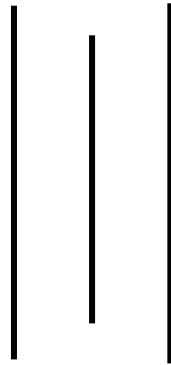


**NON-PERFORMING ASSETS AND PROFITABILITY
OF SELECTED NEPALESE COMMERCIAL
BANKS IN NEPAL**

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Faculty of Management
Tribhuvan University**



*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

**Kathmandu, Nepal
February 2012**

Recommendation

This is certify that the Thesis

Submitted by

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Entitled

NON-PERFORMING ASSETS & PROFITABILITY

OF

SELECTED NEPALESE COMMERCIAL BANKS

IN NEPAL

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IN NEPAL

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Non Performing Assets and Profitability of Selected Nepalese Commercial Banks in Nepal**" submitted to office of Dean, Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of requirement for the Master of Business Studies (MBS) under the supervision of **Dr. Shilu Manandhar Bajracharya** Associate Professor of Shanker Dev Campus.

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ABBREVIATION

NRB	:	Nepal Rastra Bank
NBL	:	Nepal Bank Limited
RBB	:	Rastriya Banijya Bank
NIBL	:	Nepal Investment Bank Limited
KBL	:	Kumari Bank Limited
NPA	:	Non Performing Assets
PA	:	Performing Assets
PL	:	Pass loan
RL	:	Restructured loan
SL	:	Sub standard loan
DL	:	Doubtful loan
BL	:	Bad loan
TA	:	Total Assets
TL	:	Total Lending
TD	:	Total Deposit
ROA	:	Returns on Assets
F/Y	:	Fiscal Year
PE	:	Probable Error
SE	:	Standard Error

CHAPTER I

INTRODUCTION

1.1 Background of the Study:

Financial sector of any economy plays a vital role in its development and are currently viewed as catalyst in the process economic growth of a country. This sector is the backbone of developing country like Nepal. This sector has been gradually developed from the time of economic liberalization in Nepal. There is no doubt that a sound financial system will certainly boost the pace of development.

Nepalese financial institution may be divided into two sectors i.e. Banking and Non- banking sector. Banking sectors provides facilities like short term and long term loans, collection of deposits (short term and long term), remittance service, LC etc. whereas Non Banking sector means which mainly does activities of deposits and loans and advances on narrow basis. Banking sector of Nepal comprises of Nepal Rastra Bank, commercial Banks & development Banks (83). Nepal Rastra Bank is apex body of all financial institutions of Nepal. The establishment of commercial Bank has reached up to 31 in Nepalese economy. Non-Banking sector of Nepal mainly includes finance companies (79), saving and credit cooperative units(Licensed by NRB) (16), micro-credit development Banks(19), non government organizations performing limited Banking transactions(45).

Commercial banks are major financial institution, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

Lending is one of the most important functions of a commercial bank and the composition of loans and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Loans and interests are not always paid so easily by all the customers. Loans led to the customers come under the Assets heading of balance sheet; and those loans which are not paid in time are considered as Non performing Loan or Non Performing assets (NPA).

1.1.1 Brief History of Evolution of Banking in Nepal

The history of banking is closely related to the history of money but banking transactions probably predate the invention of money. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. Temples and palaces were the safest places to store gold as they were constantly attended and well built. As sacred places, temples presented an extra deterrent to would-be thieves.

Nepal is a landlocked Country. Its borders are contiguous with the Indian border in the west, south & east and with Tibet Autonomous Region of the People's Republic of China in the north Nepal is an undeveloped country having very low per capita income and corporate growth rate. The traditional concept of business and commerce is deep rooted in the people and most of them are unaware of modern form of commerce. Majority of population live below the poverty line. The agro-dominated economy is further worsened by the complex geographical situation. Various factors like land locked, poor resource mobilization, lack of entrepreneurship, lack of institutional commitment, erratic government policies, political instability, etc. are responsible for the slow pace of development in Nepal.

But after the restoration of democracy in 1990 and universal echo of economic liberalization, Nepal has implemented liberal economic policy. As a result, many more companies are established in different sectors such as industrial, tourism, transportation, trade and mostly in the financial sector whose contribution in economy has great significance.

In Nepal, the first financial intuition was introduced during the prime- minister

ship of Ranodip Singh (1933 B.S.) in the name of “Tejarath Adda” for granting loan to employees and public against security of gold silver and other treasures. Banking in true sense started with the inception of Nepal Bank Limited, a semi governmental bank in 1994 B. S. NBL had a responsibility of attracting public out from the dominance of Sahu Mahajans and introducing banking services as well. After 20 years having an objective of developing banking practice, Nepal Rastra Bank started its operations from 14th Baisakh, 2013 B.S. Nepal Bank Limited was only one commercial Bank until 2022 B.S., which has helped to make banking system more systematic and dynamic during that time. In 2022 B.S (1965 A.D), Rastriya Banijya bank was established which is fully government owned bank. His Majesty’s Government with the view of accelerates the Pace of economic development under the structural adjustment program undertook a significant step towards financial liberalization in the year 2043/44 B.S. (1986/87 A.D.) The liberalization policy of the government of Nepal has encouraged the private sector to invest in various fields, which support the domestic overall economic growth. The government of Nepal introduced financial sector reforms in 1980s, which encouraged the healthy competition in the financial sector as well as allowed the entry of foreign banks in the Nepalese market in the forms of joint ventures banks. A foreign joint venture bank was established in 2041 B.S. with the name of Nepal Arab Bank Limited (now NABIL), which was the first joint venture commercial bank in Nepalese financial history. NABIL started knocking the doors of customers breaking the trend of knocking the doors of banks by customers (Bhattarai, 2061: 4-6).

It has been fully established that economic development of any country can be achieved only through a balanced growth in the field of industry, trade commerce and agriculture. And it has equally self-evident that commercial banks play vital role in the development of these fields. Therefore, productivity and competitiveness of commercial banks is very essential.

Till the date there are 28 commercial banks in Nepal. Agriculture Development Bank (ADB) has also been listed in 'A' class financial institutions three years ago. Therefore, there are 27 'A' class commercial banks. Till the period of this study, a new commercial bank has also been found to be licensed to practice commercial banking operations in Nepal.

1.1.2 Brief Introduction of Commercial Bank

Commercial Bank Act 1974 defines, “A commercial Bank means Bank which deals in exchanging currency, accepting deposits, extending loans and doing commercial transactions”. Commercial Banks pool scattered fund and channels it to productive use. Banks undertaking business with the objective of earning profits are commercial Banks. Commercial Banks can be of various forms such as Deposit Banks, Savings Banks, Industrials Banks, mixed Banks, Exim Banks etc. Commercial Banks render a variety of services. In absence of commercial Banks, it would have been impossible to meet the financial needs of the country.

A commercial Bank is a type of financial intermediary and a type of Bank. After the Great Depression, the U.S. Congress required that Banks only engage in Banking activities., whereas investment Banks were limited to capital market activities. Since the two no longer have to be under separate ownership, some use the term "commercial Bank" to refer to a Bank or a division of a Bank that mostly deals with deposits and loans from corporations or large businesses.

Though the commercial Banks were established with the concept of supplying short term credit and working capital need of industries, they have been providing long-term loans for up to 15 years. After the enforcement to lend in priority and deprived sector, these Banks initiated to provide credit to Small and cottage Industries, Agriculture and Services. NRB has a provision of refinance facility also for such loan provided to priority and deprived sector including export credit. Having observed the success on NABIL Bank Ltd; due to liberal economic policy in 1990s, many commercial Banks were established. The name and the year of establishment of the commercial banks operating in Nepal have been listed below:

<u>Name of the bank</u>	<u>Year of Establishment (AD)</u>
1. Nepal Bank Limited	1937
2. Rastriya Banijya bank	1965

3. NABIL Bank Limited	1984
4. Nepal Investment Bank Limited	1985
5. Standard Chartered Bank Limited	1986
6. Himalayan Bank Limited	1993
7. Nepal SBI Bank Limited	1993
8. Nepal Bangladesh Bank Limited	1994
9. Everest Bank Limited	1994
10. Bank of Kathmandu Limited	1995
11. Nepal Credit & Commerce bank Limited	1996
12. Nepal Industrial and Commercial Bank Limited	1998
13. Lumbini Bank Limited	1998
14. Machhapuchhre Bank Limited	1999
15. Kumari Bank Limited	2001
16. Laxmi Bank Limited	2002
17. Siddhartha Bank Limited	2003
18. Agriculture Development Bank Limited	1965
19. Global Bank Limited	2007
20. Citizens Bank International Limited	2007
21. Prime Commercial Bank Limited	2007
22. Bank of Asia Nepal Limited	2007
23. Sunrise Bank Limited	2007
24. NMB Bank Limited	2008
25. Development Credit Bank Limited	2008

26. Kist Bank Limited	2009
27. Janata Bank Nepal Limited	2010
28. Megha Bank Nepal Limited	2010
29 Commerce & Trust Bank Nepal Ltd	2010
30. Civil Bank Limited	2010
31 Century Commercial Bank Limited	2011

Source: www.nrb.org.np

1.1.3 Brief History of the selected Banks:

Kumari Bank Limited

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,485,000,000 of which 70% is contributed from promoters and remaining from public.

Kumari Bank Ltd has been providing wide - range of modern banking services through 28 points of representations located in various urban and semi urban part of the country, 19 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward and Outward Remittance services, Online remit Services and various other banking services

Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rastriya Banijya Bank holding 15% of the Capital.
- Rastriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India(SBI), Employees Provident Fund(EPF)and Agricultural Development Bank Ltd.(ADBL)through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 511. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized, Issued and

Paid-Up Capitals have been increased to Rs. 200 Crores, Rs. 186.93 Crores and Rs. 186.93 Crores, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager (Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public.

Definition of NPA

To define NPA first of all meaning of Assets should be understood. Assets mean the property of a person or a company. This indicates that assets are the property of a company accumulated with the help of sources.

Non Performing Assets (NPA) means the amount of loan that the individual commercial banks had provided and the customer has not paid in until the time already matured. The distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing assets for the banks.

1.2 Focus of the study

A sound financial system plays an important role in economic development and reduction of poverty in a developing country like ours by creating a pool of resources, reducing costs of capital, minimizing risks, expanding and diversifying opportunities and increasing the efficiency of resources used. It not only reduces the transaction cost but also interfaces with sound corporate governance. A healthy financial sector is crucial for attracting foreign capital as it creates confidence among the investors. Financial institution is subjected to provide following activities like deposits, loans and advances, securities, insurance policies, corporate bonds and shares etc. The main earning of financial institutions is from loans and advances but all these loans are not

paid in time and those uncovered loans are termed as non-performing Assets (NPA). A high level of NPA is a serious burden to the financial system and to the economy as well. So, high level of NPA leads the bank to the high bank risk. There are probably many reasons behind high level of NPAs. Sometimes it arises due to the external factors such as decrease in the market value of the collaterals, deterioration in the borrower's repayment capacity and economic slowdown. Sometimes, it is caused by the borrower's misconduct and sometimes by the weakness in internal management practices of the Bank, credit extended to non-viable projects and ineffective credit monitoring and supervision system.

NRB plays major role for protecting financial institutions from financial distress that automatically safeguard depositors' interest and ensure stability in the economy. NRB issues directives from time to time for overall controlling of financial institutions. As per the directives, commercial Banks are supposed to categorize disbursed loans into four different categories on the basis of ageing of its past dues. Each category passes certain percentage of its loan to provisioned amount for probable loss. So, the level of this provisioned amount has direct impact upon profitability and performance of commercial Banks. The higher this amount, the lower is expectation of net profit to the Bank.

NPA and loan loss provision is one of the major concerns to solve this on timely basis, otherwise indirectly or directly it will certainly cost to Banks and even to economy. The financial institutions may become distracted with additional efforts required to manage these problem loans.

In this situation, financial institutions may lose sight of their core activities. In light of the possibility of huge write offs on loan a loss, credit risk is calculated at the higher side. This phenomenon will certainly affect activities of financial intermediaries. These will definitely obstacle growth of financial institutions and economy as well. The economy will be affected because productive units will not get credit access that will hamper development process. Therefore, the level of NPA should be kept at the minimum level and the Banks should manage to even minimize and make the target to make it zero.

1.3. Statement of the problem

Although financial institution is the backbone or engine of the growth of economy of Nepal, it has several problems like lack of smooth functioning of economy, different policies and guidelines of Nepal Rastra Bank, political instability, security problem, poor information system, over liquidity caused by lack of good lending opportunities, increasing non-performing assets etc. out of these problems, NPA is one of the serious problems faced by the commercial Banks. So every Bank has now put the NPA management under top priority. It is because; the NPA in the Banking system does not generate adequate revenue for the Bank, reduces the profitability and ultimately may lead to the failure of the Bank. So, in the recent days, not only government owned Banks but some of the Banks under private ownership are also suffering from NPA burden. The total NPA in the banking system is 14.2 percent of total loan in year 2063 B.S. (2006A.D.) while it was 18.7 percent of total loan in year 2062 B.S. (2005A.D.) While it is even worse in case of two largest commercial banks: Rastriya Banijya Bank and the Nepal Bank Limited are 45.3 and 25.1 percent respectively in the year 2063. (Annual report of NRB 2062/63: 28-29). The non-performing asset (NPA) ratio is gradually improving. The NPA ratio, which was 6.3 percent as at mid-July 2008, reduced to 3.6 percent (based on unaudited balance sheet) at mid-July 2009.

The NPA ratio of three government-owned commercial banks has been improving gradually. The NPA ratio of Nepal Bank Limited (NBL) reduced to 5.4 percent at mid-July 2009 from 49.6 percent at mid-July 2005. The NPA ratio of NBL was 12.4 percent at the end of the previous year. The NPA ratio of RBBL which was 53.0 percent at mid-July 2005 reduced to 21.7 percent at mid-July 2008 and 15.7 percent at mid-July 2009. Stern measures taken to recover bad loan and credit write-off of Rs. 27.07 billion in their restructuring process account for such improvement in NPA ratios of these banks. Though the NPA ratio is falling, the recovery from the loan already written-off is challenging for both the banks. Likewise, NPA ratio of Agriculture Development Bank Ltd. of Nepal (ADB/N), which stood at 11.7 percent at mid-July 2008, reduced to 8.9 percent in mid-July 2009. Among the private sector banks, the NPA ratio is high in Nepal Bangladesh Bank Limited and Lumbini Bank, besides the government owned NBL, RBB and ADB/N.

Table 1.1
Non-performing Assets of selected Commercial Banks
Amount in Rupees

Year	Kumari Bank	Nepal Investment Bank	Nepal SBI Bank
2062/2063	64,353,706	272,493,041	505,336,919
2063/2064	66,118,868	421,971,550	458,755,741
2064/2065	152,475,600	309,470,983	488,410,069
2065/2066	64,542,683	213,907,394	315,954,765
2066/2067	75,510,176	254,034,452	265,133,749

Source: Annual reports of concerned banks 2062/63 to 2066/67

The above data shows that the amount of NPA of Kumari bank during fiscal year 2062/2063 to 2063/2064 is increased. On 2064/2065 the NPA is maximum among the five fiscal year. However, the NPA of NIBL is increased during fiscal year 2062/2063 to 2063/2064 afterwards it is in decreasing trend till 2065/2066 then after again there is slight increased on 2066/2067. Although the NPA of Nepal SBI bank is in decreasing trend during five fiscal years, there is slight increased in fiscal year 2063/64 to 2064/65 which is quite different than two banks.

The following are the research question of this study:

- What is the overall impact of the NPA on the profitability of the commercial banks under the study?
- Is there any relationship between NPA and the profitability of the commercial banks and the other non-banking assets, [NBA]
- What might be the other factors that influence the non-performing assets of the commercial banks in the banking industry of Nepal?
- Are there any interest factors of the individual commercial banks in the increase of the non-performing assets of them?

1.4 Objectives of the Study:

The main objective of the study is to examine and study of the non-performing assets in total assets, total deposits and total lending of the Nepalese commercial banks. The other specific objectives of the present study are listed as follows:

- To find out the level and trend of non performing assets in selected commercial banks for past five years.
- To study and evaluate the relationship between the profitability and the non-performing assets of the selected commercial banks under study.
- To examine whether the Nepalese commercial banks are following the NRB directives regarding non- performing assets or not.
- To provide recommendations to overcome the difficulties in managing non-performing assets of the banks with high level of NPA.

1.5 Significance of the Study:

This study is not comprehensive to deal with and present detail information regarding the sampled banks. Anyway, this study will be of great significance to the following groups and individuals:

a) Further researchers and financial analysts:

This study will leave over a lot of space to carry out further research studies in this topic and the related. This research report will be very helpful and will act as a potential guide to those interested research students or groups as well as financial analysts in the Nepalese market.

b) University students of new generation:

This study will be a valuable and a useful guideline to the upcoming students who want to gain some knowledge on this sector.

c) Government:

Government sector is responsible for making several kinds of policy decisions. This report comprising of the study of commercial banks may provide a beautiful insight to form and thus bring policies conducive to banking sector. It is significant to find out the level of NPA and to find out whether the banks maintained loan loss provision in accordance to NRB's directives or not

d) All other interested individuals & parties

This study is also significant to all other interest individuals and parties those wishing to have some potential knowledge regarding profitability of the sampled commercial banks. This study may provide a valuable insight to the concerned parties who want to become investors in the shares of such companies.

e) Commercial Banks:

Commercial banks have pivotal role for the collection of dispersed small savings of Nepalese people and transferring them into meaningful investment. So, this study will also be helpful to the respective commercial banks themselves to identify and have some glimpse of their own true picture.

f) Researcher:

This study has a lot of significance to me and further researchers also. On the course of preparation of this report study, I got acquainted with various newer terminologies and also was able to deal with different parties. As a result, my knowledge on banking sector of Nepal has also become broader both practically as well as theoretically which will also provide ample opportunities to new researchers.

