NON-PERFORMING ASSET OF NEPAL SBI BANK LIMITED AND BANK OF KATHMANDU LIMITED

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A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

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

Kathmandu, Nepal
November 2010

RECOMMENDATION

This is to certify that the thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Non-Performing Asset of Nepal SBI Bank Limited and Bank of Kathmandu Limited**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Lecturer Rita Maskey** of Shanker Dev Campus, T.U.

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ACKNOWLEDGEMENTS

For the complete furnishing of this research work, I am indebted to many scholars and other helpful personalities. Without their sincere help, this work would not be possible to be furnished as well as it was desired. At this moment of my extreme bliss, I should be thankful to them all who helped me with different means.

I would like to adore my sincere my thanks to my respected thesis advisor, Lecturer Rita Maskey Shanker Dev Campus, without whose advice and guidance this research would not be furnished in this form.

My sincere thanks goes to Dr. Dhurba Raj Gautam chairperson, Pragati Nepal, from whom I got valuable cooperation in proof reading as well as defining the variables used in the research.

I am indebted to Mr. Ram Mani Neupane, who helped me by providing different books, thesis and journals useful to the research work and computer. My special thanks go to Mrs. Geeta Devi Khanal who provided the sound environment for the research. Who always encouraged me in writing and helped me by providing different account related books.

Finally, but important yet, I would like to express my special thanks to Miss Sharmila Parajuli, who helped me by beautiful formatting the computer setting and complete the writing.

Badri Khanal

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ABBREVIATIONS

ADB/N	-:	Agricultural Development Bank Nepal
AMC	-:	Asset Management Company
B.C.	-:	Before Christ
BAFIO	-:	Bank and Financial Institutions Act
CBs	-:	Commercial Banks
CBSL	-:	Central Bank of Sri Lanka
CEO	-:	Chief Executive Officer
CRM	-:	Credit Risk Management
FIs	-:	Financial Institutions
IBRA	-:	Indonesia Bank Restructuring Agency
IMF	-:	International Monetary Fund
MOA	-:	Memorandum of Authority/Memorandum of Article
NA	-:	Not Available
NBL	-:	Nepal Bank Limited
NCC	-:	Nepal Credit and Commerce (Bank)
NG	-:	Nepal Government
NIC	-:	Nepal Industrial and Commercial (Bank)
NIDC	-:	Nepal Industrial Development Corporation
NRB	-:	Nepal Rastra Bank
RBB	-:	Rastriya Banijya Bank
RBI	-:	Reserve Bank of India
ROA	-:	Return on Assets
ROE	-:	Return on Equity
SBI	-:	State Bank of India
SBI	-:	State Bank of India Nepal Limited
WTO	-:	World Trade Organization

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Asset quality has direct impact on the financial performance of a financial institution. This is the most critical factor in determining the strength of any bank. The quality of assets particularly, loan assets and investments, would depend largely on the risk management system of the institution. The value of loan assets would depend on the realizable value of the collateral. This is the most risky assets that need very crucial assessment. Sufficient credit appraisal should be done before providing loan to any party. A significant part of bank's income is generated from the lending activities.

In the context of Nepal this income is more than 70%. Basically there are two types of loan. Performing loan and Nonperforming loan. A loan on which neither interest payment, nor principal repayment is being made is called non performing loan. A loan is non-performing when payments of interest and principal are past due by 90 days or more. Once a loan is placed on nonperforming status, the bank can no longer take interest earned on the loan into its income. This, in turn, adversely affects earnings. Nepal Rastra Bank have regulated a three- tier approach towards classification of Non-Performing Assets (NPAs), corresponding to 'substandard', 'doubtful' and 'loss/Bad' categories, using delinquency period as the main bench mark. Substandard Loans are those where principal and/or interest are more than 90 days past due. Provision for such loan is 25% of outstanding balance. Doubtful Loans are those where principal and/or interest are at least 180 days past due. Provision required is 50% Loss/Bad Loans are those where principal and/or interest are at least 1 year past due. For such loans provision of 100% is made.

Assets and liabilities are the two major parts of balance sheet of commercial bank. Cash reserves, deposits to other banks, investment in securities, loan and

advances and other assets comprise the total assets. Liabilities comprise public deposits, borrowings, other current liabilities and share capital. As this study is focused with the Non-performing Asset (NPA), it is mainly concerned with the assets of bank. Generally, the loan and advances occupy more than two third parts of assets of bank in balance-sheet and it is found that they produce more than half of bank revenues. Therefore, in practice loan quality is mostly studied as assets quality. In banking literature, loan is often found synonymously used to assets. According to Onsite Inspection Manual, for Commercial Banks and Finance Companies, Volume-II, published by Nepal Rastra Bank, the study of asset quality is mainly concerned with loans quality. So, it should be clear that asset is used to indicate the meaning of loan.

Since this study is mainly concerned with loan, some facts are highlighted regarding loan. The deposits of public create loanable fund. Banks make their profits by issuing loans. But loans also have higher probability of default than other assets. The loans, which are actively working gives well, return to the banks. The default loans cause the loss in return to the bank. For the strength and stability of banking system, the assets/loan should yield positive returns. The assets/loans, which do not yield positive returns, become Non-performing Asset, NPA. In a narrow sense, Non-performing Asset, NPA refer to loan and advances, which do not yield any positive, return or contribute to the profits of banks. In a broader sense, NPA includes the unutilized cash balances, physical assets and the workforce. In this study major concern is with the narrow sense of NPA, which means the loan/assets that do not yield positive return in cash. It is well known that the loans, which do not yield positive return in cash, are NPA. Since the loans do not yield positive returns in cash, it has direct effect to lender bank. In this situation bank can not pay the interest to the depositors and dividend to the share holders. If the interest income which has to maintain the operational expenses including depositor's interest and share holders' expectations could not be regularized, it may have great financial effect to the bank. On one hand the outstanding interest is not allowed to show as income

and on the other hand loan and advances become non-performing, which creates the situation of additional expenses to profit and loss account of bank. As a result there may be significant effect in the financial position of the bank. Adhikary M.P., Arunodaya, Vol. 9, 2062 Baisakh.

"Accumulation of NPA of Commercial banks has many serious consequences. First, NPA effect the profit of banks as they do not yield any positive returns and higher the NPA, lower the profits earned by the banks. Second, NPA impose strains on profits, as provisioning requirement has to be made by profits. Third, existence of large volume of NPA reflects adversely on the financial strength of the banks will be recorded because of possible bank failure due to accumulation of NPA. Fourth, in a situation of growing NPA, banks become shy of extending advances and in this process all economic activities are likely to suffer. Fifth, when banks go on losing income because of NPA good borrowers have to bear higher cost to compensate for the loss of caused by the defaulters. Though, this may not make up the entire loss, good borrowers can get loan at somewhat lower rates in the absence of high level of NPA. Lastly, the entire banking system gets weakened as the very survival of banks would be threatened by the growing volume of NPA and therefore, efforts are needed to resolve this most intractable problem faced by banks. Here are provided some of excerpts from some famous scholars regarding the effects of NPA. "Non-performing Asset, NPA could wreck bank's profitability both through a loss of interest income and write off the principle loan amount. It tackles the subject of entire starting from the stage of their identification till the recovery of dues in such amount" (Bindani, 2003:3).

"To start with performance in terms of Profitability is a benchmark for any business enterprise including the banking industry. However, increasing Non-performing Asset, NPA have a direct impact on banks profitability, as legally are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets" (Manmohan, 2002:6).

Performing Assets are those loans that repay principle and interest to the bank from the cash flow it generates. Loans are risky assets, though a bank wants most to its resources in granting loans and advances. If an individual bank has around 10% Non-performing Asset (NPA), it sounds the death knell of that bank ceteries- paribus (call other thing remaining constant). The objective of bound loan policy is to maintain the financial health of the banks, which result in safety of depositor's money and increase in the returns to shareholders. Since the loan is a risky asset, there is inherent risk in every loan. However the bank should not take risk above the certain degree irrespective of returns prospects (Dahal & Dahal, 1999/2000: 115).

Loan and advances are the most profitable assets among all the other assets in a bank. Banks universally desires the assets, which constitute primary source of income to them. According to Dr. Walter Leaf, "In the item of advance to customers we have reached the central portion of the activities of bank." In this statement the banker is brought into direct relation with the public. His capacity and judgment and his usefulness to the community is judged by the way he lends the money left with him by the depositors. The major aim of the bank, as a business institution is making huge profit along with safeguarding the interest of depositors. Since loan and advances are more profitable than any other assets, he is willing to lend as much his fund as possible. While lending, he has to be careful about the safety of such loan and advances. Again in the word Dr. Leaf, "The bankers have to timer the liberality with caution. If he is too liberal, he may easily impair his profits by bad debts, if he is too timid, he may fail to obtain and adequate return on the fund, which are confided to him for use. It is his capacity in lending that bank manager judged" (Radhaswami & Vasudevam, 1979:550).

Loan and advances dominate the assets side of balance sheet of any bank. Similarly, earning from such loans and advances occupy major place in income statement of the bank. Lending can be said to be the raison de etre of a bank.

However, it is very important to be reminded that most of the bank failures in the world are due to shrinkage of the value of the loan and advances. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while Non-performing Asset (NPA) erodes even existing capital" (Dahal & Dahal, 1999/2000: 114).

1.1.1 Profile of the Selected Banks

A. Introduction of 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 Registration April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/l.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.200Crores, Rs.166.16Crores and Rs.165.36Crores, 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. SBI bank is providing banking services through 41 branches with 6 extension counter with 58 ATMs terminals.

B. Introduction of Bank of Kathmandu Limited

Bank of Kathmandu Limited (BOK) has become a prominent name in the Nepalese banking sector.BOK today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. The Authorized, Issued and Paid-Up Capitals have been increased to Rs.200Crores, Rs.135.95Crores and Rs.135.95Crores, respectively. Presently, 41.81% of total share capital of the bank is held by the promoter and remaining 58.19% of the share capital is held by General Public. Further, BOK is providing banking services through 37 branches with 6 extension counter throughout the nation.

BOK's IT infrastructure has been designed to facilitate internal and customer convenience. Nationwide, all the branches are connected to the central database via Wide Area Network (WAN) powered by Finacle, state- of – the art application software supported by hardware like SUN Fire V 880 RISC server, VSAT etc. Internally, BOK relies on Information & communication Technology (ICT), for a quick, reliable, efficient system. Banking operations are powered by Finacle, which is listed among the top 40 companies that have reshaped the global economy as per the wired magazine.

With the aim of providing banking services at the customer's fingertips, BOK is starting internet banking and alert service very soon. In internet banking BOK will provide consumer e-banking (core, retail and bills payment) as well as corporate e-banking facilities (Trade financing and web based cash management).

1.2 Statement of the Problem

The main features of Commercial Bank are mobilizing the deposit and lending them to different needy sectors. Lending or loan and advances are the major source of income to commercial Banks. Without loan and advances, banks neither maintain its operational expenses nor can give good interest to depositors and dividend to shareholders. Generally loan and advances of commercial banks occupy more than 40% of total assets. So it is necessary to manage the good portfolio of loan and advances in banks. In the economy of developing countries, loan and advances are the major functions of commercial banks and the interest earning from them is the main source of income.

However, lending (loan and advances) also carries credit risk, which from the failure of borrower to fulfill its contractual obligation during the course of transactions. Such failure doesn't yield positive return in cash, which cause the rise of NPA. It is obvious that the NPA are the rising or swelling problem in the banking sector of Nepal and this issue is becoming more and more unmanageable. At present total NPA in the banking sector is about NRS 35 billion, while it is even worse in case of two largest governments sector banks: Rastriya Banijya Bank (RBB) and Nepal Bank Limited, NBL.

According to the governor of Nepal Rastra Bank, Mr. Bijaya Nath Bhattarai, the NPA of NBL and RBB are found to be 49.64 percent and 50.70 percent respectively as on the end of Asadh 2062. (NRB Samachar, 2063, Baisakh)

Learning the above statements, it is obvious that Nepalese Banking Sector has been becoming victim of huge NPA. Such situation raises the question;

Whether Nepalese management team in bank is competent enough? Whether NRB fails to regulate the commercial Banks?

In the above backdrop, the research study is focused on the following research questions.

- Whether or not the Nepalese Commercial banks are following NRB's regulation/directives regarding their lending and provision for NPA?
- What is the proportion of NPA to total assets and lending in Nepalese Commercial Banks?
- How does NPA effect in return on shareholders equity (ROE) and return on total assets (ROA)?

