. There was 14.95%, 3.99%, 46.44%, 3.27% and 24.15% coefficient of determination of Nabil, EBL, NSBL, NBL and NIBL respectively. This figure indicates that there is high degree of variation on ROE by NPA and EBL and low degree of variation on ROE by NPA of Nabil.

Similarly the probable error (P.E.) of Nabil, EBL, NSBL, NBL and NIBL was 0.6294, 0.6625, 0.5344, 0.646 and 0.6017 respectively. Likewise 6 P.E. of Nabil, EBL, NSBL, NBL and NIBL was 3.7764, 3.9750, 3.2064, 3.8760 and

3.6102 respectively. Since all the banks except SBI have negative correlation between ROE and NPA and r is less than 6 times value of P.E. So the correlation is said to be insignificant or there is no evidence of correlation between ROE and NPA of the banks, which indicates negative relationship between NPA and ROE of the banks, i.e. if NPA increases ROE will decrease and vice versa.

The positive correlation of SBI signifies that the ROE of the bank is decreasing with the declination of NPA. The declination of NPA in RBB can be taken as the good indicator, but the reduction of ROE is due to its accumulated loss, mismanagement and negative reserves in its financial activities.

4.8 Regression Analysis

Regression analysis is used to estimate the value of one variable from the known value of other variable. In this analysis we establish a kind of average irreversible functional relationship between the two variables.

4.8.1 Simple Regression Analysis of ROA and NPA

Regression equation of ROA on NPA is given by

$$Y = a + bx$$

Where, Y is dependent variable i.e. (ROA) and X is independent variable i.e. (NPA)

Table No. 4.7.1 Simple Regression Analysis of ROA and NPA

Banks	Intercept (a)	Reg.coeff (b)	r²	F-value	T-value
Nabil	2.843	-0.451	0.204	0.767	15.313
EBL	1.595	-0.519	0.270	1.108	7.821
NSBL	2.518	-0.738	0.544	3.580	2.926
NBL	2.807	-0.407	0.165	0.595	1.119
NIBL	14.174	-0.627	0.394	1.947	1.366

(Source: SPSS Model, Calculation is given in Annex)

The above table describes the output of simple regression analysis between Return on Assets and Non-Performing Assets. The intercept 2.843 of Nabil, 1.595 of EBL, 2.518 of NSBL, 2.807 of NBL and 14.174 of RBB, 2.518 of NSBL, 2.087 of NBL and 14.174 of RBB indicates that when level of NPA is zero, than the ROA of the sample banks increases by respective percentage in that year.

The slope or the regression coefficient -0.451 of Nabil, -0.519 of EBL, -0.738 of NSBL, -0.407 of NBL and -0.627 of NIBL states that ROA decreases by respective percentage for every 1% increase in NPA. Similarly the efficient of determination r^2 is high in case of NSBL and NIBL, which indicates that there is high degree of variation on ROA by NPA, whereas in case of Nabil, EBL and NBL, there is a quite low degree of variation on ROA by NPA.

4.8.2 Simple Regression Analysis of ROE and NPA

Regression equation of ROE on NPA is given by

Where, Y is dependent variable i.e. (ROE) and X is independent variable i.e. (NPA)

Table No. 4.7.2 Simple Regression Analysis of ROE and NPA

Banks	Intercept (a)	Reg.coeff (b)	r²	F-value	T-value
Nabil	32.819	-0.456	0.208	0.786	31.783
EBL	31.681	-0.908	0.825	14.161	11.294
NSBL	30.079	-0.765	0.585	4.236	3.362
NBL	-15.851	0.356	0.127	0.435	-1.074
NIBL	-31.819	0.668	0.446	2.413	-1.581

(Source: SPSS Model, Calculation is given in Annex)

The above table describes the output of simple regression analysis between Return on Equity and NPA. The intercept 32.819 of Nabil, 31.681 of EBL and 30.079 of NSBL indicates that when level of NPA is zero than ROE of the sample banks increases by respective percentage. The intercept index of NBL

and RBB is negative, which indicates that the ROE of these banks decreases by the respective percentage when the level of NPA becomes zero. This is due to the mismanagement, loss suffered in previous fiscal years and negative reserves in NBL and NIBL.

The slope or the regression -0.456 of Nabil, -0.908 of EBL, and -0.765 of NSBL indicates that the ROE of these banks decreases by respective percentage for every 1% increase in NPA. The positive regression coefficient of NBL and NIBL indicates that that ROE declines as with the declination of 1% NPA, which is due top the mismanagement, loss suffered in previous fiscal years and negative reserves. Similarly, the high coefficient of determination (r^2) of EBL and NSBL indicates that there is high degree of variation on ROE by NPA, whereas in case of Nabil, NBL and NIBL it is low.

4.9 Predicting Financial Distress with Altman's Model

In case of predicting financial distress through NPA in Zeta Model, the denominator of the model is assumed as NPA and the numerator of the variable is assumed as any one as Total Assets, Total Deposits, Total Lending, Net Profit and Loan Loss Provision.

Finally the z-score model is developed as follows

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

where,

x_1 = Total Assets to NPA

x_2 = Total Deposit to NPA

x_3 = Total Lending to NPA

x_4 = Net Profit to NPA

x_5 = Loan Loss Provision to NPA

Table No. 4.8: The z-score calculated for different banks

z-score	Index	Expressed in hundred
Nabil	605.61	6.05
EBL	2635.41	26.35
SBI	468.82	4.68
NBL	128.56	1.28
NIBL	853.23	8.53

(Sources: Calculation of data is given in annex)

The index obtained above can be predicted for the healthy banks and banks with weak performance. The z-score below 1.81 represents the weak situation of banks, whereas the z-score above 2.99 represent healthy firms. Banks with z-score in between can be taken as normal. From the above index we can conclude that EBL is the bank with good performance, whereas the performance of NBL is worse among others. These banks have to take various reforms in their performance. The performance of Nabil can be taken as normal whereas score with 4.68 of NSBL indicates that the banks performance is not better compared to Nabil, NIBL and EBL.

4.10 Major Findings

4.10.1 Major Finding from Secondary Data

After completion of the data presentation and analysis of the banks, some major findings of the study are enumerated as follows:

- 1) The percentage of NPA to Total Assets of Nabil was increased by 0.08% in the fiscal year 2065/66, which was 0.43% in fiscal year 2064/65 and 0.51% in the year 2065/66. It remained at 0.93% at the end of fiscal year 2066/67 comparatively increasing by 0.42 %. The percentage of NPA to Total Assets was 1.18% at the end of fiscal year 2067/68. with the growth of

0.25% than previous year. While it increased to 2.40% at the end of fiscal year 2068/69 with the comparative growth of 0.1.22% than previous fiscal year.

- 2) The percentage of NPA to Total Assets of EBL was decreased by 0.15% in the fiscal year 2065/66, which was 0.46% in the fiscal year 2064/65 and 0.31% in the fiscal year 2065/66. It changed in the fiscal year 2066/67, while there was a growth of 0.21% of the ratio in the fiscal year 2066/67. It remained in 0.5% at the end of fiscal year 2068/69, with the comparative growth of 0.27% than previous fiscal year.
- 3) The percentage of NPA to Total Assets of NSBL was 1.61% in the fiscal year 2064/65. This was reduced by 0.90% in the fiscal year 2065/66 remaining at 0.71%. While the ratio was decreased to 0.59% in the fiscal year 2066/67. The percentage of NPA to Total Assets was 0.25% with the declination of 0.07% than the previous fiscal year.
- 4) The percentage of NPA to Total Assets of NBL at the end of fiscal year 2065/66 was reduced by 2.69% with the ratio of 4.72% in the year 2064/65 and 2.03% in 2065/66. It remained at 3.00% in the end of fiscal year 2066/67 remaining constant in the year 2067/68. It was reduced by 0.18 % in the fiscal year 2068/69 remaining at 2.82%.
- 5) The percentage of NPA to Total Assets of NIBL at the end of fiscal year 2064/65 was 0.79%. It was reduced by 0.39% and remained at 0.40% in the end of fiscal year 2065/66. This ratio declined to 0.44% with the growth of 0.04% in the fiscal year 2066/67. The percentage of NPA to Total Assets was 0.67% and 2.16% at the end of fiscal year 2067/68 and 2068/69 with the growth of 0.23% and 2.49% compared with previous fiscal years.
- 6) The percentage of NPA to Total Lending of Nabil increased by 0.06% in the fiscal year 2065/66 from 0.75% in 2064/65 and remained at 0.81% in the fiscal year 2065/66. It further increased 0.70% in the year 2066/67 remaining at 1.51%. The percentage of NPA to Total Lending was 1.81% in the year 2067/68 and 2.40% in 2068/69 with a growth of 0.59% compared with previous fiscal year.