1.6. Limitations of the Study:

This study is simply a partial study for the fulfillment of MBS Degree. This is not far from several limitations, which weakens the study from the viewpoint of reliability and validity.

- Inadequate coverage of banks,
- Limited time period covered,
- Reliability of statements,

The following are some limitations of the study:

1. The study was confined only to the fiscal years 20623/2063 to 2066/2067. So the generalization was based on these periods only.
2. Only three banks, namely Kumari bank Limited, Nepal Investment bank

3. The whole study is mainly base on secondary data, provided by the concerned banks; the reliability is up to the available data.
4. The study is concerned with non-performing assets of commercial banks

1.7. Organization of the Study:

The whole study is divided into the following five different chapters.

- 1. Introduction:** This chapter includes general background of the study, statements of the problems, objectives of the study, significances of the study and the limitations of the study.
- 2. Review of Literature:** This chapter deals with review of the different literature in regards to the theoretical analysis and review of books, articles and thesis related to the study field. Therefore it includes conceptual framework and other related studies.
- 3. Research Methodology:** This chapter includes introduction, research design, population and sample, sources of the information used, period of the study, financial indicators and the statistical tools used.
- 4. Presentation and the Analysis of the Data:** This chapter includes presentation of the financial variables and statistical tools used while interpreting the data so collected from the different sources.
- 5. Summary, Conclusions and Recommendation:** This chapter briefly represents the summery of the whole study made and the conclusions so made and the recommendations for the effective and smooth running of the concerned commercial banks under the study.

The purpose of literature of review is to find out what research studies have been conducted in one chosen field of study and what remain to be done. It provides the student with the knowledge of the status of their field of research and foundation for developing a comprehensive theoretical framework which hypothesis can be developed for further processing. So, the past studies cannot be ignored. To overcome the lack in previous studies, there must be continuity in research.

- Review of related studies

It is very difficult to state the complete historical background of banks or banking. It is not possible to learn when or how the banking system came into existence. Of course, it is sure that the banking system did not come all on a sudden by way of any revolution. Rather, it came into existence naturally and gradually. In its crude form, the banking business was confined in the hands of money lenders in the pre historic days.

Importance of money as the medium of exchange and necessity of controlling was realized since the human society begin "Babylonian" were the firth development of the banking system as early as 2000 BC Banking activities of the same nature were started in the third century BC. In the Roman Empire and continued through 3rd century AD But with the fall of this kingdom, these institution were totally finished from that part of the Europe. Banking activities in either from remained in China, Egypt and subcontinent.

During the middle of the 12th century, banking spread in different European countries particularly in Italy, "Bank of Venice" is probably the first public banking institution founded in 1157. Similarly Bank of Barcelona funded in the 1407. "Bank of England" was founded in England

The review of literature is a conceptual reading because it denotes planning historical background of Bank. The purpose of literature review is to find out what works have been done in the area of the research problem under study and being undertaken. For review study, the researcher uses different books, reports, journals and research

2.1 Conceptual Reading

2.1.1 Historical Background of Bank

REVIEW OF LITERATURE

in 1694. All these were public bank and their principle function were dealing with foreign exchange.

Development of the modern banking, especially in England was started by Jewish merchants who migrated from Lombard in Italy in the 14th century, but the goldsmiths are considered the real ancestors of present day banking system. During the second half of the 18th century various relating to banking came into beginning and banks spread in all important countries of the world. During the first half of the 21st century banking underwent great changes and great verity of function came under the range of banking business.

In the subcontinent indo pak, foundations of modern banking were laid in 18th century in Calcutta when with the help of European banker's first bank "Bank of India" was established. After that government of India founded "Bank of Bengal" also new opening at Madras and Bombay. Imperial "Bank of India" was founded in 1921, where as "Reserve Bank of India" was established in 1935 with the power as the central bank

In general meaning bank is an institution that deals with money. A bank performs several financial, monetary and economic activities which are vital for economy development of a country. It is a monetary institutional vehicle for domestic resource mobilization of the country that accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce etc. Generally, the term "Bank" refers commercial banks. Commercial banks are the foundation of the national economy. They transfer monetary sources from savers to users. They involve in various functions like money creation, creation, credit facilitating, foreign trade facilitating safe keeping of the various etc. Commercial banks have its own role and contribution in the economic development. It is a source of economic development and it maintains economic confidence of various segments and extends credits to the people. These activities of commercial banks are to eliminate poverty, reduce unemployment problem and increase economic growth.

In Nepal, development of banking is relatively recent. The history of banking system in Nepal in the form of money lending can trace back in the reigning period of Gunakamdev "The King of Kathmandu" (NBL, 2037).

Tankadhari 'a special class of people' was established to deal with the lending activities of money towards the end of fourteen century at the ruling period of King Jayasthiti Malla (NBL, 2011).

During the prime Ministerial period of 'Rannodip singh' one financial institution we established to give loan facilities to the government staff and loan facilities to the public in general in the term of 5% interest but Tejarath did not accept money from public (NBL, 204).

On the 30th Kartik, 1994 Nepal Bank limited was established for the first time to provide modern and organized banking facilities. Up to B.S. 2012 only NBL provided services to the public as an organized bank. Later, NRB act 2012 was made to establish NRB as central bank to manage, control and develop monetary system in Nepal. NRB was formally established on 14th Baishakh, 2013 and its capital at the starting time was 1 Crore. Similarly, Rastriya Banijya Bank was set up in B.S. 2022 to fulfill the growing needs of the country. The birth of this bank brought a new Landmark in the history of banking facility in Nepal. Like other developed countries Nepal also took the policy to open economy and liberal, to develop good competition in the banking field. Hence, the joint venture banking policy is taken. Today 31 Commercial bank is operating to provide modern banking services and facilities to boost the economic condition of country.

The financial sector reform was initiated in mid 1980 under the liberal economic policy of HMG/N under this policy; HMG/N first opened the banking sectors to foreign investors. In July 1985, commercial banks were allowed for the first time to accept current and fixed deposits on foreign

currency (U.S Dollar and sterling Pound). On May 26, 1986, NRB deregulated the commercial banks to fix interest rate at any level above, its minimum prescribed levels.

Modern Commercial banks can be identified by different names, such as business Banks, retails banks, clearing banks, joint venture banks and merchant banks etc. Regardless of the name we give to banks, they all perform the same basic function i.e. they provide a link between lenders those who have surplus money and do not wish to spend immediately with borrowers, there who do not have surplus money but wish to borrow for investment in productive purpose. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the bank makes their profit. This is known as financial intermediaries. Commercial banks provide the following majors products and services.

2.1.2 Joint Venture Bank in Nepal

Joint Venture banking Scenario of Nepalese financial sector is not so long. After the establishment of democratically elected government it introduced liberal and marketing oriented policy which facilitated the establishment of joint venture banks and pointed a new horizon to the financial sector of Nepal.

"A joint Venture is forming of two forces between two or more enterprises for the purpose of carrying out of specific operation (industrial or commercial investment, production trade) (Gupta, 1984: 15-25).

Joint Venture banks are the commercial banks formed by joining a two or more enterprises, for the purpose of carrying out of specific operation such as investment in trade, business and industry as well as in the form of

- Acceptance of deposits
- Granting of advances
- Remittance collection and distribution
- Cash management
- Issuance of letters of credit and guarantee

negotiation between various group industries or traders to achieve mutual exchange of goods and services.

Nepalese JVBs should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but this seems no profitable place to invest. At the same time, the bank and financial institutions are offering very low deposit interest rate. In this situation Nepalese JVBs are required to explore new opportunities to make investment if they want to survive in the competitive market since commercial can inspire entrepreneurship, the banks should also consider national interest and government emphasis for the economic growth of the country by the development of industry trade and business and to fulfill the objective of profit making.

Nepal Arab bank limited (Nabil Bank Limited) is the first joint venture bank of Nepal. It was established in 1984 A.D. Joint venture which United Arab Emirates Bank, under company Act 1964. Than other two joint venture banks Nepal Indosuez Bank Limited (Nepal Investment Bank Limited) with Indosuez Bank of France and Nepal Grindlays Bank of London were established in 1986 A.D. Himalayan Bank Limited joint venture bank of Pakistan and Nepal SBI Bank Limited with state bank of India was established in 1993 A.D. Everest Bank limited joint venture with Punjab National Bank India (early it is joint venture ventured with United Bank of India Calcutta) and Nepal Bangladesh Bank Limited with IFIC Bank of Bangladesh are established in 1991 A.D. Bank of Kathmandu joint venture with SIAM Commercial Bank Public Co. Thailand was established in 1995A.D and Nepal Bank of Ceylon joint ventured with Ceylon Bank of Srilanka was established in 1997 A.D. All these banks briefly follow the policies of Nepal Rastra Bank. But at Present there are only four joint venture bank in Nepal.

2.1.3 Function of Commercial Banks

Banks can be defined according to the functions they perform. A bank is established with the prime objective of profit maximization. To achieve this, the bank carries out functional activities, “Principally, commercial banks accepts deposits, provide loan, primarily to business firms thereby facilitating the transfer of funds in the economy”. Although, in the yester years banks were viewed as acceptor of deposits then provider of loan, but modern commercial banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. The growing bank needs and habits of people and competitive environment has made the banking sector challenging and their operation cannot be underemphasized in present context of market globalization. Hence, a bank is a commercial institution licensed as a taker of deposits, concerned mainly with the making and receiving payments on behalf of their customers, accepting deposits, creating money and making short-term loans to private individuals, companies and other organization.

Although profit maximization is a major objective of commercial bank, to achieve this objective commercial bank performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Bank Act 2031 B.S. (1974 A.D.).

Primary Functions

Accepting Deposits

Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as:

- Fixed Deposit Account
- Current Deposit Account
- Saving Account

Advancing of Loans

Commercial banks provide the loans required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as:

- Overdraft
- Cash Credit
- Direct loan with collateral
- Discounting of bills of exchange
- Loans of money at call and short notice

General Utility Functions

Commercial banks also perform general utility functions such as:

- Issuing of letter of credit to its customers.
- Issuing of bank drafts and traveler's cheque etc., for transfer of funds from one place to another.
- Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.
- Serving as referred to the financial standing and credit worthiness of its customers.
- Underwriting loans to be raised by public bodies and corporations.
- Providing safety vaults of lockers for the safe custody of valuables and securities of the customers.
- Acting as a trustee and executing the will of the deceased.
- Remittance of money

Agency Function

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as:

- Collection of customer's money from other banks.
- Receipt and payment of dividend, interest.
- Security brokerage service.

- Financial advisory service.
- To underwrite the government and private securities

2.1.4 Some Important Terms

Loan and Advances

The main function of the commercial banks is to generate the resources or funds and make loan and advance. It is the most profitable assets of bank. Loan and advances dominate the assets side of balance sheet of any bank. Similarly, earning from such loan and advances occupy a major space in income statement of the bank. It is the assets that fetch income for the bank. “The profitability of the banks depends upon the extent to which it grants loan and advances to customers. Loan granted in the form of overdraft, cash credit and direct loan. Loans are granted against adequate security. The banks should have to take in consideration safeties of loan and advances at the time of lending but not only on profitability. At the time of lending the loan, the banks carefully study the lending sectors and make a sound policy for rendering loan. The policy should contain the credit deposit ratio. (CDR), the bank wishes to maintain. CD ratio is very much influenced by the behaviors of bank’s liabilities. The higher the volatile deposit’s and volatile borrowing lower the volume of loan and vice versa.” (Shekher & Shekher, 1998: 27)

Concept of Performing loan

“Performing loans are those loans that repay principle and interest timely to the bank from the cash flow it generates. In other word, performing loan are the productive assets that generate the some profits. Loans have the certain time period to return its principle with its interest. If anyone repays loan with its interest on time, is known as the performing loan. It is the most profitable assets of banks. Its helps to rapid growth of banking sector in this fast pace competitive age. Better performing loan are the symbol of success of banks. But many banks are suffering from the non repayment of loan amount.” Timilsina, 1997: 67)

Concepts of Non-performing Assets/Loan (NPA/NPL)

“One of the most emerging problems of the commercial banks is to the management of non-performing assets/loan. Due to the effects of non-analysis of Non-performing Assets of Nepalese Commercial Banks performing assets/loan, many banks have already closed down. In this fast pace competitive age, the bank should have to operate taking in consideration that thing.

A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset. Non Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by NRB.” (Dahal & Dahal, 2002: 15)

“If any advances or credit facilities granted by bank to a borrower becomes non-performing, then the bank will have to treat all the advance/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may be still exist certain advance/credit facilities having performing status.” (Pandey, 1999: 167)

“NPAs have a different meaning that varies from country to country. In some countries, it means that the loan is impaired. In some countries, it means that the payment are due but there are significant different among countries how many days a payment should be in arrears before past due status is triggered.” (Shrestha, 2004: 14) “According to current banking Act, the banks have to make provision for bad and doubtful debts. Afterdeducting the band and doubtful debts from the non-performing assets, net non-performing assets can be achieved.” (Regmi, 2063:75)

The loan amount that doesn't covered by the collateral after selling is known as non-banking assets (NBA). Non – performing assets also includes the suspend interest. It is the interest, which become receivable unutilized assets and those investments which don't generate any cash or

incomes to the bank are also non- performing assets (NPAS). The proper management of those assets to generate income is known as management of non-performing assets.” (Rahdaswami & Vasudevan, 1984: 49)

Increasing NPAs is the emerging problem of the banks. We know that the some banks are closed down due to the uncontrollable NPAs. In USA, 1016 commercial banks were declared as unsuccessful (bankruptcy) from 1985 to 1990 and 27 banks from 1995 to 2001. However, Nepalese commercial banks face this type of problem till now but they have to take step towards it. For this, appropriate amount of bad and doubtful debts is made provision from their incomes/profits.

International Definition of Non Performing Assets

“According to Finnish and Norwegian definitions, an asset is to be classified as nonperforming if interest or principal payments are in arrears for at least three months. In Sweden a payment disruption is allowed for only two months. In Japan an asset is nonperforming if the interest has been in arrears for at least six months. In the United Kingdom nonperforming assets are only mentioned in accounting instructions; there is no precise definition.” (Pensala & Soltilla, 1993: 7)

In the Nordic countries an off-balance-sheet bank guarantee becomes a nonperforming asset immediately the bank effects payment on the basis of the guarantee.

Accounting regulations in Sweden and Norway recognize the concept of a "soft loan". This is a loan on which a bank has agreed to set the interest payable at a rate substantially below the market rate because of the customer's inability to pay. The concept of other zero-interest assets is not recognized outside of Finland. These can, however, be considered as soft loans. (Pensala & Soltilla,1993: 8)

In Sweden problem assets are reported as the sum of nonperforming assets and soft loans. In Norway soft loans are not included in nonperforming

assets. In Finland other zero-interest assets (soft loans) are included in the concept of non performing assets. The Swedish concept of problem assets is thus the broadest concept applied in the Nordic countries. (Pensala & Soltilla, 1993: 8)

The Japanese Ministry of Finance defines narrow and broad concepts of banks' nonperforming assets. The narrow concept includes only assets on which the interest has been in arrears for a specified period. The broad concept also includes soft loans. (Pensala & Soltilla, 1993: 8)

2.1.5 Classification of NPA

As per the NRB directives NPA are said as classified loans. And this includes sub-standard, doubtful and loss categories as defined by new NRB directives. The circular further says a NPA is a credit facility in respect of which interest has remained unpaid for two quarters.

According to the circulars, the loans are classified based on weakness and dependence on collateral securities into four categories and prescribed the provisioning rate as follows:

Table 2.1
Classification of Loan and Advances

Classifications of Loan and Advances	Criteria for Provisioning	Provision Rate
Pass	Not past due and past due for a period up to 3 months. [Performing loans]	1%
Substandard	Past due for a period of 3 months to 6 months	25%
Doubtful	Past due for a period of 6 month to 1 years	50%
Loss	Past due for a period of more than 1 years or advances which have least possibility of recovery.	100%

Source: Nepal Rastra Bank, Directives for Commercial Banks

2.1.6 Effects of NPA on Profitability of Banks

Under the circumstances assets that do not earn any income to the bank affect the profits in a number of ways, which are explained as follows (Koirala, 2006: 38 – 40).

Profitability Impact

- The resources locked up in NPA are borrowed at a cost and have to earn a minimum returns to service this cost.
- NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
- Since they do not earn interest they bring down the yield on advances and the net interest margin or spread.
- NPA have a direct impact on assets and returns on equity, the two main parameters for measuring profitability of the commercial banks.
- Return on assets will be affected because while the total assets include the NPA they do not contribute to profits, which are the numerators in the ratio.
- Return on equity is also affected as provisioning eats more and more into profits earned.
- The cost of maintaining these include administration costs, legal costs and cost of procuring the resources locked in them.
- NPA bring down the profits, affects the shareholders value and thus, adversely affect the investor confidence.

As a whole, the impact of NPA can be assessed with the following:

- Lower ROE and ROA
- Lower image and rating of banks

- Disclosure reduces investor's confidences.
- Increases costs/difficulties in raising capital.
- NPA do not generate income.
- They require provisioning.
- Borrowing cost of resources locked in
- Opportunity loss due to non-recycling of funds.
- 100% risk weight on net NPA for CRR.
- Capital gets blocked in NPA.
- Utilizes capital but does not generate income to sustain the capital that is locked.
- Recapitalization by government comes with string.
- Administration and recovery costs of NPA.
- Effects in employee morale and decision.