1.3 Objectives of the Study

The main objectives of this study are to examine and find the level of, NPA to total assets, total deposits and total lending of Nepalese Commercial Banks. The specific objectives are:

- To Analysis the proportion of NPAs to total assets, total deposits and total lending of Commercial Banks.
- To analyze whether banks are complying with NRB directives with respect to management of loan and advances and other interest bearing assets.
- To examines and evaluates the effects of NPA on ROA and ROE of Commercial Banks.
- To make recommendation to overcome the difficulties in managing NPA of the banks with high level of NPA.

1.4 Limitation of the Study

The research work has the following limitations:

- Primarily this study is concerned only with NPA of Nepalese Commercial Banks. It does not consider other financial aspects of the banks.

- The study is concentrated only on commercial banks of Nepal. Hence findings were not applicable to other financial institutions; “the development banks i.e. the grade ‘b’ financial institutions and finance companies i.e. the grade ‘c’ financial institutions.”
- The study is basically based on secondary data, which may or may not provide exact vision of the field. Hence, the findings will be in accordance of the data. Personal judgment sampling method is applied to draw the sample.
- The study covers the Five years period data of fiscal years, 2061/62, to 2065/66.

1.5 Significance of the Study

Banking habit has been an inseparable part of modern people. Whether it is in industrial sector or personal life it has served a lot. For the safety of the depositors along with fulfillment of the need groups, banking behavior has served well. Since commercial banks are the bridge between savers and need group of money, there should be balance between the desires of these two groups. In other words depositors get nothing unless deposits are flowed as loan and advances to borrowers and paid back interest to the depositors. But it is not always true that all loan and advances yield positive income to banks. In practice, there is certain probability of becoming default rate in loan and advances. Such defaulted loan and advances are known as NPA and they create credit risk.

Generally it is found that the loan and advances occupy 60 percent of the commercial banks' assets. The income of the commercial bank is covered by interest income earned to loan and advances in huge figure. Such earnings are possible only when the loan and advances are not defaulted. The defaulted loan and advances on one hand, has to maintain the provision against such loan and advances. So, defaulted loan and advances has double effects: minimizing the income of bank and unsafe risk of deposits.

Success of any banks doesn't depend on how much money a bank can lend? But it depends on quality of the loan. Therefore we can say that the success of the bank depends upon the amount of its performing assets/loans.

This study mainly concerned with the analysis of the NPA to total assets, total deposits and total lending of Nepalese commercial banks. Therefore it is significant to find out the level of NPAs. It is also significant to find out whether Nepalese commercial banks have maintained loan loss provision according to NRB directives or not. It also examines NPA to ROA and ROE of the bank. Lastly it also provides literature to the scholars and new researchers who want to do further research in this field. Since the study was on the background of the above stated facts, mainly it helped to identify the NPAs to total assets, total lending and total deposit of the banks.

1.6 Organization of the Study

The thesis report has been divided in to five chapters. They are:

Chapter – I Introduction

The first chapter deals with introduction of the study, objectives of the study, limitation of the study, significance of the study and organization of the study.

Chapter – II Review of Literature

Second chapter deals with the visit and study of different resource needed during the course of study.

Chapter – III Research Methodology

The third chapter is concerned with the research methodology used to evaluate and Analysis. Research methodology includes research design, source of data, population and sample selected, data gathering procedure, data processing procedure, research variable and statistical procedure.

Chapter – IV Data Presentation and Analysis

The fourth chapter mainly focused with the data presentation and analysis. In this course, the collected data from the various sources are tabulated, processed and analyzed.

Chapter – V Summary, Conclusion and Recommendations

In the fifth chapter the whole study is presented as summary, conclusion and recommendation.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

Before learning about NPA, brief introduction about commercial bank and its functions are given as follows on the basis of the facts studied from different texts and scholars. In a banking history the commercial banks are the oldest bank so generally bank word denotes the commercial bank. Main objective of commercial bank is to earn maximum profit as possible within a legal consideration. This kind of bank was established only to provide the short term loan to the businessmen in earlier so it named commercial bank.

According to 'Nepal commercial bank act 2031' "A commercial bank refers to such type of bank which deals in money exchange, accepting deposits, advancing loans and other commercials transactions other than some special functions performed by specific banks such as co-operative, agriculture and industrial banks." Nepal banks limited, Bank of Kathmandu, Himalayan bank ltd are some examples of commercial banks in Nepal. In the course of reviewing literature, the commercial bank is defined in Commercial Bank Act, 2031 B.S., as "A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions." Bank of Venice established in 1204 B.S., is the first commercial bank. The beginning of commercial bank's functions was confided to accepting deposits and giving loans. However, their functions have now increased manifold. Nepal Bank limited established on the 30th Kartik, 1994 B.S. is the first commercial bank in Nepal (Dahal & Dahal, 2002).

The bank and financial institutions Ordinance, which was first issued in 2061 B.S. after the dissolution of Commercial Bank Act, 2031 B.S., Development Bank Act, 2052 B.S., Finance Company Act, 2042 B.S., Agricultural Development Act, 2024 B.S., Nepal Industrial Development Corporation Act,

2016 B.S., has specified the definition of commercial bank as 'A' Grade institutions to be operating ordinance, Memorandum of Authority MOA and Memorandum of Article MOA, in order to carry out the functioning accepting deposits, foreign exchange, to give loan and advances, to grant overdraft loan, to act as agent of government transaction, to buy and sell the NG or NRB bond and to carry out other modern banking transactions with modern technologies.

Assets and liabilities are the two major parts of balance sheet of commercial bank. Cash reserves, deposits to other banks, investment in securities, loan and advances and other assets comprise the total assets. Liabilities comprise public deposits, borrowings, other current liabilities and share capital. As this study is focused with the NPA, it is mainly concerned with the assets of bank. Generally, the loan and advances occupy more than two third parts of assets of bank in balance-sheet and it is found that they produce more than half of bank revenues. Therefore, in practice loan quality is mostly studied as assets quality. In banking literature, loan is often found synonymously used to assets. According to Onsite Inspection Manual, for Commercial Banks and Finance Companies, Volume-II, published by NRB, the study of asset quality is mainly concerned with loans quality. So, it should be clear that asset is used to indicate the meaning of loan.

Since this study is mainly concerned with loan, some facts are highlighted regarding loan. The deposits of public create loan able fund. Banks make their profits by issuing loans. But loans also have higher probability of default than other assets. The loans, which are actively working gives well, return to the banks. The default loans cause the loss in return to the bank. For the strength and stability of banking system, the assets/loan should yield positive returns. The assets/loans, which do not yield positive returns, become NPA. In a narrow sense, Non-performing Asset (NPA) refer to loan and advances, which do not yield any positive, return or contribute to the profits of banks. In a broader sense, NPA includes the unutilized cash balances, physical assets and the

workforce. In this study major concern is with the narrow sense of NPA, which means the loan/assets that do not yield positive return in cash. Taking an overview of financial institutions providing banking facility in Nepal, At present, there are about 25 commercial banks, 58 development banks, 78 Finance companies and 12 micro credit financial institutions in the Nepalese market.

Parent Discipline and Classification Model of NPA.In the course of research some of the information on managing and defining NPA in different countries are is explained in brief as follows:

2.1.1 Nepal

It is found that NRB, the central bank and as an apex regulatory and supervisory authority of the country has been issuing the directives to banks and financial institutions as per the international norms and practice. In this regard, though there is no clear definition of NPA, it refers to those loans and advances which are not able to serve the interest and the installment within the given time period.

In Nepalese context, NPA was not defined before 2001. It was simply assumed that the last four categories: evidence of substandard, substandard, doubtful and bad loan out of six was considered as NPA. The practice of classification of loan in Nepalese context can be divided into two eras: pre-liberalization and after liberalization. Pre-liberalization regulation consist of those directives which were issued to commercial banks, NIDC and ADB/N before directives were issued to finance companies where as the regulation after liberalization consists the directives issued to commercial banks, development banks, finance companies and cooperatives carrying out the functions of limited banking transactions. In this regards the legal provisions regarding the classifications of loan and advances are enumerated as follows.

NRB Circular No. Bai./Le./61/ credit dated 2045/11/19 by, to Commercial Banks by Regarding Classification of Loan and Advances and Provisioning

This circular had given the directives to banks to classify the loan and advances on the basis of overdue aging as follows:

- **Good Loan**: non-overdue and overdue amount of principal or interest or both up to 6 months
- **Substandard Loan**: overdue amount of principal or interest or both for six months to 1 year.
- **Doubtful Loan**: overdue amount of principal or interest or both for 1 to 5 years.
- **Bad Loan**: the overdue loan and advances which were overdue and security were nominal or lost, loan was insolvent or out of contact and writ was filed in the court during the course of recovery respectively were known as bad loan.

In the case of non-overdue loan and advances, if security was nominal or lost or loanee was insolvent or writ was filed in the court during the course of loan recovery was known as bad loan. As per this circular, the overdue amount of principal or interest or both for more than 5 years would lie in bad loan category. As directed by the circular, banks had to make no provision for good loan, where as other category loan were made to maintain required loan loss provision. We can also shows from this table:

Date of Loan Paid

(Good loan)Subscribed loan Doubtful loan Bad debt/Loss 1 %(provision) should be kept within a due date month.25% provision should be kept if loan is not paid within 3 month.50% provision should be kept if loan is not paid within 6 month,100% provision should be if loan is not paid within 1 year.

NRB Circular No. Bai./le./61/credit 1137, dated 2047/10/16 to NIDC regarding Loan Classification and Provisioning

As per this circular, NIDC's loan and advances had to classify into six categories: namely good, acceptable, evidence of substandard, substandard, doubtful and bad. The basis of classifying such loan were debt service cover ratio, regularity of payment history, industry outlook situation, financial position of client/company, management quality and collateral quality coverage. The provisioning of loan for NIDC was specified as follows:

Loan Category	Provision
Good	1 percent
Acceptable	1 percent
Evidence of substandard	5 percent
Substandard	25 percent
Doubtful	50 percent
Bad	100 percent

- Swop Loan: In case of swop loan the loan has been provided in the subsequent bank. In the case of swop loan is given by signing person Guarantee. in this case we have to 20% additional is to add in provision is to be required except in bad loan category.
- In this case the loan is given to the share holder of same bank who is holding 1% or more then one provision percentage. Provision % should be needs to be double expected for the bank loan category.
- In case of restructure or resedualing loan 12.5% provision needs to be provided in state of 1% for performing categories.

NRB Circular No. Bai./le./61/credit 1165, dated 2047/12/8 to Commercial Banks regarding Loan Classification and Provisioning

This circulation provided regulation regarding loan classification and provisioning of loan and advances of commercial banks on the same category as it was directed to NIDC by circular dated on 2047/10/16.

NRB Circular No. Bai./le./61/credit 1230, dated 2048/05/04 to ADB/N regarding Loan Classification and Provisioning

As per the circular, ADB/N had to classify its loan and advances into five categories on the basis of debt service cover ratio, regularity of repayment history, industry outlook, financial turnover of client, management quality and collateral quality and coverage ratio. The loan and advances overdue up to 6 months were classified as good loan, where as overdue for 6 months to 1 year as evidence to substandard, overdue for 1 to 2 years Substandard, overdue for 2 to 5 years as doubtful and overdue for more than 5 years were classified as bad loan. The provisioning for good loan was not necessary as per this directive where as 10 percent provisioning was required for evidence to substandard, 25 percent for substandard, 50 percent for doubtful loan and 100 percent provisioning was required for bad category of loan.

At present there is newly formulated regulation regarding loan classification and their provisioning which will be discussed in subheading 2.3 "Immediate Parent Discipline and Classification Model."Immediate Parent Discipline and Classification Model. Present discipline regarding loan classification and the provisioning in Nepal and India are enumerated as follows. After the economic liberalization in Nepal, numerous banks and other financial institutions were established. In order to regulate such banks and institutions, separate regulations were issued to banks and financial institutions. They are enumerated as follows:

To be effective from fiscal year 2058/59, NRB issued new directives in 2058 regarding the loan classification and loan loss provisioning including Development banks, finance companies and cooperatives. As per these directives, on the basis of their overdue aging, loan and advances of commercial banks were classified in to four categories, namely pass or good, substandard, doubtful and bad loan. The loan and advances other than good category were defined as NPA in these directives. Similarly, such loan and

advances of development banks finance companies and cooperatives carrying out limited banking transactions were also classified in to the same four categories with the same definition of NPA.