- 7) The percentage of NPA to Total Lending of EBL at the end of fiscal year 2064/65 was 0.67% which was increased by 0.19% and remained at 0.48% in the fiscal year 2065/66. This ratio was 0.15% in the year 2066/67 and increased to 0.34% by 0.19% in the fiscal year 2067/68, and remained at 0.83% growing by 0.49% compared to previous year, at the end of fiscal year 2068/69.
- 8) The percentage of NPA to Total Lending of NSBL was 2.17% in the fiscal year 2064/65, which was reduced to 1.37% and 1.26% with the declination of 0.80% and 0.11% in the fiscal year 2065/66 and 2066/67 respectively. In the fiscal year 2067/68 the ratio was 1.10% decreasing by 0.16% and remained at 0.54% at the end of fiscal year 2068/69.
- 9) The percentage of NPA to Total Lending of NBL was 13.49%, at the end of fiscal year 2064/65, which was reduced to 4.94% by 8.55% in the year 2065/66. This percentage was increased to 5.36%, 5.74% and 5.58% in the fiscal year 2066/67, 2067/68 and 2068/69 respectively by 0.42%, 0.38% and 0.16% compared to the previous year.
- 10) The percentage of NPA to Total Lending of NIBL was reduced by 0.55% in the fiscal year 2065/66, and remained at 0.58%, which was 1.13% in the fiscal year 2064/65. This percentage was 0.62% in the year 2066/67 and increased to 0.95% and 3.43% by 0.33% and 2.48% compared to previous years, in the fiscal year 2067/68 and 2068/69 respectively.
- 11) The percentage of NPA to Total Deposit of Nabil was increased by 0.10% in the fiscal year 2065/66, and remained 0.60% which was 0.50% in the year 2064/65. This percentage grew to 1.05% in the fiscal year 2066/67 by 0.45% and remained at 1.39% in the fiscal year 2067/68. The percentage of NPA to total deposit was increased by 0.34% and was 1.82% at the end of fiscal year 2068/69.
- 12) The percentage of NPA to Total Deposit of EBL is in decreasing trend. It was reduced by 0.18% in the fiscal year 2065/66, which was 0.53% and 0.35% respectively in the fiscal year 2064/65 and 2065/66. This percentage went down to 0.18% decreasing by 0.17% in the year 2066/67. Similarly

the ratio of NPA to total deposit were in increasing trend in the fiscal year 2067/68 and 2068/69 remaining at 0.26% and 0.61%.

- 13) The percentage of NPA to Total Deposit of NSBL decreased in the fiscal year 2065/66 by 1.25% and again decreased in the year 2065/66 by 0.11% remaining at 0.76% and 0.65 respectively in the corresponding year. It began with 2.01% in the fiscal year 2064/65. The percentage of NPA to Total Deposit declined to 0.56% in the fiscal year 2067/68 and remained at 0.26% in the fiscal year 2068/69.
- 14) The percentage of NPA to Total Deposit of NBL is also in decreasing trend. It was 4.75% in the fiscal year 2064/65 which was reduced to 2.13% and 3.13% by 2.62% in the fiscal year 2065/66 and 1.00% in the fiscal year 2066/67 respectively. The ratio further decreased 2.27% in the fiscal year 2067/68 and slightly increased to 2.95% in the year 2068/69.
- 15) The percentage of NPA to Total Deposit of NIBL in the fiscal year 2064/65 was 0.89% which was decreased by 0.44% in the year 2065/66 and remained at 0.45%. It was increased to 0.5% in the fiscal year and remained at 0.78% in the fiscal year 206/67 and 0.78% in the fiscal 2068/69, reducing by 0.28% and 0.53% compared with previous fiscal years.

4.10.2 Major Findings from Primary Data

The main theme of this section is based on the questionnaire. Those questionnaires which are included in the annex chapter are specially maintained from the related department of the concerned sample banks and Nepal Rastra Bank. The questionnaire was distributed to 25 individual of the sampled banks and 10 individuals of NRB. They were aged between 24-55 and most of them were male. Entire respondents answered most of the questions. The given table shows the response of the employees of concerned banks in percentage.

*A – agree

*DA – disagrees

*NR – No response

TABLE NO:4.9 : Questionnaires Response

s.n:	questions	RESPONSE		
		A	DA	NR
1	Do you agree that your bank follows the provision of N.R.B. regarding N.P.A?	100%		
2	Do you agree that NRB policies regarding NPA are inadequate?	72%	18%	10%
3	Do you agree the project appraisal method used by your bank is appropriate one for lending loans?	80%	20%	
4	Do you agree that your bank has enough provision amount for doubtful, substandard and loss loan?	85%	15%	
5	Do you agree that NPA can minimize that shareholders wealth?	95%		5%
6	Do you agree that NPA had adverse impact on Return on Assets?	98%	2%	
7	Do you agree that management has done enough monitoring to minimize the level of NPA in your bank?	85%	15%	
8	Do you agree that each and every employee associated with loan have adequate information of NRB provision regarding NPA?	80%	10%	10%
9	Do you agree that minimization of NPA can enhance the bank performance?	86%	10%	4%
10	Do you agree that political interference have maximized the level of NPA?	100%		
11	Do you agree that in coming year your bank can significantly reduce the level of NPA?	98%		2%

The table shows that most of the employees of concerned banks responded to the given questions. Only few didn't respond to some questions. 18-20% employees disagreed that the project appraisal method used by your bank is appropriate one for lending loans and NRB policies regarding NPA are

inadequate. 100% employees agreed that bank follows the provision of N.R.B. regarding N.P.A and political interference have maximized the level of NPA. 80% agreed that each and every employee associated with loan have adequate information of NRB provision regarding NPA. Only 2% didn't response that in coming year bank can significantly reduce the level of NPA. 86% agreed that minimization of NPA can enhance the bank performance.

4.10.2.1 Analysis of Questionnaire

-) From the questionnaire it was found that employees of the sampled banks think that NRB provision regarding NPA is adequate.
-) NPA has major influence in minimizing the shareholder's wealth. Therefore banks should look to minimize the level of NPA in order to maximize the shareholder wealth.
-) NPA has major impact on ROA.
-) It was found that employee's think that management has deliver the adequate information and NRB provision regarding NPA to its employee.
-) Most of the employees of the sampled banks thinks that the bank should perceive about the minimization of NPA can enhance the banking performance.
-) Employee of NBL opined that the management of respective banks is trying its best in reducing the level of NPA.
-) The entire respondent of the banks think that political interference has maximized the level of NPA.
-) The entire respondent believed that their bank is strictly following the provision, and has maintained the provision which is required mandatory by NRB.
-) The employees of private sector sampled banks believed that project appraisal method that their banks follow is appropriate one for lending loans.

-) Lastly the entire respondents were very optimistic about that in coming year their bank can significantly reduce the level of NPA.

4.10.2.2 Major Internal and External Factors Influence to Growth of NPA

The purpose of survey for this analysis was to examine the factors contributing to high level NPA which were present in the concerned banks internally and externally. It was conducted by interview methods which are concluded as:

i) Internal Factors

-) Fraud activities of staffs of commercial banks in lending recovery of loans.
-) Poor recovery efforts of the management even if the loan is categorized as NPL.
-) Poor accounting and auditing capabilities.
-) Deficiencies of risk management with in the banks due to poor system, procedures and credit culture to monitor risk.

ii) External Factors

-) Lack of financial discipline within borrower and banks.
-) Lack of supportive institutions helping to reduce the NPA such as AMC, credit rating agencies, training center on credit management etc.
-) Deterioration in economic growth rates.
-) Poor regulative and supervisory capacity of central bank.
-) Poor government policy and legal environment.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Bank plays an important role in the economic development of the country, as the issue of development always rests upon the mobilization of resources. Banks deals in the process of channelizing the available resources to the needy sector causing overall economic development. This research is aimed at studying the impact of Non Performing Assets on the performance of Nepalese Commercial Banks. For this purpose total 25 commercial banks was taken as population, out of which five banks were taken as sample using judgmental sampling method.. Nepal Bank Ltd. was selected from public sector banks and four major joint venture banks, Nabil Bank Ltd., Everest Bank Ltd., Nepal Investment Bank Ltd, and Nepal SBI Bank Ltd. was selected from private sector banks. Both secondary and primary data have been used through annual reports of concerned banks, publication, questionnaire and interviews. The data of five consecutive years of the selected banks have been collected and analyzed in appropriate forms of tables and charts and appropriate methods of statistical and financial tools.

Escalating level of NPA has been becoming great problem in banking business in the world. In this context, Nepal cannot be run off from such situation. The level of NPA in Nepalese banking business is alarming especially in the largest public sector commercial banks NBL. It is well known fact that the bank and financial institution in Nepal have been facing the problem of swelling non performing assets and the issue is becoming more and more unmanageable day by day. We are well known from different newspaper and articles and NRB statistical and finance report that the total NPA is Nepalese banking sector is Rs. 221823.90 in mid July 2007 which is very worse in case of largest commercial bank NBL.

Today banking industry is severally affected by the problem of NPA. Improper credit appraisal system, ineffective credit monitoring and supervision system, economic slowdown, borrower's misconduct, and overvaluation of collateral, political pressures to lend to uncredit worthy parties etc are the major factor leading to Non-Performing Assets. Setting up recovery cell, hiring Assets Management Company etc are some of the measures to resolve the problem of NPA. Loan classification and Loan Loss Provision also helps to confront these problems thus created due to Non-Performing Loans.