NRB Directives

The world has witnessed many financial crises and devastating consequences due to huge financial and economic losses that resulted from each episode. Every crisis was sudden in onset and their, magnitude of losses was much larger than expected. If we go back to the history, then on 3rd march 1997; the Asian crisis began in the form of liquidity problem of two finance companies. Later this spread over to other financial intuition within the Thai financial system. Simultaneously, crisis began to cover Malaysian, Indonesian and South Korean financial statement and loomed in the form of Asian crisis. So

this Asian crisis appealed the whole world for regular and timely supervision and assessment of financial system, its soundness and vulnerabilities. This event forced the regulatory authorities for the enforcement of prudential measures in order to avoid further crisis review and revision in prudential regulations such as capital adequacy ratio, asset classification. Provisioning for impaired assets, exposures limit and enforcement of international accounting standard etc have now become common issue all over the world since the late 1990s.

Similarly, in our country too, commercial banks could not recognize the importance of the quality credit and banking sector failed to witness the expected developments. Subsequently, the banking sector faced the problem of bad debts, overdue loans, accrued interest, accumulation of non-banking assets and excess liquidity in the banking system. In addition to these expected happenings new challenger were added to the Nepalese banking sector due to the adverse development in the domestic economy resulting from deteriorating peace and security situation and continuous persistence of natural calamities inside the country on one hand and the global recession primarily caused by international terrorism on the other. Viewing the need of structural reform amidst these adverse implications, NRB issued directives to run commercial banks in a healthy competitive manner to ensure the sustainable development of the overall banking system. At present the number of guidelines issued by NRB to commercial bank reaches sixteen, which are as follows.

- 1) The provision of minimum capital fund to be maintained by the commercial bank.
- 2) The provision of loan classifications and loan loss provisioning on the credit.
- 3) The provision relating to limit on credit exposure and facilities to a single borrower, group of related borrowers and single sector of the economy.
- 4) The provision relating to accounting policy and the structure of financial statements to be followed by the commercial banks.
- 5) Regulation relating to minimization of risk inherent in the activities of commercial banks.
- 6) The provision of institutional good governance to be followed by commercial banks.
- 7) Time frame for implementation of regulatory directives

issued in connection with inspection and supervision and supervision of commercial banks.

8) Regulation relating to investment in shares and securities by commercial banks.

9) The provision of submission of statistical data to the NRB. Banking management division and inspection and supervision division.

10) Regulation relating to sale and ownership transfer of promoters shares.

11) Regulation relating to, stringent blacklisting procedure for loan defaulters.

12) The provision relating to compulsory deposited amount of NRB.

13) Regulation relating to developing the branch office of commercial banks.

14) Provision relating to interest rates.

15) Provision relating to collection of financial sources.

16) Provision relating to consortium financing.

Review of Related studies

Peter Rose (1999) in his book “Commercial Bank Management” states achieving superior profitability for a bank depends upon several crucial factors:

1. Careful use of financial leverage or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.
2. Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank used to boost its operating earnings before taxes as bank output grows.
3. Careful control of operating expenses so that more dollars of sales revenue become net income.
4. Careful management of assets portfolio to meet liquidity needs

while seeking the highest returns from any assets acquired.

5. Careful control of the bank's exposure to risks so that the losses don't overwhelm its income and equity capital".

Michael R. Baye and Dennis W. Jensen (1996) through their book 'Money, banking and financial market: an economic approach' have tried to analyse the bank's profitability under an economic approach. They state "to maximize profits, banks should attract deposits into the point where the value of marginal producer of "An asset which ceases to generate income of the bank is called non-performing asset. The past due amount remaining uncovered for the two quarter consequently the amount would be classified as NPA for the whole year. It includes borrowers' defaults or delays in interest or principal repayment" (Dhanuskodi, 2006:7).

Lending is the primary business of any commercial bank and interest earned from them is the main source of income. Once the loan is given, it is supposed that the repayment of interest and principal shall have to be served without any hindrance. But it is not always true. Loans and interests are not always paid so easily by all the customers. Loans lended to the customers come under the Assets heading of balance sheet; and those loans which are not paid in time are considered as Non Performing Loan or Non Performing Assets (NPA). The criteria that determine a loan as NPA varies in different countries. In Nepalese scenario, Nepal Rastra Bank has classified sensitive assets and liabilities. If, for example, a bank holds more rate sensitive assets than liabilities when interest rate rise, profits will be improved because the bank will receive more in increased interest revenue than it will pay out in rising costs. The reverse would be true during a period of falling interest rates.

The interest gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive assets than liabilities is called a positive gap and excess of rate sensitive liabilities over assets result in a negative gap" (Fraser & Ormiston, 2002: 32)

Emphasizing the bank's modern functions Meir Kohn (1999) writes in his book, 'Financial institutions and markets': "Banks now have steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economies of scope, relatively unconstrained by regulations" (Kohn, 1999:15).

Analyzing the behaviour and future prospects for profitability of a financial institution is a complex task. Many factors affect each institution's profitability. Among the most important factors are the friskiness of loans and investments made; liquidity needs and the institution's provision for these needs; the effectiveness of tax management practices; the level of efficiency in utilizing human and non-human resources; and the ability of management to control expenses (particularly interest expenses and employee costs). Well conceived lending policies and lending practices are essential if a bank is to perform its creating function effectively and minimize the risk inherent in any extension of credit (Kolari & Fraser, 1993: 124-125).

2.2 Review of Previous Studies

Dinesh Kumar Khadka, (2004) "Non-Performing Assets of Nepalese Commercial Banks", his objectives to study and examine the level of NPAs in total assets, total deposits and total lending of commercial banks of the banking industry of Nepal. He also had studied whether the Nepalese commercial banks have been following the directives of NRB regarding loan loss provision for non-performing loan/assets or not. He had taken sample banks as Nepal SBI Bank Limited, Nepal Investment Bank Limited, Nepal Bangladesh Bank Limited, Bank of Kathmandu Limited, Nabil Bank Limited. From his studies, it is found that the level of NPA of Nepal Bangladesh Bank Limited seemed greater than all of the other banks under his study. Similarly, Nepal SBI Bank and Bank of Kathmandu stand at second and third position respectively. The position of

Nabil Bank Limited seemed to be quite satisfactory because, the bank has been reducing its NPA every year. NPA of Nepal Investment Bank reducing it at minimum than that of all the other banks. From the study it has also been found that none of the banks have been following the directives of NRB regarding the loan loss provision. Despite of high level of NPA the loan loss provision made by the Nepal Bangladesh Bank seemed to be quite satisfactory than any of the other banks. Despite of the outstanding success in managing the NPA the loan loss provision made by Nepal Investment Bank is not considerable. It meant the loan loss provision of Nepal Investment Bank is very less than the requirement.

Govinda Ghimire (2005) "Non Performing Assets of Commercial Banks" main objectives to evaluate the impact of NPA on the profitability of the commercial banks. He also studied about the internal and the external factors that affect the non-performing assets to increase from the loan and advances. The internal factors that influence the effective management of the NPA and its increment. The objective of his study is also to find out the relationship between the non-banking assets and the non performing assets, in which he was able to find out the internal responsible factors that contribute turning good loan into bad loans, bad intention, weak monitoring and mismanagement are the most responsible factors. Similarly, weak legal provision and credit concentration are also found as the least preferred factors in turning good loans into bad loans. Some factors such as lack of portfolio analysis, not having effective credit policy and shortfall on security were identified as having average effect on NPA growth. In connection to the external factors it has been found that recession, political and legal issues are more relevant factors in turning good loans into bad one. Like wise legal provision for recovery as a reason for increment in NPA in Nepalese Banks have been found the factors having less impact. Supervision and monitoring system have been identified as average factors. It is therefore, can be generalized that economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major

contribution for the increment of NPA.

It has also been concluded in the study that Nepalese Commercial Banks gave most priority to trade sector for lending its resources, at the same time it is found that service sectors are not being given that much emphasis. He had recommended to the sample banks, Nepal Bangladesh Bank Ltd. Nepal SBI Bank Ltd and Bank of Kathmandu Ltd. as on different headings, subject matter such as financial strength, personal integrity and security, monitoring and control system, avoidance of credit concentration, strong legal system, assets management company, avoidance of undue pressure, etc

Niva shrestha, (2004) "Non performing loans and loan loss provisioning of the commercial banks" revealed that the Standard Chartered Bank Limited had risk averse attitude of the management or they have policy of investing low in the risky assets i.e. loans and advances as compared to Nepal Bank Limited and Nabil Bank because the loans and advances to total assets ratio on NBL, NABIL and SCBNL during the study period was appeared to be 52.3%, 47% and 29.34% respectively. The SCBNL has higher proportion of the investment in risk free or nominally risky assets like treasury bills, National Saving bonds etc.

Similarly the loans and advances to total deposits ratio of NBL, NABIL and SCBNL during the study period was found to be 57.63%, 56.35% and 35.94% respectively. It indicates that the SCBNL has the most consistent and variability during the study period whereas the NBL has the higher consistent and variability as compared to other two banks. NABIL has the moderate level of consistent and variability.

In the same way, the proportion of Non Performing loan with regard to total loans of NBL, NABIL and SCBNL was found to be 48.37%, 10.67%, and 4.38% respectively. That means 51.63%, 89.33% and 95.62% of the total loan of NBL, NABIL and SCBNL was found to be performing loans. Not only the public sector bank, even private sector bank like NABIL has

higher proportion of non-performing loan. However, in recent years, NABIL has shown significant decrement in non-performing assets, which are the efforts of recovering bad credit through the recovery of establishment of recovery cell. In the same way, proportion of loan loss provision of NBL was found to be significantly higher i.e. 40.17% as compared to other two commercial banks. The proportion of NABIL and SCBNL was found to be 5.69% and 4.49%.

The average ratio of provision held to non performing loan of NBL, NSABIL and SCBNL was found to be 80.03%, 57.85% and 122.32% respectively shows that the SCBNL has maintained adequate level of provision against non performing loan where as NABIL was found to be comparatively lower. The NBL was found to be an average position.

Subash koirala, (2006) “Non performing assets and profitability of commercial banks in Nepal” his objectives were to evaluate the impact of NPA on the profitability of the commercial banks. he also studies about the internal and external factors those influence the performing assets to non performing one. He had taken sample banks as Nabil banks Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Everest Bank Limited, Nepal SBI Bank Limited and Nepal Investment Bank Limited.

The NPA of Nepal Investment Bank during the study period was increasing. The ratio of NPA to lending was found to be decreasing over the years as it was 8.29% in fiscal year 2057/58 and decreased to 2.69% in the fiscal year 2063/64. The net profit was also increasing during the study period.

In case of Everest Bank Limited, the level of NPA was decreased to 1.6% on the fiscal year 2063/64 which was 6.79% in the fiscal year 2057/58. the NPA was increasing during this period and despite of the increasing NPA profit of the bank was found to be increasing during study period.

In case of Nepal Bangladesh Bank Limited, the level of NPA was increased from 9.03% in fiscal year 2057/58 to 19.04% in fiscal year

2063/64. 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 Nabil Bank Limited was decreased upto one fifth from the fiscal year 2057/58 to fiscal year 2063/64. The level of NPA was found to be decreased from 16.20% in fiscal year 2057/58 to 1.32% in fiscal year 2063/64 whereas the ROA was found to be increased from 1.71% to 3.06% over the five years period.

In case of the Nepal SBI Bank Limited, 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 fiscal year 2057/58 was 8.64% and in fiscal year 2063/64 it was 6.54%.

The NPA of Himalayan bank Limited was found to be fluctuating during the study period, though it was found to be decreased in fiscal year 2063/64 in comparison to fiscal year 2057/58. The level of NPA was found to be highest for the Nepal Bangladesh Bank Limited in the fiscal year 2063/64, whereas the lowest was found that of Everest Bank Limited in fiscal year 2060/61. In overall the performance of the Nabil Bank was found to be satisfactory as the level of NPA was gradually decreasing over the years covered by this study.

2.3 Research Gap

From the study it has been found that the high level NPAs can be regarded as a serious burden to the Banks and economy as well. So high level of NPAs is the early symptom of Bank failure and NPAs are one of the serious problems faced by the commercial Banks. Some researchers were done in which matters relating to

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology is a diagnostic approach of research and is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It helps in studying the entire research work in easy manner and also in presenting report in an understandable way. It includes wide range of methods, including a quantitative technique for analysis of data and information collected. Therefore, research methodology refers to the methods and techniques used in collection, tabulation and analysis of data and information collected to achieve the objective of the study. The main objective of this research is to analyze, examine and interpret the data and information to come at appropriate decision by giving conclusions and suggestions. The major components of research methodologies followed in the course of this study are:

- Research design
- Size of population and sample
- Source of data
- Data collection techniques
- Data analysis tools

Research is a systematic inquiry of any particular topic and methodology is the method of doing research in a well manner. Hence research methodology is the systematic study of Research problem that solves them with some logical evidence.

The research methodology adopted in the present study as discussed as below:

3.1 Research Design

Research design is the specification of methods and procedures for acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance.

The main objective of this study is to analyze the relationship between NPA and Profitability of the commercial banks and provide suggestion on the basis of findings. This research will follow analytical and descriptive research design.

In order to achieve the predetermined objectives of the study, secondary data have been used. This study tries to make comparison and establish relationship between two or more variables. So the research design of this study is based on descriptive and analytical study.

3.2 Size of Populations and Sampling

Population refers to the entire group people, events or things of interest that a researcher wishes to investigate. A sample represents only a part of a universe (quantity). In sampling method only tiny part of the whole aspect of matter is considered and conclusion about the entire aspect is done on that basis. Since this study is about loan classification and loan loss provisioning of commercial Banks, the population for this study comprised all the licensed commercial Banks of the country. Therefore, all the commercial Banks are the population of the study. The census of the population is neither feasible nor desirable for the study of this nature that is why a sample from the population has been selected for the purpose of this study.

A list of licensed commercial Banks was obtained from NRB. There are altogether 31 commercial Banks in Nepal. The commercial Banks of Nepal can be categorized into two types namely Public Sector and Private Sector. Public sector Banks include two old Banks NBL and RBB and private sector Banks comprise remaining 31 Banks. Out of the total population following 3 commercial Banks were selected as samples for this study by using judgmental sampling method:

- Nepal Investment bank Limited
- Kumari Bank Limited
- Nepal SBI bank Limited

3.3 Sources of Data

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss Account and Literature Publication of the concerned banks. The NEPSE report of the concerned bank has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative source like Nepal Rastra Bank, Shanker Dev Campus Library, Nepal Commerce Campus, Library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, different journals, magazines and other published and unpublished reports documented by the authorities.

In order to fulfill the objectives of this research work, all the secondary data are compiled, processed and tabulated in time series. And to judge the reliability of data provided by the banks and other sources, they were compiled with the annual report of auditors.

3.4 Data Analysis Tool

The available information is 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 and charts. For analysis purpose different kinds of appropriate mathematical, statistical and financial tools have been applied. Further to represent the data in simple form diagrams and graphs have also been used. The data collected from different sources are recorded systematically and identified.

Two kinds of tools have been used to achieve the certain goals.

- Financial Tools
- Statistical Tools

3.4.1 Financial Tools

Financial tools are used as a benchmark for evaluating 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 items of the balance sheet and profit and loss account.” “Financial analysis is the use of financial statements to analyze a company’s financial position and performance and to access future financial performance.”

Ratio Analysis

Ratio Analysis is the widely used tool of financial analysis. A ratio is imply one number expressed in terms of another and as such it expresses the numerical or quantitative relationship between two variables. Ratio analysis reflects the relative strengths and weakness of any organization and also indicates the operating and financial growth of the organization. “Ratios help to summarize large quantities of financial data and to make quantitative judgment about the firm’s financial performance.

The relationship between two accounting figures expressed mathematically is known as financial ratios” Even though there are many ratios, only those ratios have been calculated which are related to the subject matter. Following ratios have been computed and analyzed in this study.