The present directives effective from the 1 Shrawan 2062 are the, “Unified Directives, 2062, Issued to Bank and Financial Institutions Licensed by NRB.” The directives for classification of loan and advances and provisioning against them for the purpose of minimizing possible risk in bank's lending by using the authority given sub-section 1 of section 79 of NRB Act, 2058 and section 49 of Bank and Financial Institutions Ordinance, 2062 are as follows.

Loan categories Criteria of Classification Provisioning

Pass loan not past due and past due for period up to 3 months (performing loan) 1%, Substandard loan Past due for a period of 3 months to 6 months 25% Doubtful loan Past due for a period of 6 months to 1 year50%, Loss loan Past due for a period of more than 1 year or 100%.

As defined in the directive no.2 (1) of Unified directives, 2062, performing loan are the pass or good loans while non-performing loan are substandard, doubtful and bad loan. Loan loss provision for special category of loan. The loan against gold and silver, fixed deposits, credit cards and HMG Bonds and NRB Bonds are included in good loan.

In case of acting running capital loan up to one year is being rescheduled, and then they are included in the good loan category. In the state that the interest against current capital loan is not regularly received, such loans are classified on the basis of overdue period.

Additional Provision for Bad Loan

Overdue or non-overdue loans are classified in bad loan category if:

- Security is not enough
- Borrower is declared bankrupt/insolvent,

- Loan is out of contact,
- Reimbursement is not received within the ninety days of the maturity period of purchased or discounted bills and convergence of non-fund based facility like letter of credit and guarantee amount to fund based loan,
- Loan is misused,
- Six months period of auction process after the default of loan repayment is exceeded or the case is filed in the court in the course of loan recovery,
- Loan is given to a blacklist person,
- Project/business firm is not operationally viable, project or business is not being operated or
- Credit card loan is not written off within 90 days of over due date.

Loan loss provision made for performing loan is called "General loan loss provision" and loan loss provision made for Non-performing Assets (NPA) is called "Specific loan loss provision."

2.1.2 India

As Narasimham Committee of India pointed out the international practice, the NPA is defined as an advance where, as on the balance sheet date-

a. In respect of term loans, interest remains past due for a period of more than 180 days.
b. In respect of overdraft and cash credits, accounts remain out of order for a period of more than 180 days.
c. In respect of bills purchased and discounted, the bill remains overdue and unpaid for a period of more than 180 days.
d. In respect of other accounts, any amount to be received remains past due for a period of more than 180 days.

Until recently, there was no clear definition of NPA in India. Different banks were following different practices and overdue of banks were generally

considered as NPA and it is only after the publication of the Narasimham committee I Report that a uniform definition came to be accepted (Sreekantaradhya, 2004).

At present all banks in India are adopting the definition of NPA in the same manner as Narasimham Committee I has pointed out the definition of NPA adopted in international practice.

In pre-reform period of banking and finance, the classification of loan and advances were made on the basis of classification of assets. According to this, assets were classified into eight health categories, named as follows:

- Satisfactory
- Irregular
- Sick (viable under nursing)
- Sick (non-viable/sticky)
- Advances recalled
- Suit filed accounts
- Decreed debts and
- Debts classified by banks as bad debts/doubtful.

Banks had discretion in making this classification and also the approach was not objective and this kind of classification was also not helpful for identification of non-performing assets. Since 1992, a new system of classification has been followed which will be described in the latter subheading.

It is already mentioned that until recently there was no clear definition of NPA in India. It was well defined and brought in practice only after Narashimham Committee defined NPA on the basis of international practice of defining it. Till then, different commercial banks were defining and adopting NPA separately.

As per the circular no. BP.BC. 79/21-043-92 dated April 27, 1992 and circular No. BB.BC.59/22.04.943-92 dated December 17, 1992, the RBI has identified the NPA as an account of loan where on the balance sheet date in respect of;

- Term loan interest remains "past due" for more than 180 days, overdraft and cash credit account remain out of order.
- Bills purchased or discounted remain overdue or unpaid for more than 180 days,
- Other accounts receivable remain past due for 180 days.

The same circular further clarifies that an 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 (Tannan, 1997).

Loan Categories Criteria of Classification Provisioning

Standard not disclose any problem and not carry risk (actually a performing loan) 1% of outstanding loan, Substandard loan Overdue for not exceeding 2 years 10% of the total outstanding loan, Doubtful loan Overdue for exceeding 2 years.

- 1.100% provision on unrealizable value of the security
- 2.20% if the asset has to remain doubtful up to 1 year
- 3.50% if the assets have remained doubtful up to 3 years
- 3.50% if the asset has remained doubtful for more than 3 years.

Loss loan Uncollectible/unrecoverable loans, continuance as a bankable asset is not warranted Entire amount should be written off. If assets are permitted to remain in the books for any reason, 100% outstanding should be provided for.

Source: Govinda Ghimire; Thesis on NPA of Commercial Banks: Causes and Effects.

2.1.3 Srilanka

In the case of Central Bank of Srilanka has issued directives to commercial banks regarding the classification of loan and advances. As per the existing CBSL directives, banks have to classify outstanding loan and advances into four categories. The loan classification and their provisioning requirements are as follows:

Loan Category	Criteria for Loan Classification	Provision Requirement
Good loan	Not overdue and overdue up to 90 days	No
Substandard loan	Overdue for 90 days to six months	20% of the total outstanding loan
Doubtful loan	Overdue for six months to 18 months	50% of total outstanding loan
Loss loan	Overdue for 18 months and above	100% of total outstanding loan

2.1.4 Conclusion

The conclusion is drawn after learning the parent discipline exercised by Nepalese, Indian and Srilankan central banks. Managing NPA is great challenge in the contemporary banking business. As far as possible, uniform practices have been introduced to international banking business.

Till the very late of 1990, there was no clear definition of NPA even in India. As per the international practice, Narasimham Committee report helped uniformly define and adopt practice of NPA in all commercial banks in India. Before the RBI circular dated April 17, 1992 and December 27, 1992; Indian banks used to classify the loan and advances into eight health categories its assets. After the 1992 circular, loan and advances of banks are uniformly classified into four categories: namely, standard, substandard, doubtful and loss and the last three categories constitute non-performing assets.

In the context of Nepalese commercial banks there was no clear definition of NPA before 2001 A.D. There were separate directives and classification model to CBs and ADB/N and NIDC. With clear definition of NPA, the separate directives were issued to commercial banks other financial institutions in 2057 B.S. to be effective from fiscal year 2058/59. As per these directives, the overdue loan and advances other than good loan were defined as NPAs. Considering there was no significant difference in the functions of CBs and other FIs, unified directives were issued to them with clear definition of NPA, which comprise overdue loan and advances other than good loan to be effective from the 1st Shrawan, 2062 B.S.

The CBSL has also issued to commercial banks and financial institutions in Srilanka defining NPA other than good category loan. The classification model and provision is also almost similar to Nepalese banks.

Since NPA degrades the profitability of banks it is great challenge to the contemporary banking sector. Considering this fact, international practice has been introduced to manage NPA. The introduction of loan classification and provisioning introduced in every country is its example.

2.2 Review of Books, Journals, Articles and Thesis

2.2.1 Review of Books

The researcher went through different books searching the definition and items of bank assets. To know more about of bank assets, it is necessary to know about balance sheet bank. According to Frederick Mishkin, Mr. Murari Mohan Joshi and Unified Directives Issued to Banks and Financial Institutions by NRB, balance sheet of commercial bank is introduced as follows.

To understanding how bank operates, first we need to examine its balance sheet, a list of bank's assets and liabilities. As the name implies, this list balances, that is, it has the characteristics that,

[Total Assets = Total Liabilities + Capital]

Banks obtain funds by borrowing and by issuing other liabilities such as deposits. They then use these funds to acquire assets such as securities and loans. Banks make profits by charging an interest rate on their holdings of securities and loans that is higher than the expenses on their liabilities" (Mishkin, 2003).

The balance sheet of a commercial bank is a statement showing its assets and liabilities as on particular date. It is usually prepared at the end of each year. The balance sheet of bank has greater importance than that of an ordinary trading company. The bank deals in other people's money and hence the entire community is in the balance sheet. The business of the bank is reflected in the balance sheet. Its proof rays the result of the bank operation during the year. It may also be regarded as indicating the ways in which bank raises its funds and the way in which it uses them. Every bank inhibits a copy of its balance sheet in its premises (Radhaswami & Basudeavam, 1979:550).

Since there is no common or standard form for presenting the balance sheet, the present balance sheet of commercial bank, as specified by Nepal Rastra Bank under the unified Directives, 2062, issued to Bank and Financial Institutions Licensed by NRB, is as follows:

Items of Balance Sheet

Assets of Bank

The assets are given in the right hand side or the bottom part of the balance sheet. The assets side indicates the manner, in which the funds entrusted to the banks, are employed. The successful and fruitful working of the bank depends on ability and efficiency of management that distributes/uses the fund among the various kinds of investments known as assets. The various items of fund uses on the assets side are briefly discussed as follows.

Cash at Balance

Cash balance is the first asset in the portfolio of a commercial bank. It is perfectly liquid form of assets. It refers to the cash in the hand or kept in its vault and cash held to meet the demands of the customer. Cash balance is also known as cash reserve ratio and this reserve ratio is determined as per the direction of central bank in the country in accordance to the fiscal as well as monetary policy of the country. If this reserve or balance is not necessary to keep within the specified limit, then central doesn't make any regulation regarding this reserve. At present, there is no direction to commercial banks by NRB regarding the cash balance in their vault.

Bank Balance

Bank balance includes all the money at central bank, commercial banks and other financial institutions. According to the central bank directives, commercial bank has to maintain required reserve ratio at central bank in certain percent of its total deposits, which is called central bank reserve/balance. As per directives by the central bank or for other purposes, certain cash may be kept in other bank, which are known as balance at commercial banks. Similarly, banks may deposit their money to other financial institutions as well. Present regulation has made provision for minimum 5% mandatory reserve at NRB to its total deposits. Cash balance and bank balance are regarded as the first line of defense to bank.

Money at Calls and Short Notice

Commercial banks invest their funds to very short-term loan. Money lent at call and short notice is repayable either on demand or at a very short notice, generally less than 24 hours or 24 hours to 7 days or 10 days period. Cash is an idle asset and the bank must not keep cash beyond the amount considered absolutely necessary. To meet seasonal demand and other contingency liabilities, bank maintains these highly liquid but earning assets, which can be converted into cash quickly and without loss of value. Bank regards this is a

secondary reserve as against cash, which its primary reserve. Unlike cash, this asset brings some revenue income to the bank. Since this loan can be returned at the time of demand, it is regarded as the liquid asset. So such loan is regarded as the second line of defense to bank.

Discounted and Purchased Bill

Commercial banks purchase and discount short term domestic and foreign bills of exchange, treasury bills, check, draft etc. Bills purchases and discounted such are for short period and they are liquid assets. Banks receives income by such transactions. After the complete maturity period of purchased bills banks receives income/discounted amount from concerned person, company or firm. Such bills are marketable, so they can be sold in the market to receive cash any time. In time of need, commercial banks rediscount such bills with the central bank of the country. This facility makes it a shift bale asset. The rediscounting rate will generally be higher than the borrowing rate of the bank. Hence, the bank incurs a loss, if the bills are rediscounted. The loss is minimized in the case of short dated bills. The commercial bank discount and purchase such bills without minimizing the required cash balance/excess reserve in the bank. All discounted and purchased bills amount are assets of the bank and they are known as the third line of defense to the bank.

Investment

Bank cannot earn enough through cash balance and short term loan. So they invest their assets in different investment alternatives. Such investments include government bond and securities, shares of industries and debentures. Government securities are secured than other investment for banks. So banks invest a large proportion of their funds in government securities and other gilt-edged securities. When the demand for loan and advances increase, the banks probably sell the securities. These securities can be converted into cash easily and without any loss of value. If the securities are sold before maturity, the bank incurs capital loss. If the interest rate rises, then also bank face the loss.

The investment yields a fair high rate of return, if the security is sold on due maturity period. Generally, share investments are for long term period and they can't be converted into cash easily. Debentures can be sold any time in return for cash.

Loan and Advances

Loan and advances are the most important particular of assets in balance sheet of bank. Generally, loan and advances covers more than 40% of the total assets of bank and interest income from them are the major income of the bank. The profitability depends on the extent to which bank grants good loan and advances to customers. Loans are granted in the form of overdraft, cash credit and ordinary loan. Adequate security is maintained against granted loan. Loan and advances are known as the fourth line of defense to banks.