The level of NPA to total lending of Everest Bank Ltd. seems quite satisfactory in comparison to other sampled commercial banks. The NPA to Total Assets, Total Deposit and Total Lending has been decreasing every year in all the selected commercial banks. This result indicates that the bank has given attempt and supervises its NPA regularly.

Nepal Rastra Bank has set a provision regarding lendings of Nepalese Commerical Banks. According to this provision, a bank should classify its outstanding loan into Pass Loan, Substandard Loan, Doubtful Loan and Loss Loan on the basis of overdue aging schedule as per NRB directives. The Pass Loan is called Performing and total of Substandard, Doubtful and loss loan is called Non Performing Assets respectively. As per the latest loan classification and provisioning loan have to be categorized with respective provisioning of 1%, 25%, 50% and 100%. The selected banks has highest proportion of loss graded loan followed by Doubtful Loan in the Total NPL, specially the proportion is very high in case of NBL and RBB, which is an indication of bad quality of asset in the form of loans and advances.

Loan loss provision has a great impact on profitability of the banks. As earlier mentioned, loan loss provision is deducted from the profit of the bank. Therefore the Net Profit of the bank will come down by the amount of provision. Hence increase in LLP means lesser net profit resulting to less Earning per Share (EPS), Dividend per Share (DPS), or no dividend at all and

finally lower Market Value per Share. If any banks make profit less than the amount of provision to be made, it may have to show losses in the balance sheet.

After the financial sector reform programme with the reconstruction of NBL, the capital reserve of NBL and RBB which stood as negative balance was reduced, but the volume of Non-Performing Loan did not decline as expected, though there are the signs of improvement. Recovery of overdue loans of both the banks is not satisfactory. However the progress to date in other areas of reforms in these banks can be taken as satisfactory. For example Net Profit is being earned from fiscal year 2064/65, negative balance in capital reserve is declining, and operational rules, policies and guidelines of international standards have been prepared and made effective and working process have been upgraded internationally in acceptable standard.

5.2 Conclusion

Finally, we can conclude that the situations of NPA in different banks are different. The performance of EBL seems to be the best among others. There is not crucial condition of NPA in Nabil Bank and Nepal SBI Bank, but external as well as internal factors are always responsible for the transaction of banks. So there is no situation of keeping themselves quiet in their transactions. The outstanding loan may get changed into bad loan within the days to come. So the banks should keep them alert towards up to date repayment of loan. But the situation of NPA in Nepal Bank Limited is alarming. These two banks are still suffering from high level of NPA problems. In order to strengthen the credit operations and enhance risk skills, the banks are under the control of foreign management teams. Due to the efforts made by these teams, the level of NPA in NBL is decreasing but still it is in outstanding level.

The degree of negative correlation of different commercial banks between NPA and ROA and NPA and ROE indicates towards the inverse relation between NPA and ROA and NPA and ROE except for the case of NPA and ROE of NIBL. It means that the level of NPA effect the return on assets and return on shareholder equity. Therefore banks should reduce their level of NPA to increase the ROA and ROE.

The positive relationship of NPA and ROE of Nepal Investment Bank signifies that the ROE is decreased with the declination of NPA. This result is due to negative reserves and huge amount of accumulated loss of NBL in the previous fiscal years. This situation arose due to the poor accounting practices, political interference in appointments and lending, and lack of policies processes and procedures needed to support profitable commercial operations etc. The bank should immediately enhance risk skills in order to enhance credit operations.

5.3 Recommendations

The high level of NPA is the symptom of communicable disease to the banks. It has wide spread effects to the bank's transaction. Unless the level of NPA is reduced, the bank neither can distribute bonus to staff nor can give dividend to the shareholders and pay the interest to the primary depositors. In short it decreases the profitability of the banks. Therefore some recommendations are made as follows to reduce the level of NPA in the banks.

i) Enough Staff and Good Corporate Structure

Loan sanction is a risky work since it has to face many technical as well as legal procedures. Good corporate structure with enough staff will help to reduce the risk that may arise from the operational and procedural function of the loan. The lapses in the legal and technical aspects may cause the growth of NPA in the banks since the loan might be sanctioned with low assessment of the projects. So enough staff and good corporate structure helps to reduce the level of NPA in the banks.

ii) Assessment of the Projects and Valuation of the Collateral

Loan is commonly disbursed against enough collateral by the borrower. Such collateral may be fixed asset or the business oriented firms or project. Sometimes it happens that the fixed assets are overvalued and other situation arises that the fair financial status of the borrower and his firms are not well assessed. In such situation the borrower fails to repay the loan to the bank. So bank should properly analyze the financial position of the borrower and carry out the valuation of the collateral to be kept against the loan.

iii) Efficient Management and Corporate Governance

Well-trained and professional managers can handle the functions of loan in good way. Having the power to oversee the market risk and analyze future trend of the business; their own or client's, can manage the loan in well productive way. So training is needed for existing managers and staffs and new manpower that can tackle with such challenges should be introduced to the banks. Similarly, corporate governance also helps to manage the loan in sound way. The loan sanction without influence by the executive chief or directors and in real ground can give good return to the bank. Similarly, the internal auditor should fairly point out the errors committed by the directors or executives of the banks.

iv) Compliance to the Legal and Regulatory Provision

The determination of NPA itself is under the legal and regulatory provision issued by the concerned authority. Therefore, the banks always should make compliance with the regulation issued by the supervisory and regulatory authority. The violence of the regulation weakens the loan management system and results in the growth of NPA in the banks. e.g. single obligor limit, sector limit etc. controls flow of huge loan to the same person or sector.

v) Need for Credit Risk Management and Risk Focused Supervision

In most of the traditional banks in Nepal, risk identification, measurement, mitigation and control are poor. Therefore, appropriate credit risk management should be introduced in the banks so that the level of NPA will be reduced. Similarly, the supervisory authorities' concentration is focused on least priority areas without proper consideration of risk identification and its management into the bank that causes the growth of NPA.

vi) Need for Proper Risk Mitigation on Creamy Projects

There are some such projects which are very much violable in their paper projects but very poor in their business. They have widespread new plan and projects and no certain scope of their future. The loan disbursed to such projects cannot repay its principal and interest and changes to NPA very soon. So the banks should invest in them only after proper risk mitigation whether that they are violable in their business or not.

vii) Need for Proper NPA Management

The high level of NPA in the country is still in alarming level. It is not only the problem of an individual bank but also for the whole nation. Therefore, the Government should initiate to establish an Asset Management Company (AMC) and Total Quality Management Company (TQMC), which can handle the whole NPA in the country. Similarly, an NPA management wing within the institution can help to reduce the NPA in the bank. In the lack of AMC and proper counseling to them, some of the violable companies are also collapsed in the country and contributed to the growth of NPA e.g. Necon Air wouldn't be closed if there were proper counseling on time.

viii) Internal and External Undue Influence should be Eradicated

Lenient credit screening, bribery and business practices based connection and undue influence from politician/business executives are causes for some NPA.

Therefore, necessary steps are to be taken to correct such practices. Banks should revamp their financial supervisory systems such as introduction of a strict accounting system; transparency in managerial level. Moreover, improvement in corporate governance including elimination of cronyism and transparency of corporate management should be advanced under government initiatives.

ix) Miscellaneous

It is found that big borrower's borrowings from the banks are changed into NPA. The borrowers influence the political leaders as well as administrators and don't pay the loan even though they are already NPA. Therefore, the political leaders and administrators should be far from the influence of borrowers to enforce the law made for the recovery of Bad Loan. Similarly, an ethics should be developed in the borrowers and society for the timely recovery of loan to the banks. The borrowers should be aware of the facts that the loan is the lump of small savings from the people.

While the above-suggested recommendations are made practical, the level of NPA certainly will decrease to an acceptable level and there will be no more growth of NPA. For this international, established practices should be introduced and all the organs of the state including the Parliament, Judiciary, Ministry of Finance, Commission of National Planning, Commission for the Investigation of Abuse of Authority, Nepal Rastra Bank and Financial Experts should go ahead with hands to hands together according to their role can play in their concerned field of work.