Loans and Advances to Total Assets Ratio

Loans and advances of any commercial Banks represent the major portion in volume of total assets. The ratio of loans and advances to total assets measures the volume of loans and advances in the structure of total assets. The high degree of ratio indicates the good performance of the Banks in mobilizing its fund by way of lending functions. However in its reverse side, the high degree is representative of low liquidity ratio. Granting loans and advances always carries a certain degree of risk. Thus this asset of Banking business is regarded as risky assets. Hence this ratio measures the management attitude towards risky assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice versa. The ratio is calculated as follows:

$$\text{Loans and advances to total asset ratio} = \frac{\text{loans and advances}}{\text{total Assets}}$$

Loans and Advances to Total Deposit Ratio (CD Ratio)

The core banking function is to mobilize the funds obtained from the depositors to borrowers and earn profit and CD ratio is the fundamental parameter to ascertain fund deployment efficiency of commercial Bank. In other words this ratio is calculated to find out how successfully the Banks are utilizing their total deposits on credit or loans and advances for profit generating purpose as loans and advances yield high rate of return. Greater CD ratio implies the better utilization of total deposits and better earning, however, liquidity requirements also needs due consideration. Hence 70%-80% CD ratio is considered as appropriate. This ratio is calculated by dividing total credit by total deposit of the Bank.

$$\text{Loans \& Advances to Total Deposit Ratio} = \frac{\text{loan and advances}}{\text{total assets}}$$

Non-Performing Loans to Total Loans and Advances Ratio

This ratio determines the proportion of non-performing loans in the total loan portfolio. Higher ratio implies the bad quality of assets of Banks in the form of loans and advances. Hence lower NPL to total credit ratio is preferred. As per international standard only 5% NPL is allowed but in the context of Nepal 10% NPL is acceptable. It is calculated as follows:

$$\text{Non-Performing loans to total loans and advances} = \frac{\text{Nonperforming loan}}{\text{total loan advances}}$$

Loan Loss Provision to Total Loans and Advances Ratio

This ratio describes the quality of assets in the form of loans and advances that a Bank is holding. Since there is risk inherent in loans and advances, NRB has directed commercial Banks to classify its loans into different categories and

accordingly to make provision for probable loss. Loan loss provision signifies the cushion against future contingency created by the default of the borrower in payment of loans and ensures the continued solvency of the Banks. Since high provision has to be made for non-performing loan, higher provision for loan loss reflects increasing non-performing loan in volume of total loans and advances. The low ratio signifies the good quality of assets in the volume of loans and advances. It indicates how efficiently it manages loan and advances and makes efforts to cope with probable loan loss. Higher ratio implies, higher portion of NPL in the total loan portfolio. This ratio is calculated as follows:

$$\text{Loan Loss Provision Ratio} = \frac{\text{loan loss provision}}{\text{total loan advances}}$$

Provision Held to Non-performing loan

This ratio determines the proportion of provision held to non-performing loan of the Bank. This ratio measures up to what extent of risk inherent in NPL is covered by the total loan loss provision. Higher ratio signifies that the Banks are safeguarded against future contingencies that may create due to non-performing loan or in other words Banks have cushion of provision to cope the problem that may be cause due to NPL.

Hence higher the ratio better is the financial strength of the Bank. This ratio is calculated as follows:

$$\text{Provision Held to Non performing loan} = \frac{\text{Total loan loss provision}}{\text{Nonperforming loan}}$$

Return on loan and advances

This ratio indicates how efficiently the Bank has employed its resources in the form of loans and advances. It is the ratio of net profit and total loans and advances of a Bank. Net profit refers to that profit which is obtained after all types of deduction like employee bonus, tax, provision etc. Hence this ratio measures Bank's profitability with respect to loans and advances. Higher the

ratio better is the performance of the Bank. It is calculated as below

$$\text{Return on loan and advances} = \frac{\text{Netprofit}}{\text{TotalloansAdvances}}$$

3.4.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives. In this research, following statistical tools are used.

Average

Average is defined as sum of observations divided by their number in the selected sample.

$$\begin{aligned} \text{Average (mean)} &= \frac{\text{Sum of Observations}}{\text{Number of Values}} \\ &= \bar{X} = \frac{\sum X}{N} \end{aligned}$$

Coefficient of Correlation (r)

The correlation coefficient indicates the linear relationship between two or more variables. The measures of correlation called the “correlation coefficient” can be summarized in one figure, the degree and direction of movement. It can be calculated by using the method of Karl Person’s correlation coefficient, because it is one of the widely used mathematical methods of calculation, the correlation coefficient between two variables.

In symbolically, it is defined as:

$$r = \frac{\sum XY - \sum X \cdot \sum Y}{\sqrt{\sum X^2 - (\sum X)^2} \sqrt{\sum Y^2 - (\sum Y)^2}}$$

Assumptions

- If $r = 1$, there is positively perfect correlation between the two variables.
- If $r = -1$, there is negatively perfect correlation between the two variables.
- If $r = 0$, the variables are uncorrelated.

The nearer the value of r to $+1$, the closer will be the relationship between two variables and the nearer the value of r , the lesser will be the relation.

Probable Error (P.E)

The probable error of the correlation coefficient helps to interpret its value. P.E., which is the measure of testing the reliability of correlation coefficient, denotes it. If r be the calculated value of r from a sample of n pair of observation the P.E. is denoted by:

$$\text{P.E.} = \frac{0.6745(1-r^2)}{\sqrt{n}}$$

It can be interpreted to know whether its calculated value of r is significant or not in the following ways.

- If $r < \text{PE}$, it is Insignificant perhaps there is no evidence of correlation
- If $r > 6\text{PE}$, it is significant.

In other cases, nothing can be concluded. The probable error of correlation may be used to determine the limits within which the population correlation coefficient lies. The limits for population correlation are $r \pm \text{PE}$.

This section of research includes the conversion of collected raw data from various resources into an understandable presentation using financial as well as statistical tools supported by diagrams and graphs as mentioned in the previous chapter. This chapter of the thesis is main chapter as all the findings, conclusions and recommendations are going to be derived from the calculations and analysis done in this section.

Simple percentage is used to analyze the data using arithmetical tools. Karl's Pearson's correlation coefficient is used to analyze the data as statistical tool. Nowadays Non-Performing Assets (NPA) have been occupying major space in the total assets and total lending of the bank. The non-performing loan declined to 3.1 percent of the total loan as of unaudited balance sheet of mid-April 2010 from 3.6 percent as of mid-July 2009. The NPA of RBB is found 12.1% while that of NBL is 4.1% of the total lending. In this way it shows that commercial banks have been suffering by high level of NPA, and the efforts of the banks have been diverted to reduce it.

Keeping this fact into consideration, a provision has set up by Nepal Rastra Bank in

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Fiscal year 2057/58 to control the level of NPA of Nepalese commercial banks. According to that provision, every bank has to classify its total loan and advances (including purchased and discounted bills) as pass loan, substandard loan, doubtful loan and bad loan, on the basis of overdue against schedule. Commercial banks are also directed to maintain loan loss provision as stated in section 11 of directives no. 2 of NRB's directives for commercial banks 2059. Main purpose was to find out the level of NPA in Nepalese commercial banks and to take necessary steps to control the level of NPA in future.

Here in the study, data of five fiscal years starting from F/Y 2062/63 to 2066/67 have been presented to study and analyze the level of NPA in total assets, total lending and total deposits of the commercial banks. Data are also presented to examine or analyze the efforts to NPA on the profitability of the banks under study.

4.2 Data Presentation and Analysis of Sample Banks

Ratio / year	2062/63	2063/64	2064/65	2065/66	2066/67
NPA to Total Lending	0.92	0.73	1.32	0.44	0.5
Total Lending to Total Deposit	90.2	85.84	90.2	94.17	85.85
Net Profit to Total Assets	1.15	1.43	1.16	1.41	1.54

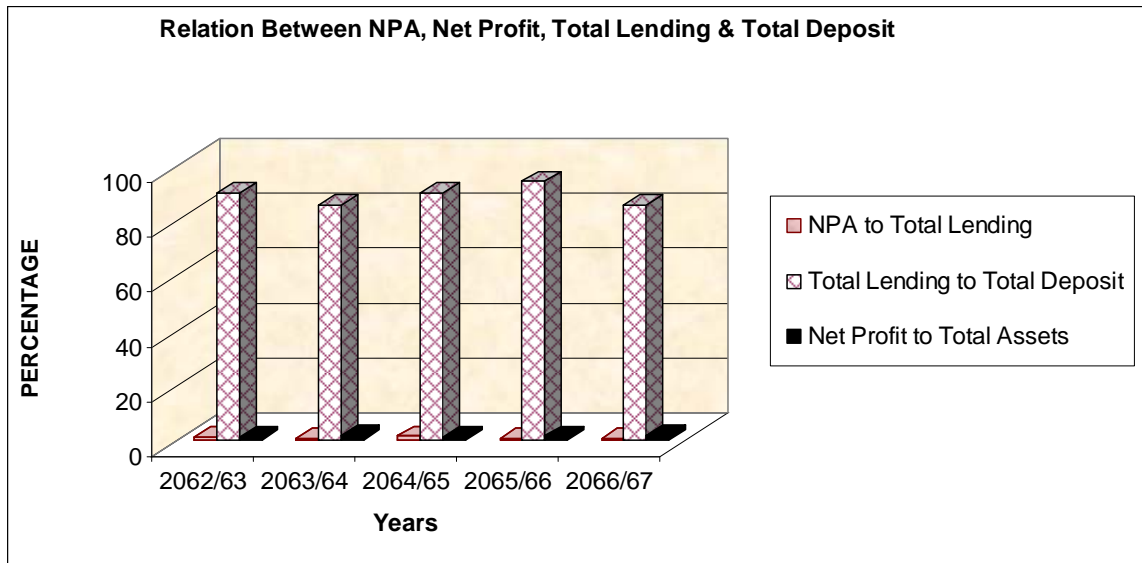
Source: Annex 1

Fig 4.1

4.2.1 Data Presentation and Analysis of Kumari Bank Limited

Table 4.1

Relation between NPA, Net Profit, Total Lending and Total Deposit



In above table 4.1 and fig. 4.1, depicts that the ratio between non-performing assets and total lending over five years periods are in fluctuating trend. In the beginning i.e. 062/63 is 0.92% which decreases to 0.73 in 2063/64. However, it increased to 1.32% in 2064/65 and afterwards in 2065/66 it is only 0.44% and 0.5% in the fiscal year 2066/67.

The ratio between total lending and total deposit over five periods are in fluctuating trend. In fiscal year 2062/63 and 2064/65 ratios was same i.e.90.2% whereas in 2063/64 it was 85.84%. In fiscal year 2065/66 ratio was maximum among five fiscal year i.e.94.17% and 85.85% in 2066/67.

The ratio between the net profit and total assets are also in fluctuating trend over five fiscal years. In fiscal year 2062/63 it was only 1.15% which was the least percentage over five fiscal year afterwards it increased up to 1.43% in 2063/64. Again it decreased to 1.16% in 2064/65 then after it started to increase 1.41% and 1.54% in 2065/66 and 2066/67 respectively.

Table 4.2

Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2062/63	103,666,767	64,353,706
2063/64	170,262,909	66,118,868
2064/65	174,930,227	152,475,600
2065/66	261,442,589	64,542,683
2066/67	316,542,342	75,510,176

Source: Annex I

In Table 4.2 shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2062/63 to 2066/67. In fiscal year 2062/63 the NPA amount to Rs. 64,353,706 i.e. NPA increased by Rs 10,365,169 (i.e. 19.19 %) in comparison of previous year. As a result the net profit of the bank increased by 23.11 % at the end of fiscal year 2062/63 reached to Rs 103,666,767.

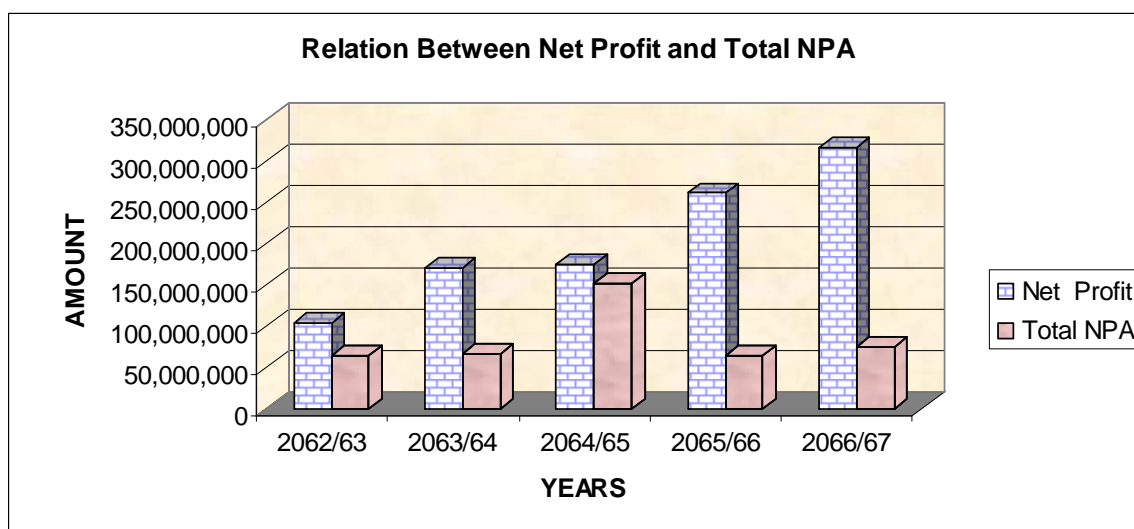
Similarly, in fiscal year 2063/64, the NPA increased by 2.74 % i.e. Rs. 1,765,162 and reached to amount Rs. 66,118,868. The net profit highly increased by amount Rs 66,596,142 i.e.64.24 % in comparison with previous year's net profit and reached to Rs 170,262,909.

In fiscal year 2064/65 the NPA of banks has increased highly by 130.61% i.e. Rs. 86,356,732 and reached to the amount Rs. 152,475,600. As the result of the high increment in NPA there is slight increment in Net profit 2.74% i.e. Rs. 4,667,318.

Similarly, in 2065/66 NPA has highly decreased by 57.67% i.e. Rs. 87,932,917 and reached to the amount Rs. 64,542,683. In result there is highly increased Net profit of the banks 49.46% i.e. Rs. 86,512,362 and the amount reached upto Rs.261, 442,589.

In fiscal year 2066/67, 16.99% increment in NPA i.e. Rs. 10,967,493 reached to the amount Rs.75,510,176. The Net profit of banks increased by 21.08% i.e.Rs. 55,099,753 and reached to Rs. 316,542,342.

Figure 4.2



Loan Loss Provisioning of Kumari Bank Limited

The loan loss provision maintains by Kumari Bank Ltd. is presented in the following table 4.3.

Table 4.3

Loan loss provisioning of Kumari Bank Ltd

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2062/63	2063/64	2064/65	2065/66	2066/67
Pass loan	1% of pass loan	1.00	1.00	1.00	1.00	1.00
Sub-standard loan	25% of sub-standard loan	25.00	25.00	25.00	25.00	25.00
Doubtful loan	50% of doubtful loan	50.00	50.00	50.00	97.44	50.00
Bad loan	100% of bad loan	100.00	100.00	100.00	100.00	100.00

Source: Annex 2.

Commercial bank has to maintained loan loss provision as per the NRB's directives for the commercial bank. KBL maintained loan loss provision as per the NRB's directives in fiscal year 2062/63 to 2066/67. In above table 4.3 the provision of loan loss provision maintained by NRB's directive is satisfactory in pass loan, Sub-standard loan and Bad loan but in doubtful loan in fiscal year 2065/66 is seem to be quite higher i.e. 97.44% than other years.

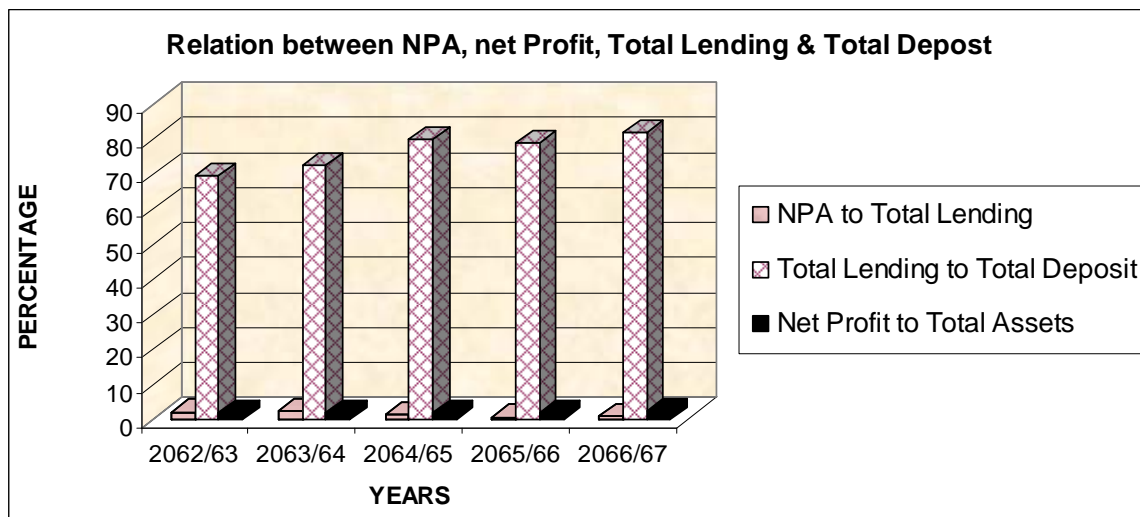
4.2.2 Data Presentation and Analysis of Nepal Investment Bank Limited

Table 4.4
Relation between NPA, Net Profit, Total Lending and Total Deposit

Ratio / year	2062/63	2063/64	2064/65	2065/66	2066/67
NPA to Total Lending	2.07	2.37	1.12	0.58	0.62
Total Lending to Total Deposit	69.63	72.56	79.91	78.86	81.74
Net Profit to Total Assets	1.64	1.82	1.79	1.7	2.21

Source: Annex 1.

Fig. 4.3



In above table 4.4 and fig. 4.3, depicts that the ratio between non-performing and total lending of NIBL is in fluctuating order over five fiscal year. In 2062/063 ratio was 2.07%, It was slightly increased in fiscal year 2063/64 i.e. 2.37%, did not remain steady and started to decrease to 1.12%, 0.58% and 0.62% in 2064/65, 2065/66 and 2066/67 respectively.

In fiscal year 2062/63 the ratio between total lending and total deposit was 69.63%, which went on increasing till fiscal year 2064/65 i.e. in 2063/64 was 72.56% and 2064/65 was 79.91%.In 2065/66 there was small changes in ratio i.e. 78.86% and after that again it increased to 81.74% in 2066/67.