Fixed Assets

Fixed assets are the fixed investment or the least liquid assets of the bank. They cannot be realized in cash in times of an emergency. They cannot also be realized without much loss of value. So these assets are called dead stock of bank. Bank buildings, furniture, machines, computers are the examples of fixed assets. These assets don't make any profit to bank and usually provides depreciation on them annually. So the values of these assets shown in the balance sheet will be much less than their real value. Such assets can be sold at the time of bank bankruptcy.

Other Assets

Other assets include silver, gold and other items, such as interest receivable, commission receivable, advance payment to staff, non-banking assets, expenses to be written off reconciliation amount and advance tax payment etc. These items are shown separately under suitable headings.

Liabilities

Banks' liabilities include different heads viz. share capital, the deposits of people, borrowings from other bank and financial institutions, reserve funds, provision and other contingent liabilities.

Share Capital

Share capital is the amount collected by the bank promoters to operate bank. As per the memorandum of Association of the bank, the utmost limit of capital bank can issue is determined, which is known as authorized capital. The part of the authorized capital, which is issued to public subscription, is known as issued capital and the portion of subscribed capital which is taken by public is known subscribed capital. Bank doesn't get whole amount of subscribed capital at once. The portion of share amount which is received at the time of subscription is known as paid capital and the total amount called out of subscription is known as called capital.

Deposits

Deposits occupy the major space in the liabilities of the bank balance sheet. Normally it is more than 70 percent of the total liabilities. As per NRB directives, commercial banks can collect fixed deposits, saving deposits, current deposits and other deposits as introduced by the bank's policy to carry out its business. These are the liabilities because bank must pay interest on them and payback the deposit amount to depositors.

Borrowings

Banks borrow from other commercial banks, central banks and other financial institutions to carry out their business in the state of lack of business funds. Reserve funds constitute general reserve funds; share premium, capital reserve fund, assets revaluation fund, dividend equalization fund, retained earnings (profit/loss) and other reserve fund. The portion of undistributed profit establishes general reserve fund.

Other Contingent Liabilities

They include dividend to be distributed and unclaimed dividends, pension and gratuity funds, provident fund, sundry creditors, interest payable, income tax provision, loan loss provision against Non-performing Asset (NPA), interest suspense account and rebates etc.

Importance of Loan and Advances to Bank

Commercial Banks grants certain part of its assets as loan and advances. Such loan and advances are granted against enough securities and interest received against them is normally higher than they pay interest to deposits. Loan and advances are less liquid but are more profitable. These are known as fourth line of defense to bank regarding the chance of being converted to current cash. More than 70 percent of bank income is earned by the interest income received against such loan and advances. Without the transaction of loan and advances, bank neither can maintain its operating expense nor pay interest to depositors and dividend to shareholders. In the bank of developing economy granting loan and advances are major transaction and interest received against such loan and advances are the major portion of income to total income. The loan and advances in our countries' commercial bank occupy more than 45 % of total assets.

Banks make their profits primarily issuing loans. Some 68 percent of bank assets are in the form of loan and advances, and in recent years they have generally produced more than half of bank revenues. A loan is a liability for the individual or corporation receiving it but an asset for a bank because it provides income to the bank. Loans are typically less liquid than other assets because they cannot be turned into cash until the loan matures. If the bank makes a one year loan for example, it cannot get its funds back until the loan comes due in one year. Loans also have a higher probability of default than other assets. Because of the lack of liquidity and higher default risk, the bank earns its higher return on loans (Mishkin, 2004).

“Loan and advances dominate the assets side of balance sheet of any bank. Similarly earnings from such loan and advances occupy major space in the income statement of bank. Lending can said to be arisen deter of a bank. However, it is important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, loan is known as risky assets. Risk of non repayment of loan is also known as credit risk or default risk” (Dahal & Dahal, 2002:114).

Effects of NPA in the Performance of Bank

The major characteristics of NPA are no positive yield to banks in cash. It has multiple effects, on one hand bank may not be able to pay the interest to the depositors and on the other hand, bank has to maintain loan loss provision against NPA, which cause decrease on its profitability. NPA has direct impact on return on assets, ROA and return on equity ROE, the two main parameters for measuring profitability of banks. Return on assets will be affected because the total assets include the NPA; they do not contribute to profit which is one of the components in ROA ratio.

Here are provided some of excerpts from some famous scholars regarding the effects of NPA. NPA could wreck bank’s profitability both through a loss of interest income and write off the principle loan amount. It tackles the subject of entire starting from the stage of their identification till the recovery of dues in such amount” (Bindani, 2003:3). “To start with performance in terms of profitability is a benchmark for any business enterprise including the banking industry. However, increasing NPA have a direct impact on banks profitability, as legally are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets” (Manmohan, 2002:6). Performing Assets are those loans that repay principle and interest to the bank from the cash flow it generates. Loans are risky assets, though a bank wants most to its resources in granting loans and advances. If an individual bank has around 10% NPA, it sounds the death knell of that bank coteries-paribus (call

other thing remaining constant). The objective of bound loan policy is to maintain the financial health of the banks, which result in safety of depositor's money and increase in the returns to shareholders. Since the loan is a risky asset, there is inherent risk in every loan. However the bank should not take risk above the certain degree irrespective of returns prospects (Dahal & Dahal, 1999/2000: 115). Loan and advances are the most profitable assets among all the other assets in a bank. Banks universally desires the assets, which constitute primary source of income to them. According to Dr. Walter Leaf, "In the item of advance to customers we have reached the central portion of the activities of bank." In this statement the banker is brought into direct relation with the public. His capacity and judgment and his usefulness to the community is judged by way he lends the money left with him by the depositors. The major aim of the bank, as a business institution is making huge profit along with safeguarding the interest of depositors. Since loan and advances are more profitable than any other assets, he is willing to lend as much his fund as possible. While lending, he has to be careful about the safety of such loan and advances. Again in the word Dr. Leaf, "The bankers have to timer the liberality with caution. If he is too liberal, he may easily impair his profits by bad debts, if he is too timid, he may fail to obtain and adequate return on the fund, which are confided to him for use. It is his capacity in lending that bank manager judged" (Radhaswami and Vasudevam, 1979:550).

Loan and advances dominate the assets side of balance sheet of any bank. Similarly, learning from such loans and advances occupy major place in income statement of the bank. Lending can be said to be the raison degree of a bank. However, it is very important to be reminded that most of the bank failures in the world are due to shrinkage of the value of the loan and advance. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while NPA erodes even existing capital" (Dahal & Dahal, 1999/2000: 114).

NPAs in Nepalese Banking Sector

As studied in the "Banking and Financial Statistics" as of mid-July-2005, Vol. 45; published by Nepal Rastra Bank, the successful restructuring of two large banks resulted in better performance of whole commercial system and with marginal improvement in the level of NPA and advances, still stood at a significantly high level. The aggregate NPA to total loan ratio was 29.3% in mid-July 2001 and it reduced to 18.85% (Rs.28103.7 million) in mid-July 2007. The governor of Nepal Rastra Bank, Mr. B.N. Bhattarai has expressed his serious concern regarding the Non-performing Asset (NPA) in Nepalese Banking sector. As he has expressed in NRB Samachar 2063, the performing assets of NBL and RBB are found to 49.64 % and 50.70 % respectively as on the end of Asadh 2062. "The governing organs of the state should advance with hands to hands together to force the willful defaulters for the repayment to the banks' loan, who borrowed from the deposits of the general public in the bank. (Governor B.N. Bhattarai, NRB, in the symposium entitled "The Role of Judiciary in the Financial Sector Reform" Jointly organized by NRB and the Supreme Court of Nepal.) As expressed by him in the same program, the recovering of the huge Non-performing Asset (NPA) of two large banks is challenging and there are no alternatives of rescuing them to protect from the risk of financial system degradation of the country.

Bhisma Raj Dhungana, director of NRB, writes regarding the NPAs in the book entitled 'Nepal Rastra Bank in Fifty Years', a commemorative publication published on the occasion fifty years of Nepal Rastra Bank: "Despite the various efforts in NBL and RBB restructuring, the level of NPA has not at the prudent level. The level of NPA should be lower than 5% where the level of NPA in these banks is still above 50%. The loan recovery efforts do not show that the NPA would be solved within 3-4 years period in these banks. Therefore efforts are required to recover the NPA. In this connection Judicial, Political and social support and effort would be beneficial to overcome this problem more quickly.

According to aggregate or consolidated financial statement of commercial banks available in the fiscal year 2063/64 B.S., the total NPA in public sector banks and private sector banks are 51.72% and 5.57% respectively. Together this figure stands at 18.94%.

2.2.2 Review of Thesis

Kafle (2005) in his study entitled "*Non-performing loans of Nepalese Commercial Banks*". The main objectives of the study are; To know the problems of the non-performing loans and its effects in the ROA and ROE of the Nepalese commercial banks, to find out whether the Nepalese commercial banks are following the NRB's directives regarding loan loss provision for non-performing loan or not and to make necessary suggestions and recommendations.

The major findings of the study are:

Through the research he has found that banks have not following NRB's directives regarding the loan loss provision. He also concluded that return on assets (ROA) and return on equity (ROE) of the banks depend upon the NPAs. The high degree of negative correlation between NPA and ROA, NPA and ROE clearly indicates that there is inverse relation between them. He has recommended that for the smooth operation of the commercial banks, the NPA should be minimized. For minimization of NPA these banks should provide necessary training for their staffs about loan management.

Koirala (2006) has conducted research on "*Non-Performance Asset of Nepalese Commercial Banks*". In his thesis the objectives were; to evaluate the impact of NPA on the profitability of the commercial banks & to evaluate internal and external factor those influence the performing assets to NPA.

Major findings of his study were as; the NPA of NIB and NB bank was increasing during the study period, the NPA of EBL and NABIl was decreasing

during the study period, the NPA of HBL and SBL bank was fluctuating during the study period and in overall performance NABIl bank was found to be satisfactory where as NB bank's performance was the worst.

Thapa (2007) entitled *"A Study of Non –performance Assets of Nepalese Commercial Banks in Nepal"* in his thesis submitted to Tribhuvan University, the relation of NPA in the profitability of the bank is inversed. The growth of net profit is negative due to the increase in loan loss provisioning against NPA. Thus profitability is affected by the growth of NPA because in case that the increment ratio of NPA is higher than that of operating profit, significant portion of operating profit is used for maintaining required loan loss provisioning and there is reduction on net profit. He further concludes that the expansion of excessive credit may cause the growth of NPA where as this trend of NPA cause the contraction in credit expansion. Return on shareholder's equity is affected because the profits earned are swallowed by the amount of provision against NPA. Not only this, the cost of maintaining these assets include administrative cost, legal costs and cost of procuring the resources locked in against NPA. Similarly, NPA adversely affect the investors' confidence because it brings down the profits and affect the shareholder's value.

In brief, NPA lower the ROE and ROA, lower image and rating of the bank, disclosure reduce the investor's confidence, increase costs and difficulties in raising capital, do not generate any income require provisioning and harness the profitably, locks in the borrowing cost of resources, loss the opportunity due to non recycling of funds, carries 100 % risk weight on net NPA for CAR, blocks capital, more costly in recovery and administrative aspect and effects on employee morale and decision making in the bank.

Tamrakar (2008), entitled *"Non-performing assets & profitability of selected Nepalese Commercial Banks"*. The objectives of the study were to examine

and study the non-performing assets in total assets, total deposits and total lending of the Nepalese commercial banks. The other specific objectives of the study were; to analyze the non-performing assets of the bank under study, to evaluate the relationship between the profitability and the non-performing assets of the commercial banks and to examine whether the Nepalese commercial banks are following the NRB's directives regarding non-performing assets or not.

The major findings of the study were; in case of Lumbini Bank Limited (LUBL) total NPA and Net profit have been found to be increasing. NPA to total lending ratio have been found increasing over the years during the study period, In case of Himalayan Bank Limited (HBL) total NPA has been decreased and net profit has been found to be increasing, similarly in Nepal SBI bank total NPA and net profit has been found to be increasing. The percentage of performing assets to total assets of LUBL was found to be highest among the sample banks and that of EBL was found to be lowest. The correlation co-efficient between ROA and level of NPA was found to be negative for each of the bank except NBBL under the study period.

Rawal (2009) entitled *"Non Performing assets of Commercial Banks Special Focus EBL and MBL"*. In his thesis submitted to Tribhuvan University concludes that return on assets, ROA and return on equity, ROE of the bank somehow depend on upon NPA. The high degree of negative correlation between NPA and ROA and between NPA and ROE clearly indicates that there is inverse relation between NPA and ROA as well as between NPA and ROE. It means a bank should reduce its NPA to increase ROA and ROE of the bank and vice-versa.