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1. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Nabil Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROA

F/Y	X	Y	XY	X ²	Y ²
2064/65	0.75	2.01	1.51	0.5625	4.0401
2065/66	0.81	2.35	1.90	0.6561	5.5225
2066/67	1.51	2.19	3.31	2.2801	4.7961
2067/68	1.81	2.30	4.16	3.2761	5.2900
2068/69	2.40	2.69	6.45	5.76	7.2361
Total	x=7.28	y=11.54	xy=17.33	x ² =12.5348	y ² =26.8848

Here No. of variables = n

$$N = 5, \quad x=7.28, \quad y=11.54, \quad xy=17.33, \quad x^2=12.5348, \quad y^2=26.8848$$

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 17.33 - 7.28 \times 11.54}{\sqrt{5 \times 12.5348 - (7.28)^2} \sqrt{5 \times 26.8848 - (11.54)^2}} \\
 &= \frac{2.64}{\sqrt{9.6756} \sqrt{1.2524}} \\
 &= \frac{2.64}{3.1105 \times 1.1191} \\
 &= \frac{2.64}{3.4809} \\
 &= 0.7584
 \end{aligned}$$

The coefficient of determination $r^2 = (0.7584)^2 = 0.5751$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.5751 / \sqrt{5} \\
 &= 0.6745 \times 0.7428 \\
 &= 0.5010
 \end{aligned}$$

2. Calculation of Correlation Coefficient Between NPA to Total Lending and ROE of Nabil Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROE

F/Y	X	Y	XY	X ²	Y ²
2064/65	0.75	30.62	22.9650	0.5625	937.58
2065/66	0.81	32.93	26.6733	0.6561	1084.38
2066/67	1.51	29.75	44.9225	2.2801	885.06
2067/68	1.81	29.25	52.9425	3.2761	855.56
2068/69	2.40	31.14	74.7360	5.76	969.69
Total	x=7.28	y=153.69	xy=222.2393	x ² =12.5348	y ² =4732.27

Here No. of variables = n

$$N = 5, \quad x=7.28, \quad y=153.69, \quad xy=222.2393, \quad x^2=12.5348, \quad y^2=4732.27$$

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 222.2393 - 7.28 \times 153.691}{\sqrt{5 \times 12.5348 - (7.28)^2} \sqrt{5 \times 4732.27 - (153.69)^2}} \\
 &= \frac{7.6740}{\sqrt{9.6756} \sqrt{40.7339}} \\
 &= \frac{7.6740}{3.1105 \times 6.3823} \\
 &= \frac{7.6740}{19.8521} \\
 &= -0.3866
 \end{aligned}$$

The coefficient of determination $r^2 = (-0.3866)^2 = 0.1495$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.1495 / \sqrt{5} \\
 &= 0.6745 \times 0.9331 \\
 &= 0.6294
 \end{aligned}$$

3. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Everest Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROA

F/Y	X	Y	XY	X ²	Y ²
2064/65	0.67	1.60	1.072	0.4489	2.56
2065/66	0.48	1.73	0.8304	0.2304	2.9929
2066/67	0.15	2.00	0.3	0.0225	4.00
2067/68	0.34	2.01	0.6834	0.1156	4.0401
2068/69	0.83	1.95	1.6185	0.6889	3.8025
Total	x=2.47	y=9.29	xy=4.5043	x ² =1.5467	y ² =17.3955

Here No. of variables = n

$$N = 5, \quad x=2.47, \quad y=9.29, \quad xy=22.94, \quad x^2=1.5467, \quad y^2=17.3955$$

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 4.5043 - 2.47 \times 9.29}{\sqrt{5 \times 1.5467 - (2.47)^2} \sqrt{5 \times 17.3955 - (9.29)^2}} \\
 &= \frac{0.0585}{\sqrt{1.6326} \sqrt{0.6734}} \\
 &= \frac{0.0585}{1.2777 \times 0.8206} \\
 &= \frac{0.0585}{1.0484} \\
 &= 0.0558
 \end{aligned}$$

The coefficient of determination $r^2 = (0.0558)^2 = 0.0031$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.0031 / \sqrt{5} \\
 &= 0.6745 \times 0.9987 \\
 &= 0.6737
 \end{aligned}$$

4. Calculation of Correlation Coefficient between NPA to Total Lending and ROE of Everest Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROE

F/Y	X	Y	XY	X ²	Y ²
2064/65	0.67	23.48	15.7316	0.4489	51.3104
2065/66	0.48	28.98	13.9104	0.2304	839.8404
2066/67	0.15	30.14	4.521	0.0225	908.4196
2067/68	0.34	29.91	10.1694	0.1156	894.6081
2068/69	0.83	26.10	21.63	0.6889	676.00
Total	x=2.47	y=138.61	xy=65.9954	x ² =1.5467	y ² =3370.179

Here No. of variables = n

N = 5, x=2.47, y=138.61, xy=65.9954, x²=1.5467, y²=3370.179

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy}(r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \sum 65.9954 - \sum 2.47 \sum 138.61}{\sqrt{5 \sum 1.5467 - (\sum 2.47)^2} \sqrt{5 \sum 3370.179 - (\sum 138.61)^2}} \\
 &= \frac{12.3897}{\sqrt{1.6326} \sqrt{2361.8371}} \\
 &= \frac{12.3897}{1.2777 \sqrt{48.5987}} \\
 &= \frac{12.3897}{62.0945} \\
 &= -0.1996
 \end{aligned}$$

The coefficient of determination $r^2 = (-0.1996)^2 = 0.0399$

$$\begin{aligned}
 P.E(r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.0399 / \sqrt{5} \\
 &= 0.6745 \times 0.9821 \\
 &= 0.6625
 \end{aligned}$$

5. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Nepal SBI Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROA

F/Y	X	Y	XY	X ²	Y ²
2064/65	2.17	1.44	3.124	4.7089	2.0736
2065/66	1.37	1.04	1.424	1.8769	1.0816
2066/67	1.26	1.02	1.285	1.5876	1.0404
2067/68	1.10	1.00	1.10	1.21	1.00
2068/69	0.54	0.82	0.442	0.2916	0.6724
Total	x=6.44	y=5.32	xy=7.375	x ² =9.675	y ² =5.868

Here No. of variables = n

N = 5, x=6.44, y=5.32, xy=7.375, x²=9.675, y²=5.868

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy}(r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \cdot 7.375 - 6.44 \cdot 5.32}{\sqrt{5 \cdot 9.675 - (6.44)^2} \sqrt{5 \cdot 5.868 - (5.32)^2}} \\
 &= \frac{2.6142}{\sqrt{6.9050} \sqrt{1.0376}} \\
 &= \frac{2.6142}{47.6790 \cdot 1.076} \\
 &= \frac{2.6142}{51.313} \\
 &= 0.0510
 \end{aligned}$$

The coefficient of determination $r^2 = (0.0510)^2 = 0.0026$

$$\begin{aligned}
 P.E(r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.0026 / \sqrt{5} \\
 &= 0.6745 \times 0.9988 \\
 &= 0.6737
 \end{aligned}$$

6. Calculation of Correlation Coefficient Between NPA to Total Lending and ROE of Nepal SBI Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROE

F/Y	X	Y	XY	X ²	Y ²
2064/65	2.17	17.50	37.975	4.7089	306.25
2065/66	1.37	18.47	25.3039	1.8769	341.1409
2066/67	1.26	15.98	20.1348	1.5876	255.3604
2067/68	1.10	15.13	16.643	1.21	228.9169
2068/69	0.54	15.01	8.1054	0.2916	225.3001
Total	x=6.44	y=82.09	xy=108.1621	x ² =9.675	y ² =1356.968

Here No. of variables = n

N = 5, x=6.44, y=82.09, xy=108.1621, x²=9.675, y²=1356.968

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy}(r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 108.1621 - 6.44 \times 82.09}{\sqrt{5 \times 9.675 - (6.44)^2} \sqrt{5 \times 1356.968 - (82.09)^2}} \\
 &= \frac{12.1509}{\sqrt{48.375 - 41.4736} \sqrt{6784.84 - 6738.7681}} \\
 &= \frac{12.1509}{2.6270 \times 6.7876} \\
 &= \frac{12.1509}{17.8311} \\
 &= 0.6815
 \end{aligned}$$

The coefficient of determination $r^2 = (0.6815)^2 = 0.4644$

$$\begin{aligned}
 P.E(r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.4644 / \sqrt{5} \\
 &= 0.6745 \times 0.7923 \\
 &= 0.5344
 \end{aligned}$$

7. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Nepal Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROA

F/Y	X	Y	XY	X ²	Y ²
2064/65	13.49	0.01	0.1349	181.9801	0.0001
2065/66	4.94	0.02	0.0988	24.4036	0.0004
2066/67	5.36	0.01	0.0536	28.7296	0.0001
2067/68	5.74	0.01	0.0574	32.9476	0.0001
2068/69	5.58	0.01	0.0558	31.1364	0.0001
Total	$\sum x = 35.11$	$\sum y = 0.06$	$\sum xy = 0.4005$	$\sum x^2 = 299.1973$	$\sum y^2 = 0.0008$

Here No. of variables = n

$N = 5, \quad \sum x = 35.11, \quad \sum y = 0.06, \quad \sum xy = 0.4005, \quad \sum x^2 = 299.1973, \quad \sum y^2 = 0.0008$

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 0.4005 - 35.11 \times 0.06}{\sqrt{5 \times 299.1973 - (35.11)^2} \sqrt{5 \times 0.0008 - (0.06)^2}} \\
 &= \frac{0.1041}{\sqrt{263.2744} \sqrt{0.0004}} \\
 &= \frac{0.1041}{16.2257 \times 0.02} \\
 &= \frac{0.1041}{0.3246} \\
 &= -0.3207
 \end{aligned}$$

The coefficient of determination $r^2 = (-0.3207)^2 = 0.1028$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.1028 / \sqrt{5} \\
 &= 0.6745 \times 0.9541 \\
 &= 0.6435
 \end{aligned}$$