In above table 4.4 and fig. 4.3 shows that the ratio between net profit and total assets is in fluctuating order. The ratio between net profit and total assets was 1.64% in

2062/63 afterwards it is in decreasing order i.e. 1.82%, 1.79%, 1.7% during 2063/64, 2064/65, 2065/66 respectively. At last in 2066/67 it is 2.21%.

Table 4.5

Relation between Net profit and Total NPA

Fiscal year	Net Profit	Total NPA
2062/63	350,536,413	272,493,041
2063/64	501,398,852	421,971,550
2064/65	696,731,516	309,470,983
2065/66	900,619,072	213,907,394
2066/67	1,265,949,588	254,034,452

Source: Annex 1

In the above table 4.5 depicts the relation between the Net profit and Total NPA of the NIBL over five fiscal year. In the fiscal year 2062/63 the NPA amount to Rs. 272,493,041 i.e. NPA decreased by Rs 8,381,090 (i.e. 2.98 %) in comparison of the previous year. As a result the net profit of the banks increased by 51% i.e Rs.118,389,315 at the end of fiscal year 2062/63 reached to Rs 350,536,413.

Similarly, in fiscal year 2063/64, the NPA has increased by 54.86 % i.e. Rs. 149,478,509 and reached to amount Rs. 421,971,550. The net profit was highly increased by Rs 150,862,439 i.e.43.04 % in comparison with previous year's net profit and reached to Rs. 501,398,852.

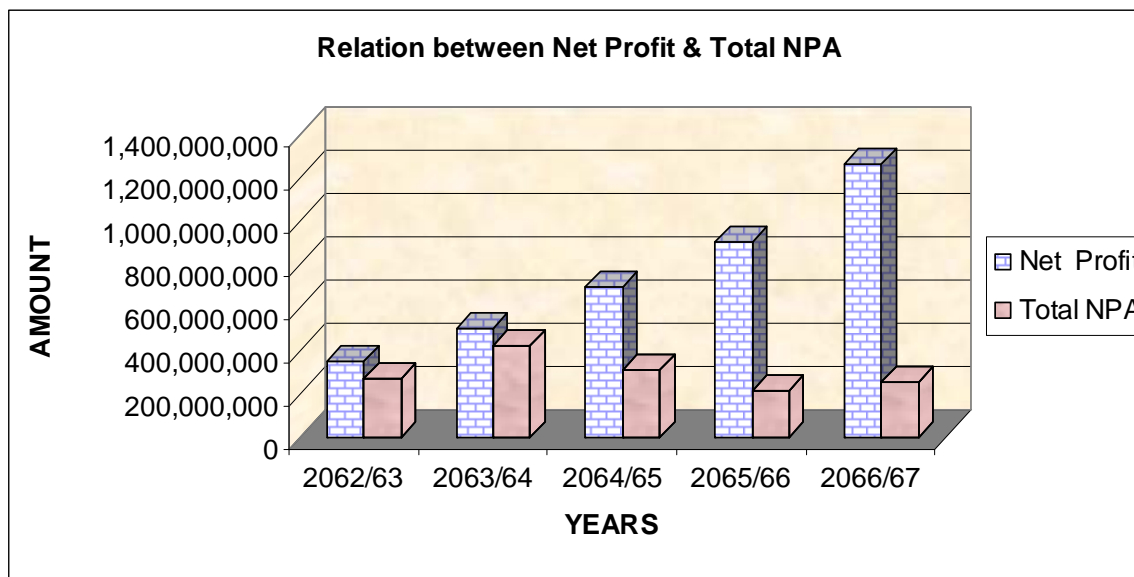
In the fiscal year 2064/65 again the NPA decreased by 26.66% i.e. Rs. 112,500,567 and reached the amount Rs. 309,470,983. As a result Net profit also increased by 38.96% i.e. Rs. 195,332,664 and reached the amount Rs. 696,731,516 at the end of fiscal year 2064/65.

The tendency of decrement in total NPA continued in the fiscal year 2065/66 as well by 30.88% i.e. Rs. 95,563,589 and reached the amount Rs. 213,907,394. As a result of this net profit is also increased by 29.66% i.e. Rs. 203,887,556 and reached to Rs. 900,619,072.

In 2066/67, differ then previous year the total NPA increased by 18.76% i.e. Rs.40,127,058 and reached the amount Rs.254,034,452. As a result of this increment

the Net profit also increased by 40.56% i.e. Rs. 365,330,516 and reached the amount Rs.1,265,949,588.

Fig 4.4



Loan Loss Provisioning of Nepal Investment Bank Limited

The loan loss provision maintains by Nepal Investment Bank Ltd. is presented in the following table 4.5.

Table 4.6

Loan loss provisioning of Nepal Investment Bank Ltd

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2062/63	2063/64	2064/65	2065/66	2066/67
Pass loan	1% of pass loan	1.00	1.00	1.01	1.04	1.03
Sub-standard loan	25% of sub-standard loan	25.00	25.36	25.00	25.00	25.00
Doubtful loan	50% of doubtful loan	50.00	50.07	50.19	50.00	50.00
Bad loan	100% of bad loan	99.01	99.08	100.00	100.00	100.00

Source: Annex 2

Commercial banks have to maintain loan loss provision as per the NRB’s directives for the commercial bank. In the fiscal year 2062/63, the bank was able to maintain in pass loan, sub-standard loan and doubtful loan as per NRB’s directives. But bank

wasn't able to maintain bad loan i.e. 99.01% which is less than the NRB's directive i.e. 100%.

Similarly, in the fiscal year 2063/64 bank was only able to maintain pass loan according to NRB's directives and there was slightly increment in sub-standard and Doubtful loan i.e. 25.36% and 50.07% respectively than the NRB's directives. The bad loan in this fiscal year was quite less than NRB's directives i.e. 99.08 which must be 100%.

In the fiscal year 2064/65 except sub-standard and bad loan banks weren't able to maintain its criteria in pass loan and doubtful loan i.e. 1.01% and 50.19% respectively, this is quite more than NRB's directives.

Except the pass loan 1.04% in fiscal year 2065/66 which was quite more than the NRB's directives i.e 1%, bank was able to maintain its criteria in sub-standard, doubtful and bad loan.

However, the pass loan (1.03%) of the fiscal year 2066/67 was quite more than the NRB's directives, bank was able to maintain in sub-standard, doubtful and bad loan as per NRB's directives.

It is found that the bank could not maintained loan loss provision, perfectly in accordance to the NRB's directives. The bank maintained higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRB's directives.

4.2.3 Data Presentation and Analysis of Nepal SBI Bank Limited

Table 4.7

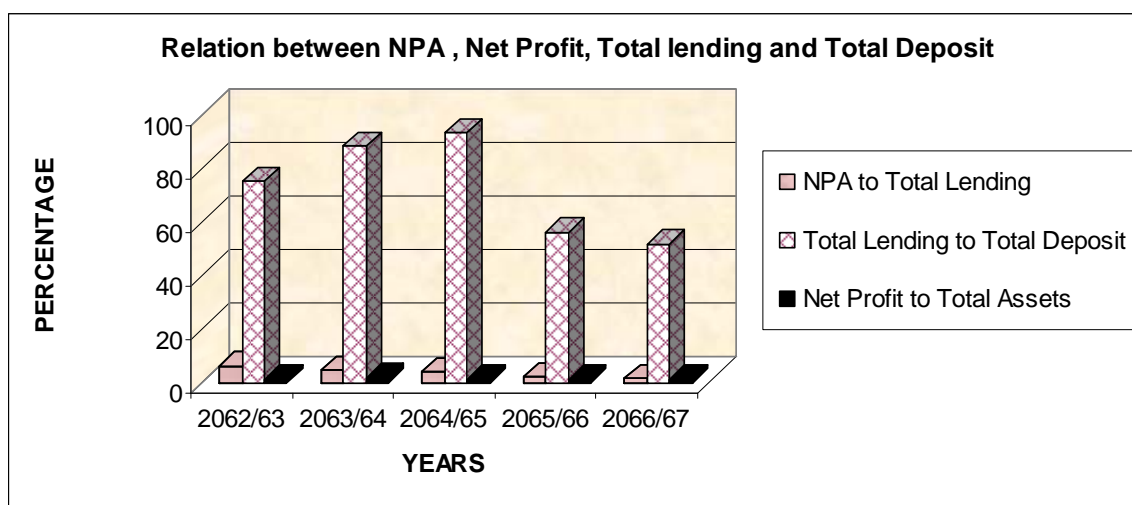
Relation between NPA, Net Profit, Total Lending and Total Deposit

Ratio / year	2062/63	2063/64	2064/65	2065/66	2066/67
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NPA to Total Lending	6.13	4.56	3.83	2.02	1.48
Total Lending to Total Deposit	74.91	87.94	92.93	55.84	51.48
Net Profit to Total Assets	0.9	1.83	1.14	1.02	1.03

source: Annex 1

Fig. 4.5



In table 4.6 and fig. 4.5 shows that the ratio between non-performing assets and total lending is in decreasing order. In 2062/63 it is 6.13% which gradually decreased in 2063/64 i.e. 4.56%, 2064/65 i.e. 3.83%, 2065/66 i.e. 2.02% and 2066/67 i.e. 1.48 %.

But the ratio between total lending to total deposit is in fluctuating order. In 2062/63 it is 74.91% which increased to 87.94% and 92.93% in the fiscal year 2063/64 and 2064/65 respectively. After than it gradually started to decrease 55.84% and 51.48% in fiscal year 2065/66 and 2066/67 respectively.

The 0.9% of ratio between net profit to total assets in fiscal year 2062/63, increases to 1.83% in fiscal year 2063/64. Afterwards it decreased to percentage of ratio i.e. 1.14% in fiscal year 2064/65, started to increase 1.02% and 1.03% in fiscal year 2065/66 and 2066/67 respectively.

Table 4.8

Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2062/63	117,001,973	505,336,919
2063/64	254,908,844	458,755,741
2064/65	247,770,758	488,410,069
2065/66	316,373,495	315,954,765
2066/67	391,742,119	265,133,749

Source : Annex 1

The above table shows the relation between Net profit and Total NPA during five fiscal year 2062/63 to 2066/67. In the fiscal year 2062/63 the total NPA increased by 14.58% i.e. Rs. 64, 319,908 than in the previous year and reached the amount to Rs. 505,336,919. As the result of this NPA increased by 103% i.e. Rs.59,615,339 and reached the amount Rs. 117,001,973.

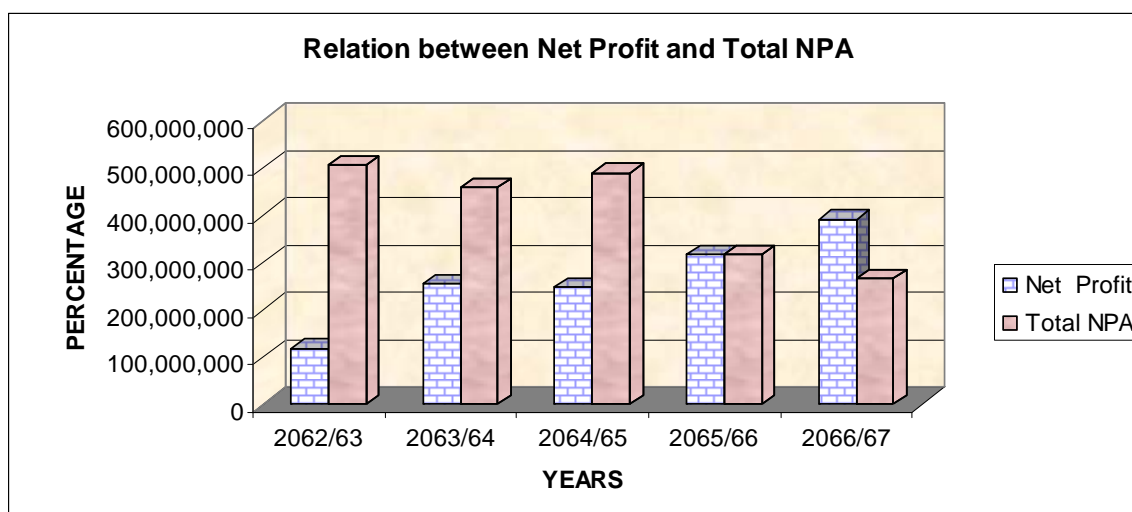
In fiscal year 2063/64 the NPA decreased by 9.22% i.e. Rs.46, 581, 178 and reached the amount Rs. 458,755,741. As a result of this the Net profit increased by 117.87% i.e. Rs. 137,906,871 and reached the amount Rs. 254,908,844.

The slight increment in NPA of fiscal year 2064/65 i.e. 6.46% in amount Rs. 29,654,328 reached the amount Rs. 488,410,069. As a result the net profit decreased by 2.80% i.e. Rs. 7,138,086 and reached the amount Rs. 247,770,758.

In fiscal year 2065/66 again the NPA decreased by 35.31% i.e. Rs.172,455,304 and reached the amount to Rs. 315,954,765. As the result of this the net profit increased by 1177.21% i.e. Rs. 291,602,737 and reached the amount Rs. 316,373,495.

Still the frequency of decreasing of NPA continued in the fiscal year 2066/67 by 16.08% i.e. Rs.50,821,016 and reached the amount to Rs. 265,133,749. As a result of this the net profit increased by 23.82% i.e. Rs.75,368,624 and reached the amount Rs. 391,742,119.

Fig. 4.6



Loan Loss Provisioning of Nepal SBI Bank Limited

The loan loss provision maintains by Nepal SBI Bank Ltd. is presented in the following table 4.8.

Table 4.9

Loan loss provisioning of Nepal SBI Bank Ltd

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2062/63	2063/64	2064/65	2065/66	2066/67
Pass loan	1% of pass loan	0.96	0.99	0.98	0.99	0.99
Sub-standard loan	25% of sub-standard loan	17.71	16.59	14.61	20.71	24.58
Doubtful loan	50% of doubtful loan	50.00	34.86	45.63	32.50	19.67
Bad loan	100% of bad loan	99.13	99.53	98.59	97.93	97.89

Source: Annex 2

Commercial banks have to maintain loan loss provision according to the NRB's directives. In the fiscal year 2062/63, bank was only able to maintain its provision in Doubtful loan, but in pass loan(0.96%), substandard loan(17.71%) and bad loan(99.13%) it couldn't maintain as per directives of NRB's.

In the fiscal year 2063/64, bank wasn't able to maintain its provision in any of the loan in pass loan (0.99%), substandard loan(16.59%), Doubtful loan(34.86%), and Bad loan(99.53%) which must be 1%, 25%,50% and 100% respectively.

Similar to the previous year, in the fiscal year 2064/65 also bank wasn't able to maintain its provision in pass loan (0.98%), sub-standard loan(14.61%), doubtful loan (45.63%) and bad loan(98.59%) which must be 1%, 25%,50% and 100% respectively. In all loans it is less than the criteria.

In the fiscal year 2065/66, pass loan was less than 1% i.e. 0.99%, sub-standard loan was also less than 25% i.e. 20.71%. Doubtful loan and Bad loan is 32.50% and 97.93% which is less than the NRB's directives that is 50% and 100% respectively.

In the fiscal year 2066/67, pass loan, sub-standard loan, doubtful loan and bad loan were 0.99%, 24.58%, 19.67% and 97.89% respectively which is less than the provision as per the NRB's directives.

4.3. Performing and Non- Performing assets of commercial banks in Total Assets, Total Lending & Total Deposit

Table 4.10

Performing and Non- Performing assets of commercial banks in Total Assets, Total Lending & Total Deposit

Bank	Assets		Lending		Deposit	
	% of PA to TA	% of NPA to TA	% of PA to TL	% of NPA to TL	% of PA to TD	% of NPA to TD
KBL	76.05	0.60	99.22	0.78	88.55	0.70
NIBL	66.70	0.89	98.65	1.35	75.53	1.01
Nepal SBI	59.15	2.35	96.40	3.60	69.81	2.81

Source: Annex 1

Up to the fiscal year 2062/63, Kumari Bank Ltd has performing assets amounted Rs. 6,943,433,808 which increased by 29.57 % and reached to Rs. 8,996,314,613 at the end of the fiscal year 2063/64. It further increased every year and reached amount to Rs.14,890,569,849 for the fiscal year 2066/67.

The total assets of the Kumari Bank are increasing during the five fiscal years period. The percentage of performing assets to total asset is 77.06 % at the end of fiscal year 2062/63 but it is decreased in the fiscal year 2063/64 and reached to 75.48%. The slight increment in percentage of performing assets to total asset in fiscal year

2064/65 i.e. 75.67% again started to increase to the 79.46% in the fiscal year 2065/66. Afterwards again it started to decrease to 75.56% in the fiscal year 2066/67. The average percentage of performing assets to total assets of the five years periods is found to be 76.05 %.

The total lending is in a fluctuating trend during the study period. The percentage of performing assets to total lending is 99.08 % in the fiscal year 2062/63 and it increased and reached to 99.27 % for the end of fiscal year 2063/64. Then after it started to decrease to the 98.68% in fiscal year 2064/65. Again it started to increase to 99.56% in the fiscal year 2065/66. Later it started to slightly decrease to 99.50% in the fiscal year 2066/67. The average percentage of performing assets to total lending of five years was 99.22 %.

The percentage of performing assets to total deposit was 89.37 % in the fiscal year 2062/63 and it is decreased to 85.21 % at the end of the year 2063/64. It increased to 89.01 % & 93.76% in the fiscal year 2064/65 & 2065/66 respectively but it decreased in the year 2066/67 and reached 85.42 %. 88.55 % is the average percentage of performing assets to total deposit of five years period. This trend of performing assets indicated that the bank was able to increase its performing loan through regular control and supervision of its lending.