A Glimpse of Performance of Nepalese Commercial Banks

The numbers of commercial bank branches operating in the country in the November, 2010, 30 commercial banks and the remaining 47 belonged to

ADB/N, performing commercial banking transactions. The regional distribution of these banks seemed to be much skewed. In the Mid November of 2010, there are 1 centre bank, 30 commercial Bank,63 Development bank,79 Finance company,12 Microcredit finance institute,17co operative (license by NRB),47 NGOs licenses by NRB, 21 Insurance company(license by insurance board), 1 employee provident fund,1 citizens investment trust) (KfA General Banking Course Book, 2010).

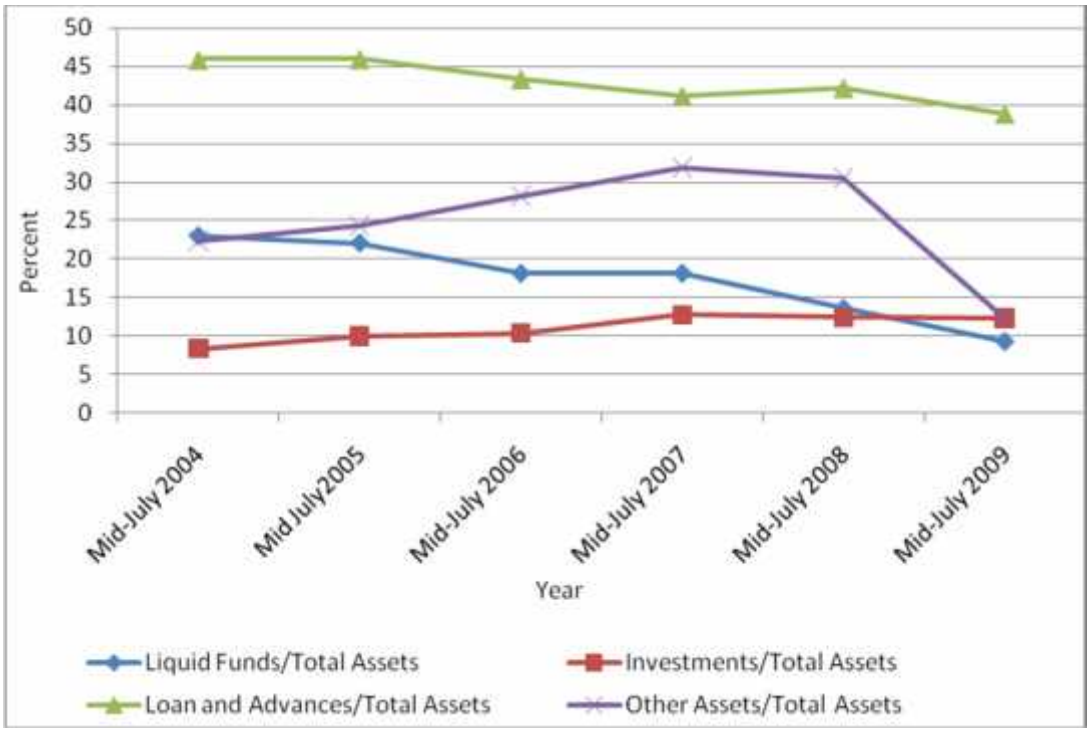
The size of total assets of commercial banks increased continuously over the last few years. The total assets, which were Rs. 209471.5 million in mid-July 2000, expanded to Rs. 339816.7 millions in mid-July 2004 and Rs. 411033.7 million in mid- July 2005. It expanded on an average 14.43 percent per annum during 2000-05 and increased by 20.96 percent in mid-July 2006 compared to that of mid-July 2005.Thereis altogether 139 financial institution representing class A, B, C and D as per banks and financial Act and currently more than twenty thousand people are working in these institutions. These human resources are responsible in managing approximately NPR 260 billion worth of credit assets, out of which 40% comprises of 2 large banks- Rastriya banijya bank and Nepal bank ltd. Annual net profit of NPR 7.27 Billion generated by creating assets worth of NPR 260 billion last year means a very low return on assets of mere 2.79%, which is even below the average saving deposit rate in the country.

Loans and advances remained major component in total assets of the commercial banks during 2005. However, the share of loans and advances in total assets declined in the recent years. The total loans and advances as percent of total assets was 46.0 percent in mid July 2000. It decreased to 41.2 percent in mid-July 2004 and 39.8 percent in mid-July 2005. Similarly, the share of liquid funds in total assets declined in the period 2004-07. It dropped to 13.6 percent in mid-July 2005 and from 23.o percent in mid-July 2004.Unlike the loans and advances and liquid funds, the share of investment in total assets

increased in the same period. It increased to 14.6 percent in mid-July 2008 and remained more or less or constant level in mid-July 2009

Figure 2.1

Trend of Commercial Banking Assets Components/Total Assets



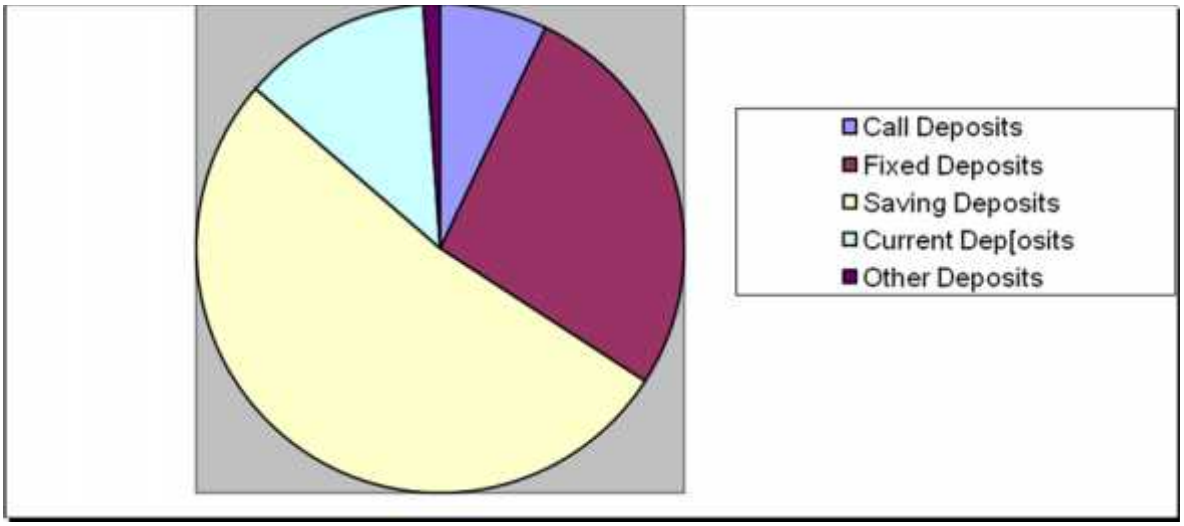
(Source: Annual Report of Commercial Banks)

Deposit liabilities held almost two third of total liabilities over the period 2004-07. Deposits reached to Rs. 252409.8 million in mid-July 2006 from Rs.233811.2 millions in mid-July 2007, with an increase of 8 percent. However, deposits as a percent of total liabilities declined in recent years. It has come down to 61.4 percent in mid-July 2006 whereas these figures stood at 68.8 percent in mid-July 2005 and 74.0 percent in mid-July in 2001. Exhibiting declined trend, total deposits of banking system grew at a moderate rate of 10.25 percent per annum during 2004-09. It increased by 8.0 percent in mid-July 2009. The growth rate was 14.7 percent in the last year. Saving deposits, with increasing trend, held major share in total deposits.Deposits 13.73 percent, fixed deposits 26.67 percent, call deposits 7.01 percent and other deposits 1.10 percent.

All components of deposits experienced healthy growth rate during 2001-06. Call deposits grew with the highest average of rate of 36.6 percent followed by saving deposits 14.62 percent, current deposits 11.26 percent and fixed deposits 1.6 percent during last five years. As compared to the figures of mid- July 2007, current deposits, saving deposit and fixed deposits increased by 2.72 percent, 13.89 and 3.36 percent in mid-July 2009. In 2008, these growth rates were 16.86 percent, 17.38 percent and 2.91 percent respectively. But call deposits decreased in mid-July 2008 by 2.10 percent as compared to the figure of mid-July 2007, whereas it had increased by 50.16 percent in 2007. Other deposits increased by 55.02 percent that of 2008.

Figure 2.2

Credit Deposit Ratio of Commercial Banking System



Source: Annual Report of Commercial Banks

Non-deposits resources, which include capital and reserves, and borrowings, accounted only 5.4 percent of total liabilities in mid-July 2008. With an increase of 23.1 percent, it reached to Rs. 22006.2 million in mid-July 2008 from Rs. 17878.0 million that of mid-July 2008. It expanded with an annual growth rate of 16.9 percent over the past five-year's period. This growth rate is higher than average growth rates of deposits and total liabilities of the same periods.

Liquid funds decreased by 17.0 percent and reached to Rs. 38369.4 million in mid-July 2009 from Rs. 46252.8 million in mid-July 2008. Liquid fund was Rs. 48240.0 million in mid-July 2003. On an average it declined at the rate of 4.48 percent per annum during 2004-09. On the other hand, investments increased by 27.35 percent per annum during 2004-09 and reached to Rs. 60181.0 million in mid-July 2003 from Rs. 17967.3 million that of mid-July 2003. Investments in mid-July 2008 were 27.35 percent higher than that of previous year, i.e. mid July 2009.

Growth of total loan and advances remained moderate in the last five years. Total loan and advances registered an average rate of 11.19 percent per annum during 2004-09 and reached to Rs. 163718.8 million in mid-July 2009. The outstanding amount of loan and advances was Rs. 140031.4 million in mid-July 2004. Loans to private sector always dominated on the overall outstanding figure of loan and advances. Of the total outstanding loans and advances of Rs. 163718.9 million, 96.02 was allocated to private sector, 1.5 percent to government enterprises, 2.39 to bills purchased and discount and 0.10 percent against bills in mid-July 2009.

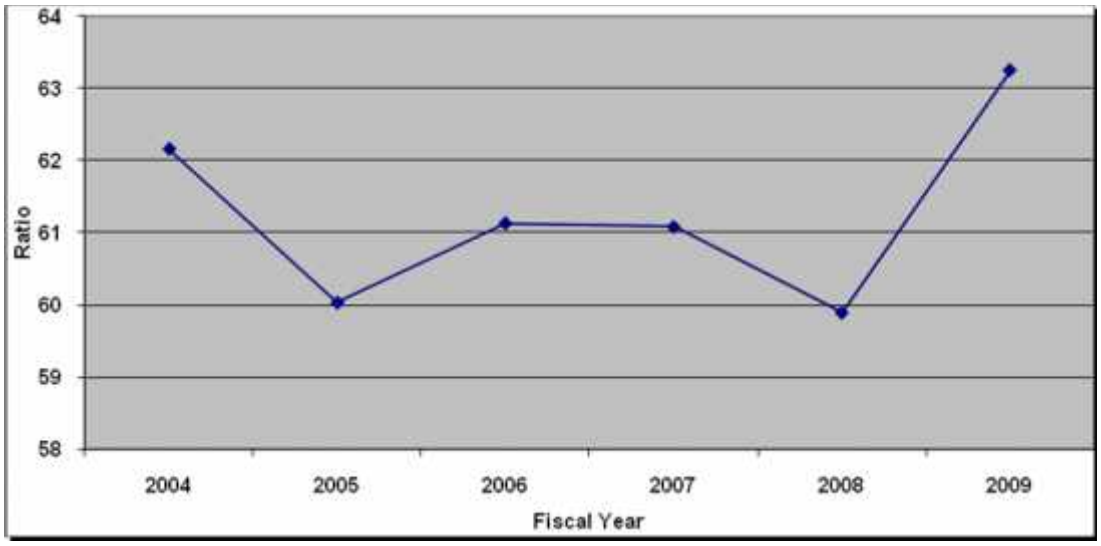
Major portion of the loan portfolio of the banking system was distributed to productive sector, and wholesale and retail business sector. Credit to productive sector alone stood at Rs. 53743.5 million (33.73 percent of the total loan and advances) and credit to wholesale and retail business was Rs. 34412.3 million (21.60 percent) in mid-July 2008. Agriculture sector tapped only 2.77 percent of total credit in this period. Other major credit distributed sectors included service industries (9.41 percent), construction (5.47 percent), and transportation, communication and public services (5.65 percent).