8. Calculation of Correlation Coefficient Between NPA to Total Lending and ROE of Nepal Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROE

F/Y	X	Y	XY	X ²	Y ²
2064/65	13.49	-0.04	-0.5396	181.9801	0.0016
2065/66	4.94	-0.17	-0.8398	24.4036	0.0289
2066/67	5.36	-0.06	-0.3216	28.7296	0.0036
2067/68	5.74	-0.03	-0.3444	32.9476	0.0009
2068/69	5.58	-0.06	-0.3348	31.1364	0.0036
Total	$\sum x = 35.11$	$\sum y = -0.36$	$\sum xy = -2.3802$	$\sum x^2 = 299.1973$	$\sum y^2 = 0.0386$

Here No. of variables = n

$$N = 5, \quad \sum x = 35.11, \quad \sum y = -0.36, \quad \sum xy = -2.3802, \quad \sum x^2 = 299.1973, \quad \sum y^2 = 0.0386$$

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy} (r) &= \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} \\
 &= \frac{-2.3802}{\sqrt{299.1973} \sqrt{0.0386}} \\
 &= \frac{-2.3802}{\sqrt{263.2744}} \\
 &= \frac{-2.3802}{16.2257} \\
 &= \frac{-2.3802}{4.0840} \\
 &= -0.1809
 \end{aligned}$$

The coefficient of determination $r^2 = (-0.1809)^2 = 0.0327$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.0327 / \sqrt{5} \\
 &= 0.6745 \times 0.9853 \\
 &= 0.6646
 \end{aligned}$$

9. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Nepal Investment Bank Ltd.

Where X denotes NPA to Total Lending and Y denotes ROA

F/Y	X	Y	XY	X ²	Y ²
2064/65	1.13	1.79	2.0227	1.2769	3.2041
2065/66	0.58	1.69	0.9802	0.3364	2.8561
2066/67	0.62	2.20	1.364	0.3844	4.84
2067/68	0.95	2.01	1.9095	0.9025	4.0401
2068/69	3.43	1.58	5.4194	11.7649	2.4964
Total	$\sum x = 6.71$	$\sum y = 9.27$	$\sum xy = 11.6958$	$\sum x^2 = 14.651$	$\sum y^2 = 17.4367$

Here No. of variables = n

$$N = 5, \quad \sum x = 6.71, \quad \sum y = 9.27, \quad \sum xy = 11.6958, \quad \sum x^2 = 14.651, \quad \sum y^2 = 17.4367$$

Now, correlation coefficient between x and y

$$\begin{aligned} R_{xy} (r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\ &= \frac{5 \times 11.6958 - 6.71 \times 9.27}{\sqrt{5 \times 14.651 - (6.71)^2} \sqrt{5 \times 17.4367 - (9.27)^2}} \\ &= \frac{3.7227}{\sqrt{28.231} \sqrt{1.2500}} \\ &= \frac{3.7227}{5.3132 \times 1.1183} \\ &= \frac{3.7227}{5.9417} \\ &= -0.6265 \end{aligned}$$

The coefficient of determination $r^2 = (-0.6265)^2 = 0.3925$

$$\begin{aligned} P.E (r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\ &= 0.6745 \times 1 - 0.3925 / \sqrt{5} \\ &= 0.6745 \times 0.1755 \\ &= 0.8245 \end{aligned}$$

**10. Calculation of Correlation Coefficient Between NPA to Total Lending
and ROE of Nepal Investment Bank Ltd.**

Where X denotes NPA to Total Lending and Y denotes ROE

F/Y	X	Y	XY	X ²	Y ²
2064/65	1.13	2.59	2.9267	1.2769	6.7081
2065/66	0.58	1.69	0.9802	0.3364	2.8561
2066/67	0.62	2.74	1.6988	0.3844	7.5076
2067/68	0.95	2.28	2.166	0.9025	5.1984
2068/69	3.43	1.71	5.8653	11.7649	2.9241
Total	$\sum x = 6.71$	$\sum y = 11.01$	$\sum xy = 13.637$	$\sum x^2 = 14.651$	$\sum y^2 = 25.1943$

Here No. of variables = n

$N = 5, \quad \sum x = 6.71, \quad \sum y = 11.01, \quad \sum xy = 13.637, \quad \sum x^2 = 14.651, \quad \sum y^2 = 25.1943$

Now, correlation coefficient between x and y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 13.637 - 6.71 \times 11.01}{\sqrt{5 \times 14.651 - (6.71)^2} \sqrt{5 \times 25.1943 - (11.01)^2}} \\
 &= \frac{5.6921}{\sqrt{28.2310} \sqrt{4.7514}} \\
 &= \frac{5.6921}{5.3132 \times 2.1798} \\
 &= \frac{5.6921}{11.5818} \\
 &= -0.4915
 \end{aligned}$$

The coefficient of determination $r^2 = (-0.4915)^2 = 0.2415$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times 1 - r^2 / \sqrt{n} \\
 &= 0.6745 \times 1 - 0.2415 / \sqrt{5} \\
 &= 0.6745 \times 0.8920 \\
 &= 0.6017
 \end{aligned}$$

Calculation for Nabil Bank Ltd.

1. Calculation of Percentage of Non-Performing Assets (NPA) to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Total NPA (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of NPA to TA (5) = (1/2)	% of NPA to TD (6) = (1/3)	% of NPA to TL = (1/4)
2064/65	161,085,995	37,132,759,149	31,915,047,467	21,365,053,318	0.43	0.5	0.75
2065/66	224,817,413	43,867,397,504	37,348,255,840	27,589,933,041	0.51	0.6	0.81
2066/67	487,541,602	52,079,725,697	46,340,700,628	32,268,873,283	0.93	1.05	1.51
2067/68	689,851,773	58,141,437,401	49,308,376,346	38,034,097,554	1.18	1.39	1.81
2068/69	1,000,059,138	63,257,372,483	54,905,976,208	41,605,682,634	1.58	1.82	2.40

2. Calculation of Percentage of Performing Assets (NPA) to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Performing Assets (PA) (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of NPA to TA (5) = (1/2)	% of NPA to TD (6) = (1/3)	% of NPA to TL (7) = (1/4)
2064/65	21,598,374,339	37,132,759,149	31,915,047,467	21,365,053,318	58.16	67.67	101.09
2065/66	27,774,194,658	43,867,397,504	37,348,255,840	27,589,933,041	63.31	74.36	100.66
2066/67	32,543,427,086	52,079,725,697	46,340,700,628	32,268,873,283	62.48	70.22	100.85
2067/68	38,215,636,116	58,141,437,401	49,308,376,346	38,034,097,554	65.72	77.50	100.47
2068/69	41,867,708,655	63,257,372,483	54,905,976,208	41,605,682,634	66.18	76.25	100.62

3. Calculation of Percentage of Substandard, Doubtful and Loss loan to Total NPA of Nabil Bank Ltd. (Amount in Rs.)

Fiscal year	Total NPA (1)	Substandard Loan (2)	Doubtful loan (3)	Loss loan (4)	% of substandard to NPA (5) = 2/1	% of doubtful to NPA (6) = (3/1)	% of NPA to TL (7) = (1/4)
2064/65	161,085,995	66,221,308	42,575,949	52,288,738	41.11	26.43	32.46
2065/66	224,817,413	113,305,139	45,756,398	65,755,876	50.39	20.35	29.24
2066/67	487,541,602	59,020,380	22,730,859	404,530,282	12.10	46.62	82.97
2067/68	689,851,773	170,212,819	104,659,216	392,836,765	24.67	15.17	56.94
2068/69	1,000,059,138	162,440,668	36,784,473	783,629,763	16.24	3.67	78.35

4. Calculation of Loan Loss Provision of Nabil Bank Ltd. For its Pass, Substandard, Doubtful and Loss Loan Respectively

Fiscal year	Pass Loan (PL) (1)	Provision of P.L. (2)	% of provision for P.L. (3) = (2/1)	Substandard loan (S.L.)	Provision for S.L. (5)	% of provision for S.L. (6) = (5/4)
2064/65	21,587,743,031	291,714,142	1.36	66,221,308	32,305,327	48.79
2065/66	27,766,997,484	280,444,516	1.01	113,305,139	44,073,679	38.90
2066/67	32,543,427,086	335,416,998	1.03	59,020,380	14,755,095	25
2067/68	38,215,636,116	384,882,171	1.01	170,212,819	42,553,205	25
2068/69	41,867,708,655	420,433,013	1.01	162,440,68	40,610,167	25

Fiscal year	Pass Loan (D.L.)	Provision of D.L. (8)	% of provision for D.L. (9) = (8/7)	Loss loan (L.L.) (10)	Provision for L.L. (11)	% of provision for L.L. (12) = (11/10)
2064/65	42,575,949	21,265,253	49.95	52,288,738	46,416,998	88.16
2065/66	45,756,398	23,525,833	51.42	65,755,876	59,837,274	91
2066/67	22,730,859	11,365,430	50	404,530,282	400,400,372	98.98
2067/68	104,659,216	52,329,608	50	392,836,765	388,911,680	99
2068/69	36,784,473	18,392,237	50	783,629,763	778,348,684	99.33

5. Calculation of Return on Total Assets (ROA) and Return on shareholder's equity (ROE) of Nabil

Fiscal year	Net Profit (NP)	Total Assets (T.A.)	Total Equity (T.E.)	ROA = N.P./T.A.×100	ROE=N.P./T.E.×100
2064/65	746,468,394	37,132,759,149	2,437,198,989	2.01	30.62
2065/66	1,031,053,098	43,867,397,504	3,130,240,637	2.35	32.93
2066/67	1,141,051,430	52,079,725,697	3,834,225,929	2.19	29.75
2067/68	1,337,745,485	58,141,437,401	4,572,056,219	2.30	29.25
2068/69	1,700,375,650	63,257,372,483	5,460,524,109	2.69	31.14

Calculation for Everest Bank Ltd.