The total non performing assets (NPA) of Kumari Bank Ltd was Rs 64,353,706 in the fiscal year 2062/63 and it increased and reached amount to Rs. 66,118,868 at the end of the fiscal year 2063/64. It further increased to Rs.152,475,600 at the end of fiscal year 2064/65. But it started to decrease in the fiscal year 2065/66 and reached to Rs.64,542,683. But again it increased to Rs. 75,510,176 at the end of fiscal year 2066/67

The percentage of NPA to total assets of Kumari Bank Ltd for the year ended 2062/63 is 0.71 % which decreased in the fiscal year 2063/64 and reached to 0.55 %. It increased to the 1.01% in the fiscal year 2064/65. But it started to decrease for the following two years and reached 0.35 % in the fiscal year 2065/66 and 0.37% in the fiscal year 2066/67. The average percentage of NPA to total assets of five years was 0.60 %.

The percentage of NPA to total lending of Kumari Bank Ltd for the year ended 2062/63 was 0.92 % which was decreased to the 0.73% in fiscal year 2063/64. But it increased to the 1.32% in fiscal year 2064/65. Later it started to decrease for the

following two years and it reached to 0.44 % in the fiscal year 2065/66 and 0.50% in the fiscal year 2066/67. The average percentage of NPA to total lending of five years was 0.78 %.

The Percentage of NPA to total deposits of Kumari Bank Ltd for the year ended 2062/63 was 0.83 % Similarly, like the percentage of NPA to total lending the percentage of NPA to total deposits increased and reached to the 0.63% in the fiscal year 2063/64 and again it started to increase to 1.19% in the fiscal year 2064/65. Later on it started to decrease to 0.41% and 0.43% in the fiscal years 2065/66 and 2066/67 respectively.

In the fiscal year 2062/63, Nepal Investment Bank Ltd had performing assets which amounted to Rs 12,905,658,783 which increased every year during the study period and reached to amount Rs.40,694,405,581 for the fiscal year 2066/67.

The total assets of the Nepal investment Bank are increasing during the five years period. The percentage of performing assets to total asset increased from 60.50% for the year ended 2062/63 to 70.02 % at the end of fiscal year 2064/65 and it decreased to 69.07 % at the end of fiscal year 2065/66. But it increased in the fiscal year 2066/67 and reached to 71.01 % . The average percentage of performing assets to total assets of the five years periods is found to be 66.70 %.

The total lending is in increasing trend during the study period. The percentage of performing assets to total lending is 97.93 % for the year 2062/63. It slightly decreased in the fiscal year 2063/64 to 97.63 % .But it increased to the fiscal year 2064/65 and 2065/66 to 98.88% and 99.42% respectively. Again it slightly decreased to fiscal year 2066/67 and reached to 99.38 % . The average percentage of performing assets to total lending of five years is 98.65 %.

The total deposit of the bank during the study period is also in increasing trend like other term. The percentage of performing assets to total deposit was 68.19 % in the fiscal year 2062/63. Then it increased to 70.84% and 79.01% to the end of the year 2063/64 and 2064/65 respectively. It slightly decreased to 78.40% in the fiscal year 2065/66 and it increased to 81.23% in the fiscal year 2066/67. The average percentage of performing assets to total deposit of five years period is 75.53 %.

The total non performing asset (NPA) of Nepal Investment bank Ltd was Rs 272,493,041 in the year 2062/63 and it increased to Rs. 421,971,550 in the fiscal year

2063/64 and again it started to decrease to Rs. 213,907,394 in the fiscal year 2065/66. In the fiscal year 2066/67 there is slight increase in the percentage i.e. Rs.254,034,452. The percentage of NPA to total assets of Nepal Investment Bank Ltd for the year ended 2062/63 was 1.28 % which increased to 1.53% in the fiscal year 2063/64. Afterwards it started to decrease to the following year 2064/65, 2065/66 and 2066/67 to 0.80%, 0.40% and 0.44% respectively. The average percentage of NPA to total assets of five years is 0.89 %.

The percentage of NPA to total lending of Nepal Investment Bank Ltd for the year ended 2062/63 was 2.07% which increased to 2.37 % for the years 2063/64. Later, it is decreased for the following two years and reached to 0.58% in the end of the fiscal year 2065/66 and it slightly increased to 0.62 % in the fiscal year 2066/67. The average percentage of NPA to total assets of five years is 1.35 %.

The percentage of NPA to deposit of Nepal Investment Bank Ltd for the year ended 2062/63 is 1.44 % which increased to 1.72% in the fiscal year 2063/64 and it is started to decrease to 0.90% and 0.46% in the fiscal year 2064/65 and 2065/66 respectively.

There is slight increment in the percentage in the fiscal year 2066/67 i.e. 0.51%. The average percentage of NPA to total assets of five years is 1.01 %.

In the Fiscal year, Nepal SBI Bank has performing assets Rs. 7,736,119,625 which increased every year during the study period and reached amount to Rs. 17,698,507,430 for the fiscal year 2066/67.

The total assets of the Nepal SBI Bank are increasing during the five years period. The percentage of performing assets to total asset increased from 59.35 % for the year ended 2062/63 to 71.32 % at the end of fiscal year 2064/65. After wards it decreased to the 49.48% and 46.52% in the fiscal years 2065/66 and 2066/67 respectively. The average percentage of performing assets to total assets of the five years periods is found to be 59.15 %.

The total lending is increasing during the study period. The percentage of performing assets to total lending is 93.87 % for the end of the fiscal year 2062/63 and which increased during the five years period and reached to 98.52 % for the end of fiscal

year 2066/67 and the average percentage of performing assets to total lending of five years was 96.40 %. This trend of performing assets indicates that the bank was able to control and supervise its lending properly.

The percentage of performing assets to total deposit is fluctuating trend for the five years period. The percentage of performing assets to total deposit was 70.32 % for the end of the fiscal year 2062/63 and which increased during the two years period and reached to 89.37 % for the end of fiscal year 2064/65 and the average percentage of performing assets to total lending of five years was 69.81 %.

The total non performing assets (NPA) of Nepal SBI Bank Ltd had Rs 505,336,919 at the end of fiscal year 2062/63 which decreased by 4.59 % and reached to Rs 458,755,741 in the fiscal year 2063/64. Then after it increased by 4.88% and reached Rs. 488,410,069 at the end of the fiscal year 2064/65. In the fiscal year 2065/66 total NPA again decreased by 3.36 % and reached to Rs 315,954,765. The continuity of decrement was same in the fiscal year 2066/67 by 2.65% and reached the amount Rs. 265,133,749.

The percentage of NPA to total assets of Nepal SBI Bank Ltd for the year ended 2062/63 was 3.88 % which is decreased in the following fours and reached to 0.70 % for the year ended 2066/67. The average percentage of NPA to total assets of five years was 2.35 %.

Similarly, the percentage of NPA to total lending as well as percentage of NPA to total deposit is same trend. During the study period the percentage of NPA to total lending and percentage of NPA to total deposit are in decreasing trend.

This trend of non performing assets indicates that the bank was able to control towards NPA during the five years period. Because of good control, supervision and concentration, the bank could recover its lending (NPA). Decreasing trend of percentage of non performing assets (NPA) indicates the good financial position as well as assets management of the bank.

4.4 Percentage Performing and Non Performing Assets of Commercial Banks in Total Loan

Table 4.11
Percentage Performing and Non performing Assets of
Commercial banks in Total loan

Banks	Performing Asset		Non Performing Asset		
	PL /TL	RL /TL	SL /TL	DL /TL	BL /TL
KBL	98.86	0.35	0.19	0.40	0.19
NIBL	98.49	0.16	0.25	0.12	0.98
Nepal SBI	98.92	2.48	0.05	0.08	3.47

Source: Annex 3

Up to fiscal year 2062/63 Kumari Bank Ltd has total loan and advances amounted Rs 7,007,787,514 which increased every year during the study period i.e. five years period and it has become Rs 14,966,080,024 in the fiscal year 2066/67

The percentage of pass loan to total loan of Kumari Bank is fluctuating trend for the five years period. It was 98.13 % in the fiscal year 2062/63 which is increased to 98.84 % in the fiscal year 2063/64. There was slight decline in the fiscal year 2064/65 i.e. 98.35%. Later in the fiscal year 2065/66 it increased to 99.52% and slightly decreased in fiscal year 2066/67 i.e 99.47%. The average percentage of pass loan to total loan of five years is 98.86 %.

The percentage of restructured loan to total loan of Kumari Bank was 0.95 % in the fiscal 2062/63 which decreased to 0.03 % in the fiscal year 2066/67. The average percentage of restructured loan to total loan of two years is 0.35 %.

The percentage of substandard loan to total loan of Kumari Bank is in fluctuating trend for the five years period. It was 0.17 % for the fiscal year 2062/63 which decreased to 0.11% in the fiscal 2063/64. Later it increased to 0.51% in the fiscal year 2064/65. But after that it decreased and reached the 0.07% in the fiscal year 2066/67. The average percentage of substandard loan to total loan of five years period is 0.19 %.

The percentage of doubtful loan to total loan of kumari Bank is found to be fluctuating over the five years period. It was 0.47 % for the fiscal year 2062/63 which

decreased to 0.43 % in the fiscal year 2063/64 and increased to 0.69 % in fiscal year 2064/65. Again it decreased to 0.21 % in the fiscal year 2065/66 and slightly increased to 0.23% in the fiscal year 2066/67. The average percentage of doubtful loan to total loan of five years period is 0.40%.

The percentage of bad loan to total loan of Kumari Bank is in decreasing trend for the four years period. It was 0.28% in the fiscal year 2062/63 which decreased to 0.13% in the fiscal year 2065/66 and slightly increased in the fiscal year 2066/67 i.e. 0.21%. The average percentage of bad loan to total loan of five years period is 0.19 %.

Up to fiscal year 2062/63 Nepal Investment Bank Ltd had total loan and advances amounted Rs 13,178,151,824. During the study period, total loan of the bank is increasing every year and reached to Rs. 40,948,440,033 at the end of fiscal year 2066/67.

The percentage of pass loan to the total loan of Nepal Investment Bank was 97.66 % in fiscal year 2062/63 which decreased to the 97.41% in the fiscal year 2063/64. It increased to 98.72%, 99.32% and 99.33% in the fiscal year 2064/65, 2065/66, 2066/67 respectively. The average percentage of the pass loan to the total loan of five years period is 98.49%

Restructured loan to total loan is found to be in a decreasing trend during the study period. It was 0.28 % in the fiscal year 2062/63 which decreased to 0.05 % in the fiscal year 2066/67. The average percentage of restructured loan to total loan of five years is 0.16 %.

The percentage of substandard loan to total loan of Nepal Investment Bank had 0.34 % in the fiscal year 2062/63 which is increased and reached to 0.55 % in the fiscal year 2063/64 and decreased to 0.22 % in the fiscal year 2064/65. it decreased till the end of the study years 2066/67 i.e. 0.14%. The average percentage of substandard loan to total loan of five years is 0.25 %.

The percentage of doubtful loan to total loan of Nepal Investment Bank has 0.004% in the fiscal year 2062/63 which increased to 0.48 % in the fiscal year 2063/64 and after it is in decreasing trend and reached 0.03% in the fiscal year 2066/67. The average percentage of doubtful loan to total loan of five years is 0.12 %.

The percentage of bad loan to total loan of Nepal Investment Bank is 1.73% in the fiscal year 2062/63 which decreased to 0.46% in the fiscal year 2066/67. The average percentage of bad loan to total loan of five years is 0.98%.

Up to fiscal year 2062/63, Nepal SBI Bank Ltd has total loan and advances amounted Rs 8,241,456,544 which increased every year during the study period i.e. five years period it has reached to Rs 17,963,641,179 in the fiscal year 2066/67.

The percentage of pass loan to total loan of Nepal SBI Bank is 89.71 % in the fiscal year 2062/63 which increased to following four years during study period and reached to 97.26% in fiscal year 2066/67. The average percentage of pass loan to total loan of five years is 93.92 %.

The percentage of restructured loan to total loan of Nepal SBI Bank is in the decreasing trend during five years study period. It was 4.16 % at the end of the fiscal year 2062/63 and reached to 1.27 % for the end of the fiscal year 2066/67. The average percentage of restructured loan to total loan of five years is 2.48 %.

The percentage of substandard loan to total loan of Nepal SBI Bank was 0.02 % for the fiscal year 2062/63. It increased to 0.03 % in the fiscal year 2063/64 which remained same in the fiscal year 2064/65 as well. In fiscal year 2065/66 it increased to 0.08 % and decreased to 0.07 % in fiscal year 2066/67. The average percentage of substandard loan to total loan of five years period is 0.05 %.

The percentage of doubtful loan to total loan and bad loan to total loan of Nepal SBI Bank were 0.05 % and 0.11 % in the fiscal year 2062/63 and 2063/64 respectively which increased to 0.17% in the fiscal year 2064/65. Later on it decreased to 0.07 and 0.01 in the fiscal year 2065/66 and 2066/67 respectively. The average percentage of doubtful loan to total loan is 0.08%.

Bad loan to total loan of five years period are in decreasing trend during the study period and reached to 1.40% in the fiscal year 2066/67 which was 6.06% at the beginning of the study period i.e. 2062/63. The average percentage is 3.47%.

4.5 Correlation Analysis

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to other variable. Two or more variable are said to be correlated if the change in the value of one variable appears to be related or linked with the change in the value of other variable. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree to the closeness of the relationship between the different variables. In the correlation analysis, only one variable is treated as the dependent variable and one or more variables are treated as independent.

Correlation Analysis generally used to describe the degree to which one variable is related to another, in statistics it is used in order to depict the covariance between two or more variables. It helps to determine whether

- A positive or negative relation exists
- The relation is significant or insignificant
- Establishes cause and effect relation if any

4.5.1 Correlation between NPA and ROA of the commercial banks

The statistical tool, 'correlation analysis' is preferred in this study to identify the relationship between NPA and ROA and whether the relationship is significant or not. Here NPA denotes the percentage of NPA in total lending of the bank and ROA denotes the net profit as percentage of total assets of the banks.

Table 4.12

Correlation between NPA and ROA of the commercial bank

Bank	coefficient of correlation (r)	Relationship	Coefficient of determination (r ²)	Probable error (P.E.)	6*P.E	Significant/ insignificant
KBL	-0.84	Negative	0.70	0.09	0.54	significant
NIBL	-0.43	Negative	0.18	0.25	1.48	Insignificant
Nepal SBI	0.02	Positive	0.04	0.29	1.74	Insignificant

Source: Annex 4

In Table 4.7, the correlation coefficient between the Non Performing Assets to Returns on Assets shows that there is negative relationship between these two variables. The established theory also states that the Profit and Non Performing assets also flow in the opposite direction. When the amount of NPA is lesser, profit would be high and whenever the amount of NPA is more then profit goes on decreasing, which is explained by the above table.

KBL has the correlation coefficient of -0.84 which is categorized as having high degree of negative correlation. And 70% of the profitability is affected by the NPA to the respective banks and rest is affected by the other factor. And the test so made for these bank is found to be significant as the correlation is greater than Probable error (P.E.) multiplied by six times.

Nepal Investment Bank and Nepal SBI bank have the correlation coefficient of -0.43 and 0.02 % which are categorized as having moderate degree of negative and positive correlation. 18 % and 4 % of the relationship is affected by the NPA in the increment of the profitability of the bank. Remaining 82 % and 96 % for the individual bank is affected by other factor. Further more, the value of six times P.E. are 1.48 and 1.80 for NIBL and Nepal SBI bank indicating insignificant relationship between them respectively.

4.5.2 Correlation between NPA and Total Lending of the commercial banks

The statistical tool, 'correlation analysis' is preferred in this study to identify the relationship between NPA and Total lending and whether the relationship is significant or not.

Table 4.13

Correlation between NPA and Total Lending of the commercial bank

Bank	coefficient of correlation (r)	Relationship	Coefficient of determination (r ²)	Probable error (P.E.)	6*.P.E	Significant/ insignificant
KBL	0.07	Positive	0.01	0.30	1.80	Insignificant
NIBL	-0.59	Negative	0.35	0.20	1.18	Insignificant
Nepal SBI	-0.92	Negative	0.84	0.05	0.29	significant

Source : Annex 5

The correlation coefficient between Total Lending and NPA shows that there is negative relationship between these two variables. When the amount of Total Lending is increased the amount in NPA is more and vice versa.

KBL has the correlation coefficient of 0.07 which is categorized as having moderate degree of negative correlation. And 1 % of the profitability is affected by the NPA to the respective banks and rest is affected by the other factor. And the test so made for these banks is found to be insignificant as the correlation is lesser than Probable error (P.E.) multiplied by six times.

Nepal Investment bank Ltd. has the correlation coefficient of -0.59 which is categorized as having moderate degree of negative correlation. 35% of the total lending is affected by the NPA to the respective bank and rest is affected by the other factor. And the test so made for this bank is found to be insignificant as the correlation is less than Probable error (P.E.) multiplied by six times.

Nepal SBI has the correlation coefficient of -0.92 % which is categorized as having high degree of negative correlation. And 84 % of the total lending is affected by the NPA to the respective bank and rest is affected by the other factor. Since the six times P.E. for the Nepal SBI is less than the coefficient of correlation bank indicating significant.

4.6 Major Findings

This study is concerned to find out the level of NPA and its effects on the returns on assets and the other factors of the Nepalese commercial bank. This study especially focuses on three commercial banks of Nepal, viz. Kumari, Nepal Investment Bank and Nepal SBI only, out of the 31 commercial banks operating in the banking industry of Nepal.