With 49.79 percent increase, priority sector credit reached to Rs. 13499.24 million in mid-July 2009 from Rs. 9012.3 million mid-July 2005.Priority sector credit as percent of total credit stood at 8.25 percent in mid-July 2008 and 6.44

percent in mid-July 2008. Similarly, deprived sector credit increased by 55.62 percent and reached to Rs.4367.91 million in mid-July 2007 as compared to Rs.2806.8 million in mid-July 2008. It had grown by 21.74 percent in mid-July 2008 as compared to mid-July 2006. Deprived sector credit amounted to 2 percent of total credit in mid-July 2009.

Credit- deposit ratio of the banking system did not undergo a noteworthy change during 2004-09. It remained 60 percent during 2007 and increased to 65 percent in mid-July 2009.

Figure 2.3
Credit Deposit Ratio of Commercial Banking System



Source: Annual Report of Commercial Banks

The successful restructuring of two big banks resulted in better performance of whole commercial banking system. The banking system was experiencing a continuous losses trend during 2004-05 but it turned to post a net profit of Rs. 3707.48 million in mid- July 2008.

The net profit of the banking system further improved and reached to Rs. 5263.5 million in mid-July 2009.Despite some improvement, the aggregate capital funds to total risk weighted assets ratio of the banking system remained negative even in mid-July 2008.The huge negative capital funds of two big banks namely RBB and NBL converted the total capital base of the banking

system to be negative. The capital adequacy ratio stood at -4.46 percent in mid-July 2008 and -8.92 as on mid-July 2009

Table 2.1

Soundness Indicators of Commercial Banking System

Indicators	**Mid-July**				
	2005	**2006**	**2007**	**2008**	**2009**
Profitability (Rs.in million)	-7843	-9428	3317.25	3707.48	5205.31
NPA as Percentage of Total Loan	29.3	30.4	28.7	22.8	18.85
Total Capital Fund as Percentage of RWA	-5.49	-9.88	-11.74	-8.92	-4.46

Source: Annual Report of Commercial Banks

With marginal improvement, the level of NPA and advances still stood at a significantly high level. The aggregate NPA to total ratio was 29.3 percent in mid-July 2005 and it reduced to 18.85 (Rs.28103.7 million) in mid-July 2009.

Credit Risk and NPA

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

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

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

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

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is mainly concerned with the appropriate research method to carry out the whole research work. As per the subject matters of research methodology, all subjects of research methodologies required to this study are mentioned here. Since there is no test of hypothesis, there is no hypothesis formulation. As per the nature of the study descriptive research design is made. All commercial banks in Nepal as population and two banks under study as sample banks, the secondary sources of data from concerned banks as data gathering procedures, tabulation and analysis as its requirement as processing procedures and use of Karl Pearson's correlation of coefficient as statistical tool and percentage and mathematical tool are used.

3.2 Research Design

The overall plan of the proposed study is made to specify the appropriate research methods and procedures for obtaining specific findings as objectively, accurately and economically as possible. The planning of subject matters studied are balance-sheet, profit and loss account, loan classifications and their provisioning, of sample selected banks and the directives issued by NRB regarding the loan classifications and their provisioning matters.

The populations of the study are taken the whole banks in the banking operations while samples are taken Nepal SBI Bank Limited, SBI and the Bank of Kathmandu Limited, BOK.As per the nature and requirement of the study, descriptive research design is adopted with analytical approach.

3.3 Sources of Data

The major portion of the data collected is from the secondary sources. The sources include the published annual reports of concerned banks, the different

periodical publication of Research Department and Bank and Financial Institutions Regulation Department of NRB as well. The different websites related to the required data are also visited during the data collection.

3.4 Population and Sample

All the licensed 30 commercial banks are considered as the total population of the study. Out of them, those, which are being operated with their corporate office or head office located in Kathmandu valley, are considered as the target population for the study. During the time of this study, total of 30 commercial banks are being operated as licensed NRB. Among them most of the commercial banks are carried out their function with their head office in Kathmandu valley.

The total population and the sample drawn are Nepal SBI Bank Limited and Bank of Kathmandu Limited.

3.5 Data Collecting Procedure

The study is based on the secondary data. So they are collected directly visiting the head office of the concerned banks. For this purpose the annual published report of the concerned banks are utilized and gathered the necessary data. Similarly quarterly Economic Bulletin, the publication of the Research department and the Banking and Financial Statistics the publication of Bank and financial Institutions department of NRB also are used during the data collection. The websites of the concerned banks also were visited in the course of data collection.

3.6 Data Processing Procedures on the basis of High Remittance

At first the raw data are collected from the various sources, which include the annual financial report of concerned banks, the various publications of NRB and the relevant websites of concerned banks. They are classified as per the nature of the study and in accordance of the data. The tabulation is specially

made on the basis of their consequent three fiscal year's data available and need base headings; such as performing loan, total NPA, substandard loan, doubtful loan and bad loan. The tabulation mainly contains the calculation of the percentage of required variables, as it is needed. The tabulation also comprises the total assets, total deposits, total lending, calculation of the return on total assets and the return on shareholder's equity. Simple percentage tool is used as arithmetic tool and Karl Pearson's coefficient of correlation as a statistical tool.

3.7 Research Variables

As the study was mainly based on the NPA, the level of NPA in different parameter was the major research variable. Except NPA, this study also focused on the level of Performing Assets, effect of NPA on ROA and ROE of concerned banks. Other research variables used in this study are total deposits, total lending, total assets and Loan Loss Provision

Total Deposits: The amount of total deposits in the sample selected banks.

Total Lending: Total loan and advances and amount of bill purchased and discounted of the sample selected banks are studied as total lending.

Total Assets: Total assets of the banks comprise all the assets of balance sheet item excluding preliminary expenses, profit & loss A/C (Dr.) and other fictitious assets (goodwill etc.).

Net Profits: Profit earned during the normal course of bank's operation (which includes profit or loss from bank's extra-ordinary items) after tax and other mandatory provisions required as per bank's policy. It is profit finally remained for appropriation purpose (dividend and other general reserve)

Loan Loss Provision: Loan loss provision is the amount charged to profit and loss account against the revenue due to credit risk involved in loan and advances disbursed by banks.

Performing Assets/Loan: Performing assets/loan are those loan and advances where interest and principal are regularly served as per the repayment commitment of the loan.

Non- Performing Assets, NPA: Performing assets/loan are those loan and advances where interest and principal are not regularly served and defaulted as per the repayment commitment of the loan.

Returns on Shareholder's Equity: The shareholder's equity comprises share capital, general reserves, profit & loss a/c and other reserves. In other words it is total assets - outside liabilities. Return on shareholder's equity is calculated as follows,

$$X \frac{\text{Net Profit before Tax}}{\text{Shareholde r's Equity}} | 100$$

Returns on Total Assets: return on total assets measures the utilization level of assets. In other words it shows how well a bank is utilizing its assets in business. Returns on total assets is calculated as follows:

$$X \frac{\text{Net Profit before Tax}}{\text{Total Asstes}} | 100$$

3.8 Statistical Procedures

Simple coefficient of correlation is used to find the correlation between return on ROA and NPA and correlation between NPA and ROE as a statistical tool.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter is mainly concerned with the efforts made to present and analysis the collected data. Data collected from the various sources are classified and tabulated as objectives and requirement of the study and in accordance to the nature of collected data. Different arithmetical and statistical tools are used to analyze the collected data. In order to make easier and clearer to understand, data are presented in the required figure as well.

As arithmetic tools, simple percentage is used to analyze the data while Karl Pearson's correlation coefficient is used to analyze data as statistical tool.

NPA have been the issue of hot discussion in the contemporary financial sector. The large banks even in the world got collapsed due to their NPA. In Nepalese banking sector, NPAs have been occupying major space to bank's total assets and to total lending. The latest figure of NPA in banking sector stands around 19 percent. The total NPA in the banking system is around 29 billion, while the portion of NPA in the two large commercial banks i.e. RBB and NBL are significantly high and it is found worse. The level of NPA at state run commercial bank RBB stands at 50.70 percent and it stands at 49.64 percent at NBL as had end 2063. This figure shows that the commercial banks have been suffering from the high level of NPAs.

Keeping the fact that the huge volume of NPAs can create problem in the national economy and financial sector's activities, Nepal Rastra Bank has set up provision since F/Y 2057/58 to control the level of increasing level of NPAs

in the commercial banks. As provided there in, every commercial bank has to classify its total loan and advances (including the purchased and discounted bills) as pass loan, substandard loan, doubtful loan and bad loan on the basis of their overdue aging schedule. Commercial bank also has to maintain loan loss provision on the basis of the loan category they fall, as stated in the directives No. 2 (8.1) of the unified directives, 2063.

Issued to bank and financial institutions licensed by NRB. Main purpose of this regulation is to find the level of NPAs in Nepalese commercial banks and to take steps to control the level of increasing level of NPAs in the future.

As defined in the directives issued by NRB, pass loans are called the performing loans while other category loans; substandard, doubtful and bad loans are called NPA.

In this thesis, data of five fiscal years viz. F/Y 2061/62, 2062/63, 2063/64, 2064/65 and 2065/66 are presented to study and analyze the level of NPA in total assets, total lending and total deposits of the concerned banks. Data are also presented to examine or analyze the effect of NPA on bank's return on assets, ROA and return on share holder's equity, ROE.

4.2 Data Presentation and Analysis of SBI

4.2.1 Total Assets and Performing Loan of Nepal SBI Bank Limited

Table 4.1

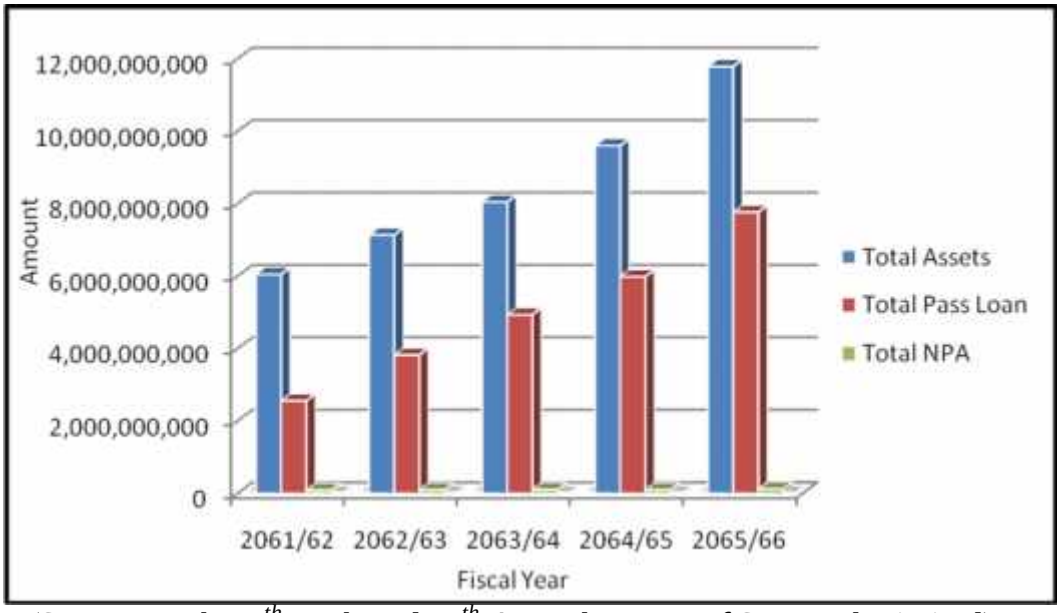
Total assets and Total Performing Asset of Nepal SBI Bank Limited

S.N	Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
1.	Total Assets	6053247125	7142318215	8052209125	9608570861	11792126009
2.	Total Performing Assets	2565172336	3828281125	4938390206	5991085718	7771282526

(Source: 13th, 14th, 15th and 16th Annual Report of SBI Bank Limited.)

Figure 4.1

Total Assets and Total Performing Assets of Nepal SBI



(Source: 13th, 14th, 15th and 16th Annual Report of SBI Bank Limited)

Total assets include sum of all the items at the assets side of balance sheet as it is mentioned in the introduction of balance-sheet items in the course of literature review. The figure of total assets was Rs6,05,32,47,125 at the end of year 2059/60,Rs 2,56,51,72,3361 year 2060/61, Rs. 8,052,209,125.00 at the end of fiscal year 2061/62 which increased to Rs. 9,608,570,861.00 at the end of fiscal year 2063/64and Rs. 11,792,126,009.00 at the end of fiscal year 2064/65.