1. Calculation of Percentage of Non-Performing Assets (NPA) to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Total NPA (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of NPA to TA (5)=(1/2)	% of NPA to TD (6) = (1/3)	% of NPA to TL (7) = (1/4)
2064/65	127,310,368	27,1449,342,884	23,976,298,535	18,836,431,762	0.46	0.53	0.67
2065/66	117,985,232	36,916,848,654	33,322,946,246	24,469,555,526	0.31	0.35	0.48
2066/67	43,705,982	41,382,760,711	36,932,310,008	28,156,399,843	0.1	0.18	0.15
2067/68	108,512,928	46,236,212,262	41,127,914,339	31,61,842,757	0.23	0.26	0.34
2068/69	307,492,696	55,813,129,057	50,006,100,272	36,616,831,527	0.5	0.61	0.83

2. Calculation of Percentage of Performing Loan to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Performing Assets (PA) (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of PA to TA (5)=(1/2)	% of PA to TD (6) = (1/3)	% of PA to TL (7) = (1/4)
2064/65	18,709,121,394	27,1449,342,884	23,976,298,535	18,836,431,762	68.91	78.03	99.32
2065/66	24,351,570,294	36,916,848,654	33,322,946,246	24,469,555,526	95.96	73.07	99.51
2066/67	28,112,693,861	41,382,760,711	36,932,310,008	28,156,399,843	67.93	76.11	99.84
2067/68	31,553,329,830	46,236,212,262	41,127,914,339	31,61,842,757	68.24	76.72	99.65
2068/69	36,309,338,831	55,813,129,057	50,006,100,272	36,616,831,527	65.05	72.60	99.16

3. Calculation of Percentage of Substandard, Doubtful and Loss loan to Total NPA of Everest Bank Ltd. (Amount in Rs.)

Fiscal year	Total NPA (1)	Substandard Loan (2)	Doubtful loan (3)	Loss loan (4)	% of substandard to NPA (5) = 2/1	% of doubtful to NPA (6) = (3/1)	% of NPA to TL (7) = (1/4)
2064/65	127,310,368	6,306,745	745,926	120,257,697	4.95	0.58	9.44
2065/66	117,985,232	1,360,792	28,514,320	88,110,120	1.15	24.16	74.67
2066/67	43,705,982	5,469,421	12,633,778	25,602,782	1.25	28.9	58.57
2067/68	108,512,928	72,920,643	4,409,803	16,974,588	6.72	4.06	15.64
2068/69	307,492,696	77,414,569	10,449,977	218,878,150	2.51	3.39	71.18

4. Calculation of Loan Loss Provision of Everest Bank Ltd. For its Pass, Substandard, Doubtful and Loss Loan Respectively

Fiscal year	Pass Loan (PL) (1)	Provision of P.L. (2)	% of provision for P.L. (3) = (2/1)	Substandard loan (S.L.)	Provision for S.L. (5)	% of provision for S.L. (6) = (5/4)
2064/65	18,555,269,076	185,552,691	1.00	6,306,745	1,576,686,	25.00
2065/66	24,248,590,584	242,485,906	1.00	1,360,792	340,198	25.00
2066/67	28,030,839,372	280,308,394	1.00	5,469,421	1,367,355	25.00
2067/68	31,553,329,830	315,533,299	1.00	72,920,643	18,230,1611	25.00
2068/69	36,309,338,831	363,093,388	1.00	77,414,569	19,353,644	25.00

Fiscal year	Pass Loan (D.L.) (7)	Provision of D.L. (8)	% of provision for D.L. (9) = (8/7)	Loss loan (L.L.) (10)	Provision for L.L. (11)	% of provision for L.L. (12) = (11/10)
2064/65	745,926	372,963	50.00	120,257,697	120,257,697	100
2065/66	28,514,320	14,257,160	50.00	88,110,120	88,110,120	100
2066/67	12,633,778	6,316,889	50.00	25,602,782	25,602,782	100
2067/68	4,409,803	2,204,901	50.00	16,974,588	16,915,780	99.66
2068/69	10,449,977	5,224,988	50.00	218,878,150	218,878,150	100

5. Calculation of Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Everest Bank Ltd.

Fiscal year	Net Profit (NP)	Total Assets (T.A.)	Total Equity (T.E.)	ROA = N.P./T.A.×100	ROE=N.P./T.E.×100
2064/65	451,218,613	27,1449,342,884	1,921,237,580	1.6	23.48
2065/66	638,732,757	36,916,848,654	2,230,625,055	1.73	28.98
2066/67	831,765,632	41,382,760,711	2,759,137,855	2.00	30.14
2067/68	931,303,628	46,236,212,262	3,113,546,056	2.01	29.91
2068/69	1,090,564,222	55,813,129,057	4,177,302,887	1.95	26.10

Calculation for Nepal SBI Bank Ltd.

1. Calculation of Percentage of Non-Performing Assets (NPA) to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Total NPA (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4)=(TL)	% of NPA to TA (5)=(1/2)	% of NPA to TD (6) = (1/3)	% of NPA to TL (7) = (1/4)
2064/65	276,747,296	17,187,446,174	13,715,394,960	12,746,216,214	1.61	2.01	2.17
2065/66	214,926,217	30,166,439,549	27,957,220,794	15,612,050,411	0.71	0.76	1.37
2066/67	227,448,241	38,047,679,465	34,896,424,201	17,963,641,179	0.59	0.65	1.26
2067/68	239,299,187	46,088,233,975	42,415,443,294	21,718,790,731	0.52	0.56	1.10
2068/69	143,848,188	58,059,707,720	53,337,264,193	26,463,671,464	0.25	0.26	0.54

2. Calculation of Percentage of Performing Loan to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Performing Assets (PA) (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4)=(TL)	% of PA to TA (5)=(1/2)	% of PA to TD (6) = (1/3)	% of PA to TL (7) = (1/4)
2064/65	12,257,806,145	17,187,446,174	13,715,394,960	12,746,216,214	71.31	89.37	96.16
2065/66	15,296,095,646	30,166,439,549	27,957,220,794	15,612,050,411	50.70	54.71	97.97
2066/67	17,698,507,430	38,047,679,465	34,896,424,201	17,963,641,179	46.51	50.71	98.52
2067/68	21,479,491,544	46,088,233,975	42,415,443,294	21,718,790,731	46.60	50.64	98.89
2068/69	26,319,823,276	58,059,707,720	53,337,264,193	26,463,671,464	45.33	49.34	99.45

3. Calculation of Percentage of Substandard, Doubtful and Loss loan to Total NPA of Nepal SBI Bank Ltd. (Amount in Rs.)

Fiscal year	Total NPA (1)	Substandard Loan (2)	Doubtful loan (3)	Loss loan (4)	% of substandard to NPA (5) = 2/1	% of doubtful to NPA (6) = (3/1)	% of NPA to TL (7) = (1/4)
2064/65	276,747,296	3,874,789	21,626,680	462,908,600	1.40	7.81	167.26
2065/66	214,926,217	13,235,686	11,338,722	291,380,357	6.15	5.27	135.57
2066/67	227,448,241	12,975,351	1,113,939	251,044,459	5.70	0.48	110.37
2067/68	239,299,187	2,396,087	1,799,948	95,158,572	0.22	0.20	38.36
2068/69	143,848,188	4,583,958	2,846,859	30,012,916	0.79	0.79	18.67

4. Calculation of Loan Loss Provision of Nepal SBI Bank Ltd. For its Pass, Substandard, Doubtful and Loss Loan Respectively

Fiscal year	Pass Loan (PL)=(1)	Provision of P.L. (2)	% of provision for P.L. (3) = (2/1)	Substandard loan (S.L.)	Provision for S.L. (5)	% of provision for S.L. (6) = (5/4)
2064/65	11,981,058,849	117,922,667	0.98	3,874,789	566,279	14.61
2065/66	15,081,169,429	149,466,541	0.99	13,235,686	2,740,744	20.70
2066/67	17,471,059,189	175,583,537	0.99	12,975,351	3,189,722	24.00
2067/68	21,479,491,544	213,793,432	1.00	2,396,087	519,179	22.00
2068/69	26,319,823,276	262,432,500	1.00	4,583,958	1,145,990	25.00