The case of Kumari Bank Limited (KBL), total NPA has been in fluctuating trend and net profit has been in increasing trend during the five years study period, NPA to total lending ratio is in fluctuating order over the years as it was 0.92 % in the fiscal year 2062/63 and it decreased to 0.50 % in the fiscal year 2066/67. The total lending to total deposit ratio is also found to be in fluctuating order over the five years period it was 90.20 % in the fiscal year 2062/63 and decreased to 85.85% in fiscal year 2066/67. The net profit to total assets ratio is also found to be in increasing trend over the years as it was 1.15 % in the fiscal year 2062/63 and it increased to 1.54 % in the fiscal year 2066/67.

In case of Nepal Investment Bank Limited (NIBL), the total NPA is in fluctuating trend whereas net profit is in increasing trend during the study period, NPA to total lending ratio is in decreasing trend over the years as it was 2.07 % in the fiscal year 2062/63 and decreased to 0.62 % in the fiscal year 2066/67. The total lending to total deposit ratio was 69.63% in the fiscal year 2062/63 and increased to 81.74 % in fiscal year 2066/67. The net profit to total assets ratio is found to be in increasing over the years as it was 1.64% in the fiscal year 2062/63 and it increased to 2.21 % in the fiscal year 2066/67.

In case of the Nepal SBI Bank Limited , total NPA has been decreased and net profit has been found to be in increasing trend, NPA to total lending ratio is found in decreasing order over the years as it was 6.13 % in the fiscal year 2062/63 and decreased to 1.48 % in the fiscal year 2066/67. The total lending to total deposit ratio is found to be in fluctuating over the five years period. The net profit to total assets ratio is found to be in increasing over the years as it was 0.90 % in the fiscal year 2062/63 and increased to 1.03% in the fiscal year 2066/67.

The percentage of performing assets to total assets of the KBL has been found to be the highest among the other two banks, which is 76.05 % and that of NIBL has been found to be 66.70 % which is more than Nepal SBI i.e. 59.15% . Among the sample banks the percentage of non performing assets to the total assets of the KBL is less which is 0.60 % and it is found to be 2.35 % of the Nepal SBI which is the highest among other banks.

The percentage of performing assets to the total lending is found higher in KBL and lower in Nepal SBI which is 99.22% and 96.40 % respectively. The percentage of non performing assets to total lending is found lower in KBL and higher in Nepal Investment Bank among the sample banks.

The percentage of performing assets to total deposit of KBL has been found to be 88.55 % which is higher than other banks and it is 69.81 % in the Nepal SBI Bank. The percentage of non performing assets to total deposit is 0.70%, 1.01% and 2.81% in KBL, NIBL and Nepal Investment Bank respectively.

The average ratio of pass loan to total loan of five years has been found higher in Kumari Bank Ltd and lower in Nepal SBI bank which is 98.86 % and 93.92 % respectively. The average ratio of restructured loan to total loan of five years has been found higher in Nepal SBI bank which is 2.48 %.

The average ratio of non performing assets to total loan of five years has been found lower in Kumari Bank Limited. The average ratio of substandard loan to total loan has been found less in Nepal SBI bank whereas bad loan to total loan of five years has

been found less in KBL. The average ratio of doubtful loan to total loan of five years has been found higher in KBL and lower in Nepal SBI Bank Ltd.

The correlation coefficient between ROA and level of NPA is found to be negative for each of the bank except that the Nepal SBI Bank under the study period. Nepal SBI Bank has moderate degree of positive correlation coefficient i.e. the ROA is directly dependent on the level of NPA, higher the NPA the more will be the returns on assets of banks and vice versa. KBL has high degree of negative correlation i.e. the ROA is indirectly dependent on the level of NPA, higher the NPA the lower will be the returns on assets and vice versa.

KBL has the low degree of positive correlation. Only 1 % of return is affected by level of NPA and remaining is affected by other factor. Nepal SBI bank has high degree of negative correlation i.e. the total lending is indirectly on the level of NPA, higher the NPA the more will be the total lending of banks and vice versa. NIBL has degree moderate negative correlation coefficient. 35 % on the lending is affected by the level of NPA and remaining only 65 % is affected by other factors.

CHAPTER 5

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

A commercial bank means the bank, which deals with exchanging currency, accepting deposits, giving loans doing other various commercial transactions. Therefore, the major function of commercial bank is to accept deposits and provide loans.

There is not so long history of commercial bank in Nepal. Nepal Bank Limited established in 1994 B.S. was the first commercial bank of the Nepal. But now there are twenty seven commercial banks all over the country and they have been expanding their services by establishing branches in every corner of the country.

The assets of commercial bank indicate the manner in which the funds entrusted to the bank are employed. The successful working of the bank depends on ability of the management to distribute the fund among the various kind of investment known as assets outstanding loan advance of the bank. These assets constitute primary source of income to the bank. As being a business unit a bank aims at making huge profit since loan and advances are more profitable than any other assets of the bank. It is willing to lend as much as its fund as possible. But the bank has to be careful about the repayment of loan and interest giving loan. If the bank is too timid, it may fail to obtain the adequate return on the fund, which is confined to it for use. Similarly, if the bank is too liberal, it may easily impair its profits by bad debts. Therefore, bank should not forget the reality that most of the bank failures in the world are due to shrinkage in the value of the loan and advances.

Despite of being loan and advances more profitable than other assets, it creates risk of non repayment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets, the loan and advances are classified into performing and non performing assets on the basis of overdue aging schedule. If the dues in the form of principal and the interest are not paid, by borrower within a maturity period, that

amount of principal and interest is called non performing loan or assets. It means NPA could wreak branch profitability both through loss of interest income and need to write off the principal loan amount. Performing assets have multiple benefits to the company as well as to the society while non performing assets erode even existing capital of the bank.

Escalating level of NPA has been becoming great problem in banking business in the world. In this context, Nepal can not be run off from this situation. The level of NPA in Nepalese banking system is very alarming. 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 of becoming more and more unmanageable day by day. The non-performing loan of commercial banks remained to Rs. 11223.34 million in 2010AD from Rs. 13574.6 million in the Mid - July 2009.[source: NRB, Banking and Financial statistics, No. 55 Jan 2011]. The Non-performing loan of main banks NBL and RBB are 573.20 and 4085.02 million respectively. [Source: NRB, Banking and Financial statistics, No. 55 Jan 2011, www.nrb.org.np]

Therefore, this study is concerned to find out the level of NPA and its effects on the returns on assets and the other factors of the Nepalese commercial bank. This study especially focuses on three commercial banks of Nepal, viz. Kumari, Nepal Investment, and Nepal SBI banks only, out of the 31 commercial banks operating in the banking industry of Nepal.

The level of NPA is found to be highest for the Nepal SBI bank in the fiscal year 2062/63, which was Rs.505,336,919 whereas the lowest was found that of Kumari Bank Ltd in the fiscal year 2062/63 which is Rs 64,353,706. In overall, the performance of the Kumari bank has the minimum amount of NPA comparing with other two banks.

As the Kumari bank has less NPA the net profit also increases in fewer amounts whereas in other two banks Nepal Investment has the maximum amount of Net profit

as they have maximum level of NPA. The level of NPA was also increasing during the study period. The level of non performing assets plays vital role in increment and decrement of Net profit of the commercial banks.

Every commercial Bank should follow the NRB directives. Commercial bank has to maintain loan loss provision as per NRB directives for the commercial bank. According to NRB directives, loan loss provision for pass loan should be 1 % of pass loan, for substandard loan it should be 25 % of substandard loan, for doubtful loan it should be 50 % of doubtful loan and for bad loan it should be 100 % of bad loan.

Every commercial bank is trying to exactly meet the NRB's directives regarding non performing assets. But the sample banks of the study could not maintained loan loss provision perfectly accordance to the NRB directives for all classed. The bank maintained higher the loan loss provision requirement for one class loan when lower another class loan.

Kumari Bank Limited has tried to maintain the loan loss provision, perfectly in accordance to NRB directives with compare to another sample bank of the study except in doubtful loan provision in fiscal year 2065/66. Therefore it can conclude that KBL has tried to maintain the loan loss provision. The remaining/sample banks should give priority to maintain the loan loss provision as requirement as per NRB's directives.

The percentage of performing assets to total assets of the KBL has found to be high among the sample banks, which is 79.46% in 2065/66 and the Nepal SBI has found to be 46.52 % in 2066/67 which is lower than other banks. Among the sample banks the percentage of non performing assets to total assets of the Nepal SBI has found highest which is 3.88 % and it is found to be low in 0.35 % of the KBL

The percentage of performing assets to total lending has found higher in KBL and lower in Nepal SBI which is 99.56%(2065/66) and 93.27% (2062/63)respectively. The percentage of non performing assets to total lending has found higher in Nepal

SBI bank and lower in KBL which was 6.13 %(2062/63) and 0.44 %(2065/66) respectively among the sample banks.

The percentage of performing assets to total deposit of KBL has been found to be 93.76% which is higher than other banks. The percentage of non performing assets to total deposit of HBL has been found to be 4.59 % which is higher than other banks.

The average ratio of pass loan to total loan of five years have been found higher in Kumari Bank Limited and lower in Nepal SBI which are 98.86% and 93.92% respectively. The average ratio of restructured loan to total loan of five years has been found higher in Nepal SBI which is 2.48 %.

The average ratio of non performing assets to total loan of five years is found lower in Kumari Bank Limited. The average ratio of sub-standard loan to total loan in Nepal Investment bank has higher and lower in Nepal SBI bank. Doubtful loan to total loan of five years has been found lower in Nepal SBI bank and higher in Kumari Bank Ltd.. The average ratio of bad loan to total loan of five years has found higher in Nepal SBI bank and lower in Kumari Bank Limited.

5.2 CONCLUSION

The profitability of Nepalese commercial banks are affected by non performing assets of bank. When the level of non performing assets is increased then the profit of the bank will be decreased and vice versa. Therefore the NPA and profitability of the bank have negative correlation.

The level of NPA is found to be highest for the Nepal SBI bank in the fiscal year 2062/63, which was Rs.505,336,919 whereas the lowest was found that of Kumari Bank Ltd in the fiscal year 2062/63 which is Rs 64,353,706. In overall, the performance of the Kumari bank has the minimum amount of NPA comparing with other two banks.

Kumari Bank Limited has tried to maintain the loan loss provision, perfectly in accordance to NRB directives with compare to another sample bank of the study except in doubtful loan provision in fiscal year 2065/66. Therefore it can conclude that KBL has tried to maintain the loan loss provision. The remaining/sample banks should give priority to maintain the loan loss provision as requirement as per NRB's directives.

5.2 Recommendation

High level of non performing assets not only decreases the profitability of the banks but also entire financial as well as operational health of the country. If the NPA are not controlled immediately, it would be proved as a curse for the banks in near future. Therefore, following are some of the recommendations, which will help to reduce the level of NPA of the Nepalese commercial banks:

1. Corporate structure of bank plays key role in the effective loan management. Being loan a risky asset, efforts should be made to have proper control in every steps of loan management. The banks should establish separate department for credit appraisal, documentation, disbursement, inspection and recovery of loan which have possibility of finding mistakes of one department by the others, so that the effectiveness can be achieved.
2. Loan must be given if the banker is satisfied that the borrower can repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan is repaid even in case of failure of business. To prevent banks from such happenings, the bank take collateral is disposed for the recovery of loan. Therefore the bank should take proper valuation of collateral so that the bank at least will be able to recover its principal and interest amount in case of failure of the borrower to repay the loan.
3. Lack of proper financial analysis of the borrower by the banks, is one of the major causes behind increasing NPA of Nepalese commercial banks. Therefore, proper financial analysis should be performed before giving loan to the borrower.

4. Those banks, which have high level of NPA, should take necessary action towards recovering their bad loan as possible. In case of doubtful to repay the loan by the borrower, the bank should dispose off the collateral taken from them and recover the principal and the interest amount there of.
5. Diversification of the loan should be managed by the individual banks. In the context of Nepal it is provided to the borrower so often go to the bank not in the new sector. Default by older borrower can be found, which should be avoided.
6. Control mechanism of the bank should be managed properly. Black listed customers should not be given the new loan, as it would lead to the same situation to the bank.
7. Political influences in the loan disbursement should be avoided as it may lead to worse condition to the bank as it may increase the non performing loan of the bank.
8. Every commercial bank should maintain loan loss provision as per NRB's directives regarding non performing assets.

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Annex 1 (a)**Kumari Bank Limited****Calculation of Performing assets to Total Asset, Total Lending & Total Deposit**

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1* 100)	(4/2* 100)	(4/3* 100)
2062/2063	9,010,276,184	7,007,787,514	7,768,957,276	6,943,433,808	77.06	99.08	89.37
2063/2064	11,918,311,429	9,062,433,481	10,557,416,461	8,996,314,613	75.48	99.27	85.21
2064/2065	15,026,599,175	11,522,380,653	12,774,281,014	11,369,905,053	75.67	98.68	89.01
2065/2066	18,538,565,109	14,795,261,241	15,710,925,263	14,730,718,558	79.46	99.56	93.76
2066/2067	20,522,474,688	14,966,080,024	17,432,253,032	14,890,569,849	72.56	99.50	85.42
Summation					380.23	496.09	442.77
Mean					76.05	99.22	88.55

Annex 1 (a)**Calculation of Non Performing assets to Total Asset, Total Lending & Total Deposit**

Year	Total assets	Total Lending	Total Deposit	Non Performing Assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1* 100)	(4/2* 100)	(4/3* 100)
2062/2063	9,010,276,184	7,007,787,514	7,768,957,276	64,353,706	0.71	0.92	0.83
2063/2064	11,918,311,429	9,062,433,481	10,557,416,461	66,118,868	0.55	0.73	0.63
2064/2065	15,026,599,175	11,522,380,653	12,774,281,014	152,475,600	1.01	1.32	1.19
2065/2066	18,538,565,109	14,795,261,241	15,710,925,263	64,542,683	0.35	0.44	0.41
2066/2067	20,522,474,688	14,966,080,024	17,432,253,032	75,510,176	0.37	0.50	0.43
Summation					3.00	3.91	3.49
Mean					0.60	0.78	0.70

Annex 1 (a)

Calculation of Net Profit to Total Assets & Total Lending to Total Deposits

Year	Total assets	Total Lending	Total Deposit	Net Profit	% of NP to TA	% of TL to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P (3)	(3/1*100)	2/3*100
2062/2063	9,010,276,184	7,007,787,514	7,768,957,276	103,666,767	1.15	90.20
2063/2064	11,918,311,429	9,062,433,481	10,557,416,461	170,262,909	1.43	85.84
2064/2065	15,026,599,175	11,522,380,653	12,774,281,014	174,930,227	1.16	90.20
2065/2066	18,538,565,109	14,795,261,241	15,710,925,263	261,442,589	1.41	94.17
2066/2067	20,522,474,688	14,966,080,024	17,432,253,032	316,542,342	1.54	85.85
Summation					6.70	446.27
Mean					1.34	89.25

Annex 1 (b)

Nepal Investment Bank Limited

Calculation of Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2062/2063	21,330,137,542	13,178,151,824	18,927,305,974	12,905,658,783	60.50	97.93	68.19
2063/2064	27,590,844,761	17,769,099,903	24,488,855,696	17,347,128,354	62.87	97.63	70.84
2064/2065	38,873,306,084	27,529,304,736	34,451,726,191	27,219,833,753	70.02	98.88	79.01
2065/2066	53,010,803,126	36,827,157,409	46,698,100,065	36,613,250,015	69.07	99.42	78.40
2066/2067	57,305,413,482	40,948,440,033	50,094,725,497	40,694,405,581	71.01	99.38	81.23
Summation					333.48	493.23	377.67
Mean					66.70	98.65	75.53

Annex 1 (b)

Calculation of Non Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing Assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2062/2063	21,330,137,542	13,178,151,824	18,927,305,974	272,493,041	1.28	2.07	1.44
2063/2064	27,590,844,761	17,769,099,903	24,488,855,696	421,971,550	1.53	2.37	1.72
2064/2065	38,873,306,084	27,529,304,736	34,451,726,191	309,470,983	0.80	1.12	0.90
2065/2066	53,010,803,126	36,827,157,409	46,698,100,065	213,907,394	0.40	0.58	0.46
2066/2067	57,305,413,482	40,948,440,033	50,094,725,497	254,034,452	0.44	0.62	0.51
Summation					4.45	6.77	5.03
Mean					0.89	1.35	1.01

Annex 1 (b)

Calculation of Net Profit to Total Assets & Total Lending to Total Deposits

Year	Total assets	Total Lending	Total Deposit	Net Profit	% of NP to TA	% of TL to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P (3)	(3/1*100)	2/3*100
2062/2063	21,330,137,542	13,178,151,824	18,927,305,974	350,536,413	1.64	69.63
2063/2064	27,590,844,761	17,769,099,903	24,488,855,696	501,398,852	1.82	72.56
2064/2065	38,873,306,084	27,529,304,736	34,451,726,191	696,731,516	1.79	79.91
2065/2066	53,010,803,126	36,827,157,409	46,698,100,065	900,619,072	1.70	78.86
2066/2067	57,305,413,482	40,948,440,033	50,094,725,497	1,265,949,588	2.21	81.74
Summation					9.16	382.70
Mean					1.83	76.54

Annex 1 (c)