The performing loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2062/63 the total performing loan of Everest Bank Limited was Rs 6,05,32,47,125, Rs 7,14,23,18,215 in fiscal year 2063/64, Rs. 4,938,390,206.00 in fiscal year 2063/64, which increased to Rs. 5,991,085,718.00 in fiscal year 2064/65, and Rs. 7,771,282,526.00 at the end of fiscal year 2065/66.

Percentage of Performing Loan to Total Assets

Table 4.2

Percentage of Performing Loan to Total Assets

Fiscal Year	Total Assets	Performing Loan	% of Performing Loan to Total Assets
2061/62	6053247125	2565172336	42.38
2062/63	7142318215	3828281125	53.6
2063/64	8,052,209,125	4,938,390,206	61.33
2064/65	9,608,570,861	5,991,085,718	62.35
2065/66	11,792,126,009	7,771,282,526	65.90

(Source: 13th, 14th, 15th and 16th Annual Report of SBI Bank Limited)

The percentage of performing loan to total assets was 42.38% at the end of year 2061/62, 53.6% in year 2062/63, 61.33% at the end of fiscal year 2063/64. It increased to 62.35% at the end of fiscal year 2064/65 and 65.90% at the end of fiscal year 2065/66.

4.2.2 Total NPA, Substandard Loan, Doubtful Loan and Bad Loan

Table 4.3

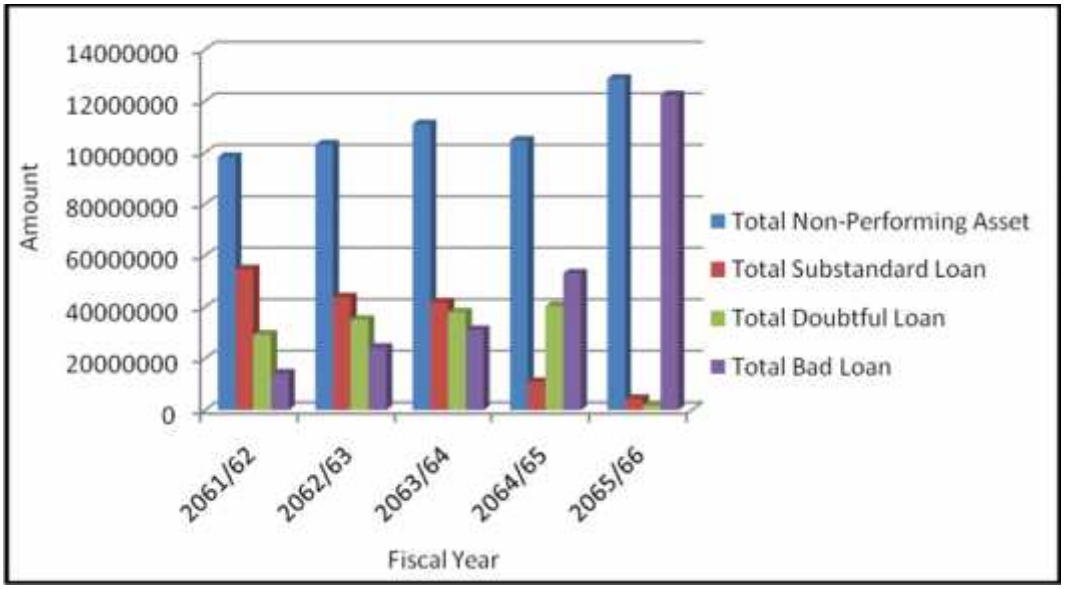
Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of SBI

Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
Total Non-performing Assets	98356721	103243256	111,191,103	104,755,369	128,807,745
Total Substandard Loan	54728132	43846304	41,954,709	11,082,572	4,408,738
Total Doubtful Loan	29346428	35167032	38,055,772	40,494,733	1,977,471
Total Bad Loan	14282161	24229920	31,180,622	53,178,064	122,421,536

(Source: 13th, 14th, 15th and 16th Annual Report of SBI Bank Limited)

Figure 4.2

Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of SBI



(Source: Table 4.3)

The entire loan overdue for more than 3 months to 1 year falls in the category of Non-performing Assets. This covers substandard loan, doubtful loan and bad as well. The total figure of total Non-performing Assets was Rs 6053247125 at the end of fiscal year 2061/62, Rs 7142318215 in year 2062/63, Rs. 111,191,103.00 at the end of fiscal year 2063/64. The total NPA figure was Rs. 104,755,369.00 at the end of fiscal year 2064/65 and Rs. 128,807,745.00 at the end of fiscal year 2065/66.

The entire loan, which is overdue for more than 3 months to 6 months, falls in this category. The amount of such loan was Rs. 41,954,709.00 at the end of fiscal year 2061/62. It declined to Rs. 11,082,572.00 at the end of fiscal year 2062/63 and Rs. 4,408,738.00 at the end of fiscal year 2063/64.The loan, which is overdue for more than 6 months to one year, falls in this category. The amount of such loan was Rs.38, 055,772 at the end of fiscal year 2063/64. It increased to 40,494,733 at the end of fiscal year 2064/65 and decreased to 1,977,471 at the end of fiscal year 2065/66.

The entire loan overdue for more than one year falls in the category of bad loan. The figure of such loan was Rs.31, 180,622 in the fiscal year 2061/62. It increased to Rs. 53,178,064 at the end of fiscal year 2061/62 and Rs. 122,421,536 at the end of fiscal year 2063/64. The increasing trend of bad loan of the bank doesn't show that the return in cash of the bank is not sound enough in the recent years.

The percentage of Substandard Loan, Doubtful loan and Bad Loan to Total NPA of SBI

Table 4.4

Substandard Loan, Doubtful loan and Bad Loan to Total NPA of SBI

S.N.	Fiscal Year	% of Substandard loan to NPA	% of Doubtful loan to NPA	% of Bad loan to total NPA
1	2061/62	55.64	29.84	14.52
2	2062/63	42.47	34.60	23.47
3	2063/64	37.73	34.23	28.04
4	2064/65	10.58	38.66	50.76
5	2065/66	3.42	1.54	95.04

(Source: the 13th ,14th15th and 16th Annual Report of SBI Bank Limited)

The percentage of sub-standard loan to total NPA was 55.64% at the end of year 2061/62, 42.47% in 2062/63, 37.73 % at the end of fiscal year 2063/64. It reduced to 10.58% at the end of fiscal year 2064/65 and 3.42% at the end of fiscal year 2065/66. This position indicates the satisfactory recovery of loans.

The percentage of doubtful loan to total NPA at the end fiscal year 2061/62 was 29.84; 34.06 in 2062/63, in year 2063/64 was 34.23%. It found to be reduced to 38.66% at the end of fiscal year 2064/65 and 1.54% at the end of fiscal year 2065/66. The decreasing trend of portion of the doubtful loan of the bank in the latest year shows the satisfactory recovery position of doubtful loan. The percentage of bad loan to total NPA was 28.04% at the end of fiscal year 2061/62. It increased to 50.76 % at the end of fiscal year 2062/63 and 95.04% at the end of fiscal year 2065/66. The trend of increasing trend of bad

loan to total NPAs alarms that there may raise credit risk of the bank. So the bank has to be conscious of getting steps towards the timely recovery of loan.

4.2.3 The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of SBI

Table 4.5

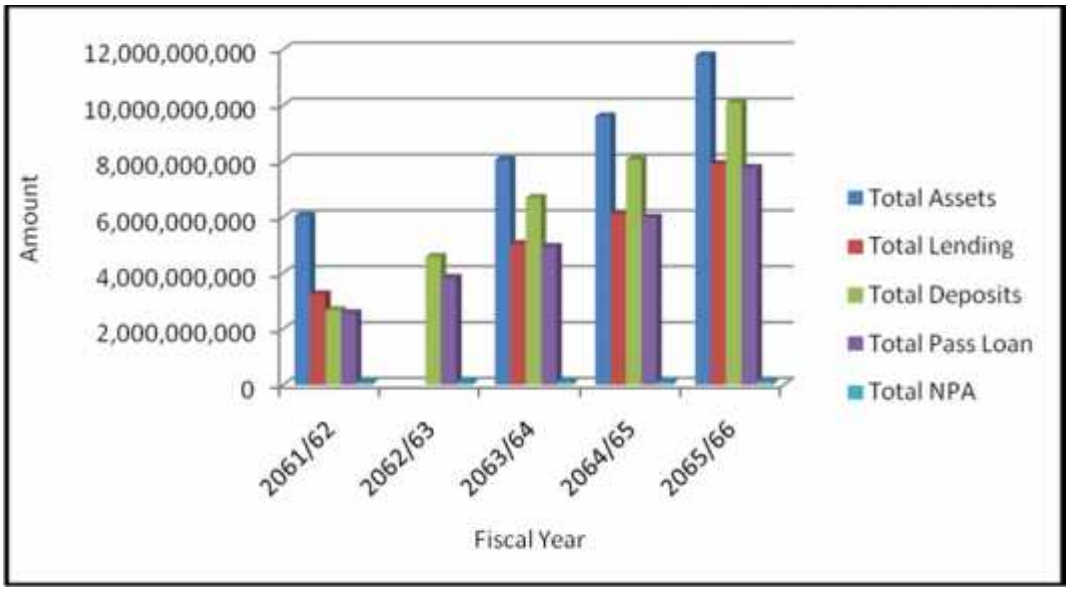
Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of SBI

Fiscal Year	Total Assets	Total lending	Total Deposit	Performing Loan	Total NPA
2061/62	6053247125	3247345672	2674864250	2565172336	98356721
2062/63	7142318215	4058692312	4585753150	3828281125	103243256
2063/64	8,052,209,125	5069581309	6,694,963,060	4,938,390,206	111,191,103
2064/65	9,608,570,861	6095841087	8,063,902,086	5,991,085,718	104,755,369
2065/66	11,792,126,009	7900090271	10,097,690,989	7,771,282,526	128,807,745

(Source: 13th , 14th ,15th and 16th Annual Report of Nepal SBI Bank Limited)

Figure 4.3

Total Assets, Total deposit, Total Lending, Total Performing Loan and Total Non-performing Assets



(Source: Table 4.5)

The figure of total assets was Rs 6,05,32,47,125 at the end of 2061/62, Rs 7,14,23,18,215 in 2062/63 Rs. 8,052,209,125.00 at the end of fiscal year 2063/64 which increased to Rs. 9,608,570,861.00 at the end of fiscal year 2064/65 and Rs. 11,792,126,009.00 at the end of fiscal year 2065/66.

The figure of total lending was Rs 3,24,73,45,672 at the end of year 2061/62, Rs 4,05,8692,312 in year 2062/63, Rs. 5,069,581,309.00 at the end of fiscal year 2063/64 and it increased to Rs. 6,095,841,087.00 at the end of fiscal year 2064/65 and Rs. 7,900,090,271.00 at the end of fiscal year 2065/66.

The figure of total deposits at the end of fiscal year 2061/62 was Rs 2,67,48,64,250, Rs 4,58,57,53,150 in 2062/63, in fiscal year 2063/64 was Rs. 6,694,963,060.00, which increased to Rs. 8,063,902,086.00 at the end of fiscal year 2064/65 and Rs. 10,097,690,989.00 at the end of fiscal year 2065/66.

Percentage of Performing Asset and NPA of SBI in Total Assets, Total Lending and Total Deposit

Table 4.6
Percentage of Performing Asset and NPA of SBI in Total Assets, Total Lending and Total Deposit

S.N	Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
1.	Percentageof Performing Asset/ Total Assets	42.38	53.6	61.33	62.35	65.90
2.	Percentage of Performing Asset /Total Lending	78.99	94.32	97.78	98.28	98.37
3.	Percentage of Performing Asset / Total Deposits	95.9	83.48	73.76	74.29	76.96
4.	Percentage of NPA to Total Assets	1.62	1.45	1.38	1.09	1.09
5.	Percentage of NPA to Total Lending	3.03	2.54	2.20	1.72	1.63
6.	Percentage of NPA to Total deposits	3.68	2.25	1.66	1.29	1.28
7.	Percentage of Substandard Loan to Total NPA	55.64	42.47	37.73	10.58	3.42
8.	Percentage of Doubtful Loan to Total NPA	29.83	34.06	34.23	38.66	1.54
9.	Percentage of Bad Loan to Total NPA	14.52	23.47	28.04	50.76	95.04

(Source: 13th, 14th, 15th & 16th Annual Report SBI Bank Limited)

The percentage of performing to total loan to total lending at the end of fiscal year 2061/62 was 42.38%, which was 53.6% in 2062/63; in year 2063/64 was 97.78%. It increased to 98.28% at the end of fiscal year 2064/65 and 98.37 % at the end of fiscal year 2065/66.The percentage of performing loan to total deposits at the end of fiscal year 2061/62 was 78.99%, in 2062/63 was 94.32%, and in 2063/64 was 73.76%. It increased to 74.29% at the end of fiscal year 2064/65 and 76.96% at the end of fiscal year 2065/66.The percentage of NPAs to total assets was 1.38 % at the end fiscal year 2061/62. It reduced to 1.09% at the end of fiscal year 2064/65 and remained unchanged 1.09% at the end of fiscal year 2065/66.