Fiscal year	Pass Loan (D.L.) (7)	Provision of D.L. (8)	% of provision for D.L. (9) = (8/7)	Loss loan (L.L.)=(10)	Provision for L.L.=(11)	% of provision for L.L. (12) = (11/10)
2064/65	21,626,680	9,869,035	45.63	462,908,600	456,395,830	98.59
2065/66	11,338,722	3,685,439	33.00	291,380,357	285,338,247	98.00
2066/67	1,113,939	219,153	19.67	251,044,459	245,754,799	97.89
2067/68	1,799,948	496,074	28.00	95,158,572	91,799,704	97.00
2068/69	2,846,859	1,227,822	44.00	30,012,916	26,867,012	90.00

5. Calculation of Return on Total Assets (ROA) and Return on shareholder's equity (ROE) of Nepal SBI Bank Ltd.

Fiscal year	Net Profit (NP)	Total Assets (T.A.)	Total Equity (T.E.)	ROA = N.P./T.A.×100	ROE=N.P./T.E.×100
2064/65	247,770,758	17,187,446,174	1,414,644,812	1.44	17.50
2065/66	316,373,495	30,166,439,549	1,712,607,195	1.04	18.47
2066/67	391,742,119	38,047,679,465	2,450,554,070	1.02	15.98
2067/68	464,564,999	46,088,233,975	2,879,293,150	1.00	15.13
2068/69	480,105,493	58,059,707,720	3,197,458,863	0.82	15.01

Calculation for Nepal Bank Ltd.

1. Calculation of Percentage of Non-Performing Assets (NPA) to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Total NPA (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of NPA to TA (5)=(1/2)	% of NPA to TD (6) = (1/3)	% of NPA to TL (7) = (1/4)
2064/65	1,856,048,981	39,258,793,505	39,014,204,359	13,756,619,677	4.72	4.75	13.49
2065/66	966,723,125	47,559,110,605	45,194,322,465	19,560,093,521	2.03	2.13	4.94
2066/67	1,344,118,565	44,736,652,431	42,882,039,669	25,052,351,885	3.13	3.13	5.36
2067/68	1,534,848,743	51,158,657,445	46,808,435,445	26,705,878,530	3.00	3.27	5.74
2068/69	1,657,527,630	58,615,520,783	56,052,372,757	29,698,963,430	2.82	2.95	5.58

2. Calculation of Percentage of Performing Loan to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Performing Assets (PA) (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of PA to TA (5) (1/2)	% of PA to TD (6) = (1/3)	% of PA to TL (7) = (1/4)
2064/65	11,900,570,696	39,258,793,505	39,014,204,359	13,756,619,677	30.31	30.50	86.51
2065/66	18,593,370,396	47,559,110,605	45,194,322,465	19,560,093,521	39.09	41.14	95.05
2066/67	23,708,233,320	44,736,652,431	42,882,039,669	25,052,351,885	52.99	55.28	94.63
2067/68	25,171,029,787	51,158,657,445	46,808,435,445	26,705,878,530	49.20	53.77	94.25
2068/69	28,041,335,800	58,615,520,783	56,052,372,757	29,698,963,430	47.83	50.02	94.41

3. Calculation of Percentage of Substandard, Doubtful and Loss loan to Total NPA of Nepal Bank Ltd. (Amount in Rs.)

Fiscal year	Total NPA (1)	Substandard Loan (2)	Doubtful loan (3)	Loss loan (4)	% of substandard to NPA (5) = 2/1	% of doubtful to NPA (6) = (3/1)	% of NPA to TL (7) = (1/4)
2064/65	1,856,048,981	17,246,119	29,847,790	1,808,955,072	0.92	1.60	97.46
2065/66	966,723,125	64,764,953	17,888,488	884,069,684	0.69	1.85	91.45
2066/67	1,344,118,565	326,034,200	16,206,776	877,432,771	24.25	1.20	65.27
2067/68	1,534,848,743	78,184,226	100,626,014	1,172,253,576	5.09	6.55	76.37
2068/69	1,657,527,630	36,155,76	61,472,865	1,559,499,000	2.18	3.70	94.08

4. Calculation of Loan Loss Provision of Nepal Bank Ltd. For its Pass, Substandard, Doubtful and Loss Loan Respectively

Fiscal year	Pass Loan (PL) (1)	Provision of P.L. (2)	% of provision for P.L. (3) = (2/1)	Substandard loan (S.L.)	Provision for S.L. (5)	% of provision for S.L. (6) = (5/4)
2064/65	13,756,619,677	170,161,310	2.00	17,246,119	5,498,640	32.00
2065/66	19,560,093,521	565,422,603	3.00	64,764,953	20,373,343	32.00
2066/67	25,052,351,885	508,795,845	2.00	326,034,200	81,508,550	25.00
2067/68	26,705,878,530	769,510,883	2.90	78,184,226	19,546,054	25.00
2068/69	29,698,963,430	428,351,744	1.50	36,155,76	9,038,941	25.00

Fiscal year	Pass Loan (D.L.) (7)	Provision of D.L. (8)	% of provision for D.L. (9) = (8/7)	Loss loan (L.L.) (10)	Provision for L.L. (11)	% of provision for L.L. (12) = (11/10)
2064/65	29,847,790	15,112,478	51.00	1,808,955,072	1,808,955,072	100.00
2065/66	17,888,488	10,700,421	60.00	884,069,684	884,069,683	100.00
2066/67	16,206,776	8,103,388	50.00	877,432,771	877,432,771	100.00
2067/68	100,626,014	50,313,007	50.00	1,172,253,576	1,175,253,576	100.00
2068/69	61,472,865	30,733,674	50.00	1,559,499,000	1,559,899,000	100.00

5. Calculation of Return on Total Assets (ROA) and Return on shareholder's equity (ROE) of Nepal Bank Ltd.

Fiscal year	Net Profit (NP)	Total Assets (T.A.)	Total Equity (T.E.)	ROA = N.P./T.A.×100	ROE=N.P./T.E.×100
2064/65	226,952,911	1,856,048,981	(6,247,515,743)	0.01	-0.04
2065/66	894,254,182	966,723,125	(5,356,627,548)	0.02	-0.17
2066/67	249,382,295	1,344,118,565	(4,604,929,612)	0.01	-0.06
2067/68	128,346,584	1,534,848,743	(4,476,583,028)	0.01	-0.03
2068/69	176,361,505	1,657,527,630	(2,907,776,423)	0.01	-0.06

Calculation for Nepal Investment Bank Ltd.

1. Calculation of Percentage of Non-Performing Assets (NPA) to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Total NPA (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of NPA to TA (5) (1/2)	% of NPA to TD (6) = (1/3)	% of NPA to TL (7) = (1/4)
2064/65	309,470,983	38,873,306,084	34,451,726,191	27,176,973,284	0.79	0.89	1.13
2065/66	213,907,394	53,010,803,126	46,698,100,065	36,576,257,637	0.4	0.45	0.58
2066/67	254,034,452	57,305,413,482	50,094,725,497	40,674,106,181	0.44	0.5	0.62
2067/68	395,282,853	58,356,827,501	50,138,1122,242	41,492,411,058	0.67	0.78	0.95
2068/69	1,425,394,070	65,756,231,954	57,010,603,789	41,481,296,984	2.16	0.25	3.43

2. Calculation of Percentage of Performing Loan to Total Assets, Total Deposits and Total Lending (Amount in Rs.)

Fiscal year	Performing Assets (PA) (1)	Total Assets (2) (TA)	Total Deposits (3) (TD)	Total Lending (4) (TL)	% of PA to TA (5) (1/2)	% of PA to TD (6) = (1/3)	% of PA to TL (7) = (1/4)
2064/65	27,219,833,753	38,873,306,084	34,451,726,191	27,176,973,284	70.12	79.00	100.15
2065/66	36,613,250,015	53,010,803,126	46,698,100,065	36,576,257,637	69.06	78.40	100.10
2066/67	40,694,405,581	57,305,413,482	50,094,725,497	40,674,106,181	71.01	81.23	100.04
2067/68	41,492,411,058	58,356,827,501	50,138,1122,242	41,492,411,058	71.1	82.75	100.00
2068/69	41,481,296,984	65,756,231,954	57,010,603,789	41,481,296,984	63.08	72.76	100.00

3. Calculation of Percentage of Substandard, Doubtful and Loss loan to Total NPA of Nepal Investment Bank Ltd (Amount in Rs.)