Nepal SBI Bank Limited

Calculation of Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1* 100)	(4/2* 100)	(4/3* 100)
2062/2063	13,035,839,124	8,241,456,544	11,002,040,633	7,736,119,625	59.35	93.87	70.32
2063/2064	13,901,200,559	10,065,052,194	11,445,286,030	9,606,296,453	69.10	95.44	83.93
2064/2065	17,187,446,174	12,746,216,214	13,715,394,960	12,257,806,145	71.32	96.17	89.37
2065/2066	30,916,681,796	15,612,050,411	27,957,220,794	15,296,095,646	49.48	97.98	54.71
2066/2067	38,047,679,465	17,963,641,179	34,896,424,201	17,698,507,430	46.52	98.52	50.72
Summation					295.76	481.98	349.05
Mean					59.15	96.40	69.81

Annex 1 (c)

Calculation of Non Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing Assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1* 100)	(4/2* 100)	(4/3* 100)
2062/2063	13,035,839,124	8,241,456,544	11,002,040,633	505,336,919	3.88	6.13	4.59
2063/2064	13,901,200,559	10,065,052,194	11,445,286,030	458,755,741	3.30	4.56	4.01
2064/2065	17,187,446,174	12,746,216,214	13,715,394,960	488,410,069	2.84	3.83	3.56
2065/2066	30,916,681,796	15,612,050,411	27,957,220,794	315,954,765	1.02	2.02	1.13
2066/2067	38,047,679,465	17,963,641,179	34,896,424,201	265,133,749	0.70	1.48	0.76
Summation					11.74	18.02	14.05
Mean					2.35	3.60	2.81

Annex 1 (c)

Calculation of Net Profit to Total Assets & Total Lending to Total Deposits

Year	Total assets	Total Lending	Total Deposit	Net Profit	% of NP to TA	% of TL to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P (3)	(3/1*100)	2/3*100
2062/2063	13,035,839,124	8,241,456,544	11,002,040,633	117,001,973	0.90	74.91
2063/2064	13,901,200,559	10,065,052,194	11,445,286,030	254,908,844	1.83	87.94
2064/2065	17,187,446,174	12,746,216,214	13,715,394,960	247,770,758	1.44	92.93
2065/2066	30,916,681,796	15,612,050,411	27,957,220,794	316,373,495	1.02	55.84
2066/2067	38,047,679,465	17,963,641,179	34,896,424,201	391,742,119	1.03	51.48
Summation					6.23	363.10
Mean					1.25	72.62

Annex 2(c)

Kumari Bank Limited

Loan Loss provision maintained by Kumari Bank Limited

Year	Pass loan(PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	%Provi sion for PL	BL	BL	BL	DL	Provision for DL	%Provi sion for DL	BL	Provision for BL	% Provisio n for BL
	1	2	3= $\frac{2}{1} * 100$	4	5	6= $\frac{5}{4} * 100$	7	8	9= $\frac{8}{7} * 100$	10	11	12= $\frac{11}{10} * 100$
2062/2063	6,876,564,579	68,769,774	1.00	12,236,631	3,059,158	25.00	32,745,146	16,372,573	50.00	19,371,929	19,371,929	100
2063/2064	8,957,702,559	89,577,026	1.00	10,378,475	2,594,618	25.00	38,636,356	19,318,178	50.00	17,104,037	17,104,037	100
2064/2065	11,332,148,877	113,321,489	1.00	58,320,876	14,580,219	25.00	78,966,480	39,483,240	50.00	15,188,244	15,188,244	100
2065/2066	14,724,715,639	147,247,156	1.00	13,082,971	3,270,743	25.00	31,735,261	30,921,697	97.44	19,724,451	19,724,451	100
2066/2067	14,886,637,270	148,866,373	1.00	10,148,514	2,537,128	25.00	34,178,383	17,089,191	50.00	31,183,279	31,183,279	100

Annex 2(c)

Nepal Investment Bank Limited

Loan Loss provision maintained by Nepal Investment Bank Limited

Year	Pass loan (PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	%Provision for PL	SL	Provision for SL	%Provision for SL	DL	Provision for DL	%Provision for DL	BL	Provision for BL	%Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2062/2063	12,869,277,285	128,759,941	1.00	44,238,859	11,059,715	25.00	497,100	248,550	50.00	227,757,082	225,494,083	99.01
2063/2064	17,309,513,613	173,495,470	1.00	96,893,690	24,572,650	25.36	86,049,276	43,084,601	50.07	239,028,584	236,817,951	99.08
2064/2065	27,176,973,284	274,449,428	1.01	61,737,243	15,434,311	25.00	20,724,497	10,401,937	50.19	227,009,243	227,009,243	100.00
2065/2066	36,576,257,637	381,198,976	1.04	10,765,503	2,691,376	25.00	11,485,860	5,742,930	50.00	191,656,030	191,656,030	100.00
2066/2067	40,674,106,181	420,840,374	1.03	55,710,406	13,927,601	25.00	10,994,950	5,497,475	50.00	187,329,096	187,329,096	100.00

Annex 2(c)

Nepal SBI Bank Limited

Loan Loss provision maintained by Nepal SBI Bank Limited

Year	Pass loan(PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	%Provision for PL	SL	Provision for SL	%Provision for SL	DL	Provision for DL	%Provision for DL	BL	Provision for BL	%Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2062/2063	7,393,297,710	70,841,219	0.96	1,797,016	318,214	17.71	3,842,595	1,921,298	50.00	499,697,308	495,361,697	99.13
2063/2064	9,262,671,752	91,486,927	0.99	3,284,812	544,869	16.59	11,167,991	3,892,644	34.86	444,302,938	442,215,888	99.53
2064/2065	11,981,058,849	117,922,667	0.98	3,874,789	566,279	14.61	21,626,680	9,869,035	45.63	462,908,600	456,395,830	98.59
2065/2066	15,081,169,429	149,466,541	0.99	13,235,686	2,740,744	20.71	11,338,722	3,685,439	32.50	291,380,357	285,338,247	97.93
2066/2067	17,471,059,189	173,583,537	0.99	12,975,351	3,189,722	24.58	1,113,939	219,153	19.67	251,044,459	245,754,799	97.89

Annex 3 (a)

Kumari Bank Limited

Year	Performing Assets				Non Performing Assets						
	Pass loan	PL/TL x 100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Bad Loan	BL/TL x 100	Total Loan
2062/2063	6,876,564,579	98.13	66,869,229	0.95	12,236,631	0.17	32,745,146	0.47	19,371,929	0.28	7,007,787,514
2063/2064	8,957,702,559	98.84	38,612,054	0.43	10,378,475	0.11	38,636,356	0.43	17,104,037	0.19	9,062,433,481
2064/2065	11,332,148,877	98.35	37,756,176	0.33	58,320,876	0.51	78,966,480	0.69	15,188,244	0.13	11,522,380,653
2065/2066	14,724,715,639	99.52	6,002,919	0.04	13,082,971	0.09	31,735,261	0.21	19,724,451	0.13	14,795,261,241
2066/2067	14,886,637,270	99.47	3,932,578	0.03	10,148,514	0.07	34,178,383	0.23	31,183,279	0.21	14,966,080,024
Sum	56,777,768,924	494.31	153,172,956	1.77	104,167,467	0.95	216,261,626	2.02	102,571,940	0.94	57,353,942,913
Average		98.86		0.35		0.19		0.40		0.19	

Annex 3 (b)

Nepal Investment Bank Limited

Year	Performing Asset				Non Performing Asset						
	Pass loan	PL/TL*100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Bad Loan	BL/TL*100	Total Loan
2062/2063	12,869,277,285	97.66	36,381,498	0.28	44,238,859	0.34	497,100	0.004	227,757,082	1.73	13,178,151,824
2063/2064	17,309,513,613	97.41	37,614,741	0.21	96,893,690	0.55	86,049,276	0.48	239,028,584	1.35	17,769,099,904
2064/2065	27,176,973,284	98.72	42,860,469	0.16	61,737,243	0.22	20,724,497	0.08	227,009,243	0.82	27,529,304,736
2065/2066	36,576,257,637	99.32	36,992,378	0.10	10,765,503	0.03	11,485,860	0.03	191,656,030	0.52	36,827,157,408
2066/2067	40,674,106,181	99.33	20,299,400	0.05	55,710,406	0.14	10,994,950	0.03	187,329,096	0.46	40,948,440,033
Sum	134,606,128,000	492.44	174,148,486	0.79	269,345,701	1.27	129,751,683	0.62	1,072,780,035	4.88	136,252,153,905
Average		98.49		0.16		0.25		0.12		0.98	

Annex 3 (c)

Nepal SBI Bank Limited

Year	Performing Asset				Non Performing Asset						Total Loan
	Pass loan	PL/TL*100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Bad Loan	BL/TL*100	
2062/2063	7,393,297,710	89.71	342,821,915	4.16	1,797,016	0.02	3,842,595	0.05	499,697,308	6.06	8,241,456,544
2063/2064	9,262,671,752	92.03	343,624,701	3.41	3,284,812	0.03	11,167,991	0.11	444,302,938	4.41	10,065,052,194
2064/2065	11,981,058,849	94.00	276,747,296	2.17	3,874,789	0.03	21,626,680	0.17	462,908,600	3.63	12,746,216,214
2065/2066	15,081,169,429	96.60	214,926,217	1.38	13,235,686	0.08	11,338,722	0.07	291,380,357	1.87	15,612,050,411
2066/2067	17,471,059,189	97.26	227,448,241	1.27	12,975,351	0.07	1,113,939	0.01	251,044,459	1.40	17,963,641,179
Sum	61,189,256,929	469.59	1,405,568,370	12.39	35,167,654	0.24	49,089,927	0.41	1,949,333,662	17.37	64,628,416,542
Average		93.92		2.48		0.05		0.08		3.47	

ANNEX 4(a)

**Calculation of Karl person's correlation coefficient between Total Lending and
Total NPA of Kumari Bank Limited**

X = Net Profit to Total Assets

Y = NPA to Total Lending

Fiscal Year	X	Y	X ²	Y ²	XY
2062/2063	1.15	0.92	1.3225	0.8464	1.058
2063/2064	1.43	0.73	2.0449	0.5329	1.0439
2064/2065	1.16	1.32	1.3456	1.7424	1.5312
2065/2066	1.41	0.44	1.9881	0.1936	0.6204
2066/2067	1.54	0.5	2.3716	0.25	0.77
Sum	ΣX = 6.69	ΣY = 3.91	ΣX ² = 9.0727	ΣY ² = 3.5653	ΣXY = 5.0235

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{N \cdot \Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{N \cdot \Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 5.0235 - 6.69 \times 3.91}{\sqrt{5 \times 9.0727 - (6.69)^2} \sqrt{5 \times 3.5653 - (3.91)^2}} \\
 &= \frac{-1.0404}{1.2417} = -0.84
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error (P.E.)} &= \frac{0.6745(1 - r^2)}{\sqrt{n}} \\
 &= \frac{0.6745(1 - (-0.84)^2)}{\sqrt{5}} \\
 &= \frac{0.1985}{2.2360} = 0.09
 \end{aligned}$$

ANNEX 4(b)

Calculation of Karl person's correlation coefficient between Total Lending and Total NPA of Nepal Investment Bank Limited

X = Net Profit to Total Assets

Y = NPA to Total Lending

Fiscal Year	X	Y	X ²	Y ²	XY
2062/2063	1.64	2.07	2.6896	4.2849	3.3948
2063/2064	1.82	2.37	3.3124	5.6169	4.3134
2064/2065	1.79	1.12	3.2041	1.2544	2.0048
2065/2066	1.7	0.58	2.89	0.3364	0.986
2066/2067	2.21	0.62	4.8841	0.3844	1.3702
Sum	ΣX = 9.16	ΣY = 6.76	ΣX ² = 16.9802	ΣY ² =11.877	ΣXY = 12.0692

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{N \cdot \Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{N \cdot \Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 12.0692 - 9.16 \times 6.76}{\sqrt{5 \times 16.9802 - (9.16)^2} \cdot \sqrt{5 \times 11.877 - (6.76)^2}} \\
 &= \frac{-1.5756}{3.6911} = -0.43
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error (P.E.)} &= \frac{0.6745(1 - r^2)}{\sqrt{n}} \\
 &= \frac{0.6745(1 - (-0.43)^2)}{\sqrt{5}} \\
 &= \frac{0.549785}{2.23606} = 0.25
 \end{aligned}$$

ANNEX 4(c)

**Calculation of Karl person's correlation coefficient between Total Lending and
Total NPA of Nepal SBI Bank Limited**

X = Net Profit to Total Assets

Y = NPA to Total Lending

Fiscal Year	X	Y	X ²	Y ²	XY
2062/2063	0.93	6.13	0.8649	37.5769	5.7009
2063/2064	1.83	4.56	3.3489	20.7936	8.3448
2064/2065	1.14	3.83	1.2996	14.6689	4.3662
2065/2066	1.02	2.02	1.0404	4.0804	2.0604
2066/2067	1.03	1.48	1.0609	2.1904	1.5244
Sum	ΣX = 5.95	ΣY = 18.02	ΣX ² = 7.6147	ΣY ² = 79.3102	ΣXY=21.9967

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{N \cdot \Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{N \cdot \Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 21.9967 - 5.95 \times 18.02}{\sqrt{5 \times 7.6147 - (5.95)^2} \sqrt{5 \times 79.3102 - (18.02)^2}} \\
 &= \frac{2.7645}{13.8513} = 0.20
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error (P.E.)} &= \frac{0.6745(1 - r^2)}{\sqrt{n}} \\
 &= \frac{0.6745(1 - (0.20)^2)}{\sqrt{5}} \\
 &= \frac{0.64752}{2.2361} = 0.29
 \end{aligned}$$

ANNEX 5(a)

**Calculation of Karl person's correlation coefficient between Total Lending and
Total NPA of Kumari Bank Limited**

X = Total lending of Bank

Y = Total NPA of Bank

Amount in 100 million

Fiscal Year	X	Y	X ²	Y ²	XY
2062/2063	70.08	0.64	4910.91	0.41	45.10
2063/2064	90.62	0.66	8212.77	0.44	59.92
2064/2065	115.22	1.52	13276.53	2.32	175.69
2065/2066	147.95	0.65	21889.98	0.42	95.49
2066/2067	149.66	0.76	22398.36	0.57	113.01
Sum	ΣX = 149.66	ΣY = 0.76	ΣX ² = 70688.53	ΣY ² = 4.16	ΣXY = 489.21

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{N \cdot \Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{N \cdot \Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 489.21 - 149.66 \times 0.76}{\sqrt{5 \times 70688.53 - (149.66)^2} \sqrt{5 \times 4.16 - (0.76)^2}} \\
 &= \frac{19.96}{267.52} = 0.07
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error (P.E.)} &= \frac{0.6745(1 - r^2)}{\sqrt{n}} \\
 &= \frac{0.6745(1 - (0.07)^2)}{\sqrt{5}} \\
 &= \frac{0.6711}{2.2361} = 0.30
 \end{aligned}$$

ANNEX 5(c)

**Calculation of Karl person's correlation coefficient between Total Lending and
Total NPA of Nepal Investment Bank Limited**

X = Total lending of Bank

Y = Total NPA of Bank

Amount 100 in million

Fiscal Year	X	Y	X ²	Y ²	XY
2062/2063	131.78152	2.72493	17366.36855	7.425245739	359.0954665
2063/2064	177.69100	4.219716	31574.09114	17.8059989	749.8054628
2064/2065	275.29305	3.09471	75786.26192	9.577228932	851.9520998
2065/2066	368.27157	2.139074	135623.9523	4.575637321	787.760127
2066/2067	409.48440	2.540345	167677.4741	6.45335028	1040.231452
Sum	ΣX = 1362.521	ΣY = 14.7188	ΣX ² =428028.148	ΣY ² =45.8376	ΣXY = 3788.8446

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N.\Sigma XY - \Sigma X.\Sigma Y}{\sqrt{N.\Sigma X^2 - (\Sigma X)^2}.\sqrt{N.\Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 3788.8446 - 1362.521 \times 14.7188}{\sqrt{5 \times 428028.148 - (1362.521)^2} \sqrt{5 \times 45.8376 - (14.7188)^2}} \\
 &= \frac{-1110.424}{1886.454} = -0.59
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error (P.E.)} &= \frac{0.6745(1 - r^2)}{\sqrt{n}} \\
 &= \frac{0.6745(1 - (-0.59)^2)}{\sqrt{5}} \\
 &= \frac{0.4397}{2.2361} = 0.05
 \end{aligned}$$

ANNEX 5(b)

**Calculation of Karl person's correlation coefficient between Total Lending and
Total NPA of Nepal SBI Bank Limited**

X = Total lending of Bank

Y = Total NPA of Bank

Amount 100 in million

Fiscal Year	X	Y	X ²	Y ²	XY
2062/2063	82.41	5.05	6792.16	25.54	416.47
2063/2064	100.65	4.59	10130.53	21.05	461.74
2064/2065	127.46	4.88	16246.60	23.85	622.54
2065/2066	156.12	3.16	24373.61	9.98	493.27
2066/2067	179.64	2.65	32269.24	7.03	476.28
Sum	ΣX = 646.28	ΣY = 20.34	ΣX ² = 89812.14	ΣY ² = 87.45	ΣXY = 2470.30

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{N \cdot \Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{N \cdot \Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 2470.30 - 646.28 \times 20.34}{\sqrt{5 \times 89812.14 - (646.28)^2} \sqrt{5 \times 87.45 - (20.34)^2}} \\
 &= \frac{-791.297}{862.2701} = -0.92
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error (P.E.)} &= \frac{0.6745(1 - r^2)}{\sqrt{n}} \\
 &= \frac{0.6745(1 - (0.92)^2)}{\sqrt{5}} \\
 &= \frac{0.1036}{2.2361} = 0.05
 \end{aligned}$$