Fiscal year	Total NPA (1)	Substandard Loan (2)	Doubtful loan (3)	Loss loan (4)	% of substandard to NPA (5) = 2/1	% of doubtful to NPA (6) = (3/1)	% of NPA to TL (7) = (1/4)
2064/65	309,470,983	61,737,243	20,724,497	227,009,243	19.99	6.69	73.35
2065/66	213,907,394	10,765,503	11,485,860	191,656,030	5.03	5.36	89.59
2066/67	254,034,452	55,710,406	10,994,950	187,329,096	21.93	4.32	73.74
2067/68	395,282,853	4,159,195	4,159,195	368,341,025	5.76	1.05	93.18
2068/69	1,425,394,070	180,410,96	180,410,96	602,652,322	45.06	1.26	42.27

4. Calculation of Loan Loss Provision of Nepal Investment Bank Ltd. for its Pass, Substandard, Doubtful and Loss Loan Respectively

Fiscal year	Pass Loan (PL) (1)	Provision of P.L. (2)	% of provision for P.L. (3) = (2/1)	Substandard loan (S.L.)	Provision for S.L. (5)	% of provision for S.L. (6) = (5/4)
2064/65	27,176,973,284	274,449,428	1.00	61,737,243	15,434,311	25.00
2065/66	36,576,257,637	381,198,976	1.04	10,765,503	2,691,376	25.00
2066/67	40,674,106,181	420,840,374	1.03	55,710,406	13,927,601	24.99
2067/68	41,492,411,058	416,063,103	1.00	4,159,195	5,695,658	24.99
2068/69	41,481,296,984	416,251,737	1.00	180,410,96	160,582,695	25.00

Fiscal year	Pass Loan (D.L.) (7)	Provision of D.L. (8)	% of provision for D.L. (9) = (8/7)	Loss loan (L.L.) (10)	Provision for L.L. (11)	% of provision for L.L. (12) = (11/10)
2064/65	20,724,497	10,401,937	50.19	227,009,243	227,009,243	100.00
2065/66	11,485,860	5,742,930	50.00	191,656,030	191,656,030	97.74
2066/67	10,994,950	5,497,475	50.00	187,329,096	187,329,096	100.00
2067/68	4,159,195	2,079,598	50.00	368,341,025	368,341,025	100.00
2068/69	180,410,96	90,205,483	50.00	602,652,322	602,652,322	100.00

5. Calculation of Return on Total Assets (ROA) and Return on shareholder's equity (ROE) of Nepal Investment Bank Ltd.

Fiscal year	Net Profit (NP)	Total Assets (T.A.)	Total Equity (T.E.)	ROA = N.P./T.A.×100	ROE=N.P./T.E.×100
2064/65	696,731,516	38,873,306,084	2,686,786,049	1.79	2.59
2065/66	900,619,072	53,010,803,126	3,907,839,708	1.69	1.69
2066/67	1,265,949,588	57,305,413,482	4,612,576,356	2.20	2.74
2067/68	1,176,641,031	58,356,827,501	5,159,759,697	2.01	2.28
2068/69	1,039,275,613	65,756,231,954	6,049,941,175	1.58	1.71

1. Calculation of z score for financial distress of Nabil Bank Ltd.

Fiscal year	X ₁	X ₂	X ₃	X ₄	X ₅
2064/65	230.515	198.1242	132.6313	4.6339	0.2881
2065/66	195.1245	166.1270	122.7215	4.5861	0.261
2066/67	106.8210	95.0497	66.1869	2.3404	0.8212
2067/68	84.2810	71.4767	55.1337	1.9391	0.5637
2068/69	63.2536	54.9027	41.6032	1.7002	0.7783

Where X₁ denotes TA to NPA, X₂ denoted TD to NPA, X₃ denotes TL to NPA, X₄ denotes Net profit to NPA & X₅ denotes loan loss provision to NPA.

Now z-score model is

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Z-score for 2064/65 = 994.7439

Z-score for 2065/66 = 874.7209

Z-score for 2066/67 = 481.8971

Z-score for 2067/68 = 384.8731

Z-score for 2068/69 = 291.8573

Finally average z-score for Nabil Bank Ltd. is Z = 605.6185

2. Calculation of z score for financial distress of Everest Bank Ltd.

Fiscal year	X ₁	X ₂	X ₃	X ₄	X ₅
2064/65	2132.1856	188.3295	147.9567	3.5442	0.9446
2065/66	312.8938	282.4331	207.3950	5.4136	0.7467
2066/67	946.8443	845.0172	644.2230	19.0309	0.5857
2067/68	426.0894	379.0139	29.1379	8.5824	0.1558
2068/69	181.5104	162.6253	119.0819	3.5466	0.7118

Where X₁ denotes TA to NPA, X₂ denoted TD to NPA, X₃ denotes TL to NPA, X₄ denotes Net profit to NPA & X₅ denotes loan loss provision to NPA.

Now z-score model is

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Z-score for 2064/65 = 2967.5530

Z-score for 2065/66 = 1132.4355

Z-score for 2066/67 = 8103.8142

Z-score for 2067/68 = 505.7877

Z-score for 2068/69 = 467.4761

Finally average z-score for Everest Bank Ltd. is Z = 2635.4133

3. Calculation of z score for financial distress of Nepal SBI Bank Ltd.

Fiscal year	X ₁	X ₂	X ₃	X ₄	X ₅
2064/65	62.1052	49.5592	46.0572	0.8952	1.6491
2065/66	140.3571	130.0782	72.6391	1.4720	1.3276
2066/67	167.2806	153.4257	78.9790	1.7223	1.0804
2067/68	192.5967	177.2485	90.7599	1.9413	0.3836
2068/69	403.6179	370.7885	183.9694	3.3375	0.1867

Where X₁ denotes TA to NPA, X₂ denoted TD to NPA, X₃ denotes TL to NPA, X₄ denotes Net profit to NPA & X₅ denotes loan loss provision to NPA.

Now z-score model is

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Z-score for 2064/65 = 192.3191

Z-score for 2065/66 = 484.2238

Z-score for 2066/67 = 828.2112

Z-score for 2067/68 = 277.7580

Z-score for 2068/69 = 561.9001

Finally average z-score for Nabil SBI Bank Ltd. is Z= 468.8825

4. Calculation of z score for financial distress of Nepal Bank Ltd.

Fiscal year	X ₁	X ₂	X ₃	X ₄	X ₅
2064/65	21.1518	21.02	7.4117	0.1222	0.9746
2065/66	49.1962	46.75	20.2333	0.9250	0.9145
2066/67	33.2832	31.9034	18.6384	0.1855	0.6527
2067/68	33.3314	30.4970	17.3996	0.0836	0.7657
2068/69	35.3632	33.8168	17.9176	0.1064	0.9410

Where X₁ denotes TA to NPA, X₂ denoted TD to NPA, X₃ denotes TL to NPA, X₄ denotes Net profit to NPA & X₅ denotes loan loss provision to NPA.

Now z-score model is

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Z-score for 2064/65= 60.8164

Z-score for 2065/66 = 165.2266

Z-score for 2066/67 = 279.3902

Z-score for 2067/68 = 49.2463

Z-score for 2068/69 = 88.1451

Finally average z-score for Nepal Bank Ltd. is Z= 128.5650

5. Calculation of z score for financial distress of Nepal Investment Bank Ltd.

Fiscal year	X ₁	X ₂	X ₃	X ₄	X ₅
2064/65	125.6121	111.3245	87.8175	2.2513	0.7335
2065/66	247.8212	218.3098	170.9910	4.2103	0.8959
2066/67	225.5812	197.1965	160.1125	4.9833	0.7374
2067/68	147.6330	1268.4110	104.9689	2.9767	0.9318
2068/69	46.1319	39.9963	29.1016	0.7291	0.4227

Where X₁ denotes TA to NPA, X₂ denoted TD to NPA, X₃ denotes TL to NPA, X₄ denotes Net profit to NPA & X₅ denotes loan loss provision to NPA.

Now z-score model is

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Z-score for 2064/65 = 393.2869

Z-score for 2065/66 = 899.12

Z-score for 2066/67 = 1942.417

Z-score for 2067/68 = 914.9529

Z-score for 2068/69 = 116.3819

Finally average z-score for Nepal Investment Bank Ltd. is Z= 853.2317

Annex 5 Questionnaire

Date: 2070-05-17

Name: _____
Institution: _____
Address: _____

- *A – agree
- *DA – disagrees
- *NR – No response

Please tick only one as per your understanding.

1. Do you agree that your bank follows the provision of N.R.B. regarding N.P.A?
i) A ii) NR iii) DA
2. Do you agree that NRB policies regarding NPA are inadequate?
i) A ii) NR iii) DA
3. Do you agree the project appraisal method used by your bank is appropriate one for lending loans?
i) A ii) NR iii) DA
4. Do you agree that your bank has enough provision amount for doubtful, substandard and loss loan?
i) A ii) NR iii) DA
5. Do you agree that NPA can minimize that shareholders wealth?
i) A ii) NR iii) DA
6. Do you agree that NPA had adverse impact on Return on Assets?
i) A ii) NR iii) DA
7. Do you agree that management has done enough monitoring to minimize the level of NPA in your bank?
i) A ii) NR iii) DA
8. Do you agree that each and every employee associated with loan have adequate information of NRB provision regarding NPA?
i) A ii) NR iii) DA
9. Do you agree that minimization of NPA can enhance the bank performance?
i) A ii) NR iii) DA

10. Do you agree that political interference have maximized the level of NPA?

i) A

ii) NR

iii) DA

11. Do you agree that in coming year your bank can significantly reduce the level of NPA?

i) A

ii) NR

iii) DA

12. In your opinion what is the main internal and external factors for the cause of NPA in Nepalese Banking System?

) _____
) _____
) _____