The percentage of NPAs to total lending was 2.20% at the end of fiscal year 2062/63. It declined to 1.72% at the end of fiscal year 2063/64 and 1.63% at the end of fiscal year 2064/65.The percentage of NPAs to total deposits at the end of fiscal year 2063/64 was 1.66%. It remained 1.29% at the end of fiscal year 2064/65 and 1.28% at the end of fiscal year 2065/66.

4.2.4 Return on Total Assets and Return on Shareholder's Equity of Nepal SBI Bank Limited

Table 4.7

Return on Total Assets and Return on Shareholder's Equity of Nepal SBI Bank Limited

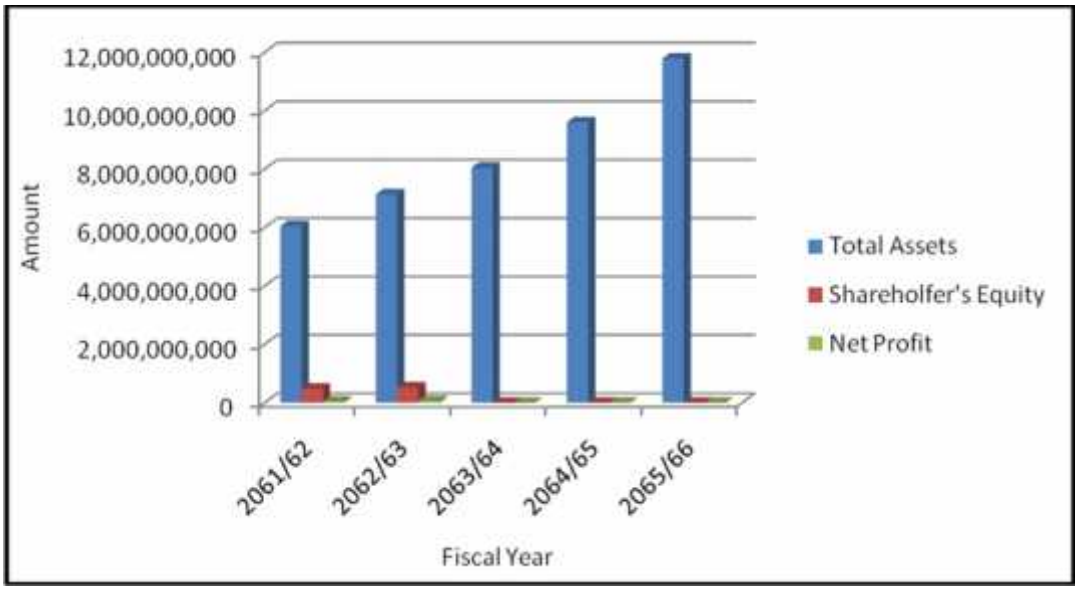
(Amount in Rs)

Fiscal Year	Total Assets	Shareholder's Equity	Net Profit	% of ROA+	% of ROE+
2061/62	6053247125	483423723	42162462	0.7	8.00
2062/63	7142318215	534515612	63271342	0.89	7.5
2063/64	8,052,209,125	612,824,701	94,180,428	1.17	15.36
2064/65	9,608,570,861	680,318,543	143,566,683	1.49	21.10
2065/66	11,792,126,009	769,617,365	170,807,797	1.45	22.19

(Source: The 13th, 14th, 15th and 16th Annual Report of SBI Bank Limited)

Figure 4.4

Total Assets, Shareholder's Equity and net Profit of SBI



(Source: Table 4.7)

Total assets are all the sum of the items on the assets side of balance sheet. The amount of total assets was Rs 603247125 at the end of 2061/62, Rs 7142318215 in 2062/63, and Rs. 8,052,209,125.00 at the end of fiscal year 2063/64. This amount increased to Rs. 9,608,570,861.00 at the end of fiscal year 2064/65 and reached to Rs. 11,792,126,009.00 at the end of fiscal year 2065/66.

The amount of shareholder's equity was Rs 402742846 at the end of year 2061/62, Rs 462724746 in year 2062/63 it has remained the same, Rs. 612,824,701.00 at the end of fiscal year 2063/64. This figure reached to Rs. 143,566,683.00 at the end of fiscal year 2064/65 and Rs.769, 617,365.00 at the end of fiscal year 2065/66.

The net profit after tax was Rs 10367846 at the end of 2061/62, 13406576 in years 2062/63, Rs.94, 180,428.00 at the end of fiscal year 2063/64. This amount reached to Rs. 143,566,683.00 at the end of fiscal year 2064/65 and Rs. 170,807,797.00 at the end of fiscal year 2065/66. The increasing trend of net

profit after tax in the recent years indicates that the earning of the bank is encouraging.

The ROA of SBI was 1.03 percent at the end of 2061/62, 0.8 percent in 2062/63

And 1.17 percent in the fiscal year 2064/65. It was found 1.49 percent in the fiscal year 2064/65 and 1.45 in the fiscal year 2065/66.

The ROE was 2.57 percent at the end of 2061/62, 3.33 percent at the end of 2062/63, and 15.36 percent in the fiscal year 2063/64. It was 21.10 percent and 22.19 percent in the fiscal year 2064/65 and 2065/66 respectively.

4.2.5 Loan Classification and Loan Loss Provisioning of SBI

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

Table 4.8

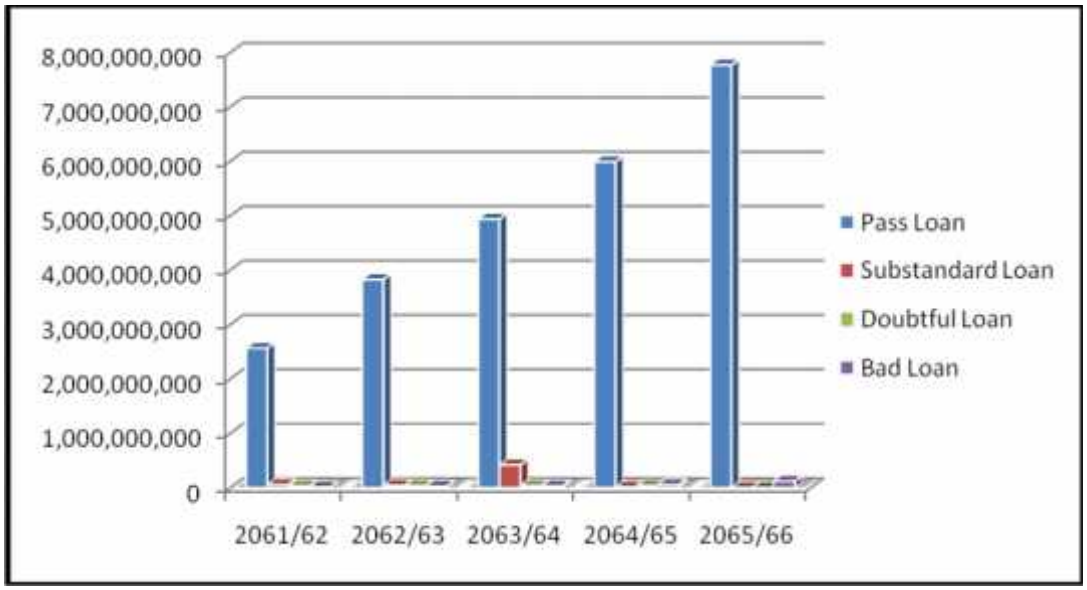
Loan Classification of Nepal SBI Bank Limited

Types of loan	**Outstanding loan amount**				
	2061/62	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Pass loan	2565172336	3828281125	4,938,390,206	5,991,085,718	7,771,282,526
Substandard Loan	54728132	43846304	41,954,709	11,082,572	4,408,738
Doubtful loan	29346428	35167032	38,055,77	40,494,733	1,977,471
Bad loan	14282161	24229920	31,180,622	53,178,064	122,421,536

(Source: 13th, 14th, 15th and 16th Annual Report of SBI Bank Limited)

Figure 4.5

Loan Classification of SBI Bank Limited



(Source: Table 4.8)

The pass loan or the loan non-overdue and/or overdue for three months falls in this category. Such loan amount was Rs 2565172336 at the end of year 2061/62, Rs3828282225 in 2062/63, Rs. 4,938,390,206.00 at the end of fiscal year 2063/64. The loan in this category increased to 5,991085,718.00 at the end of fiscal year 2064/65 and 7,771,282,526.00 at the end of fiscal year 2065/66. The portion of pass loan is significantly high in the recent years which show that the bank's loan quality is not volatile.

The loan overdue for three months to six months falls in this category. Such loan in Everest Bank at the end of fiscal year 2061/62 was Rs 54728132. Rs 43846304 in year 2062/63.It were Rs.41, 954,709.00 in year 2063/64. This figure decreased to 11,082,572.00 at the end of fiscal year 2064/65 and Rs. 4,408,738.00 at the end of fiscal year 2065/66. The decreasing trend of substandard loan of the bank shows that the portion of the overdue loan is reduced in recent years. It means the loan quality of the bank is satisfactory.

The loan overdue for 6 months to 1 year falls in this category. The amount of such loan in Everest Bank at the end of fiscal year 2061/62 was Rs 29346428,

Rs 35167032 in 2062/63.it was Rs. 38,055,772.00 at the end of 2063/64. This figure increased to Rs. 40,494,733.00 at the end of fiscal year 2064/65 and decreased to Rs. 1,977,471.00 at the end of fiscal year 2065/66.

The loan overdue for more than 1 year falls in this category. The amount of such loan in Everest Bank at the end of fiscal year 2061/62 14282161, in year 2062/63 was Rs 24229920, it was Rs. 31,180,622.00 in year 2063/64. This figure increased to Rs. 53,178,064.00 at the end of fiscal year 2064/65 and Rs. 122,421,536.00 at the end of fiscal year 2065/66. The increment of bad loan to total loan as well as NPA doesn't signify good repayment of disbursed loan, which has chances of more loss in cash for the bank.

Loss Provision of Nepal SBI Bank Limited

The provisioning for pass loan or overdue up to three months loan falls in this class. As per the directives of NRB issued to Banks and financial institutions licensed by NRB, the percentage of provisioning required for pass loan is 1% of the total loan in this class. The amount of such provisioning was Rs. 80,423,477.00 at the end of fiscal year 2061/62. This covers 1.63 percent of total pass loan which has maintained the required percentage.

Similarly, the provisioning for pass loan at the end of fiscal year 2062/63 was Rs. 135,522,405.00 which covers the 2.26 percentage of total loan in this class and at the end of fiscal year 2063/64 such loan was Rs. 112,264,660.00 which carries 1.44 percent provisioning of the total loan in this class. It shows that the bank has maintained the provisioning as per the directives issued by NRB.

The provisioning for substandard or overdue loan for more than three months up to six months falls in this class. As per the directives of NRB issued to Banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 25% of the total loan in the same class. The total loan in this class was Rs. 10488,677.00 at the end of fiscal year 2061/62. This figure increased to Rs. 2,770,643 .00 at the end fiscal year

2062/63 and Rs 110,284 at the end of fiscal year 2063/64. The figure in the both fiscal year cover 25 percent of total loan in the class. It shows that the bank has maintained provisioning as per the directive issued by NRB for this class loan as well.

The provisioning for doubtful or overdue loan for more than six months up to 1 year falls in this class. As per the directives of NRB issued to Banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 50% of the total loan in the same class. The amount if provisioning for doubtful loan at the end of fiscal year 2061/62 was Rs. 19,027,886.00, which is 50 percent of the total loan in this class. Similarly, the amount of provisioning at the end of fiscal year 2062/63 was Rs. 20247,366.00 and Rs. 988,735.00 at the end of fiscal year 2063/64. The provisioning in the both year cover 50 percent of total loan in this class. The bank has enough provisioning as per the directives issued by NRB.

The provisioning for bad or overdue loan for more than 1 year falls in this class. As per the directives of NRB issued to Banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 100% of the total loan in the same class. The amount of provisioning at the end of fiscal year in this class loan was Rs. 31,180,622.00 or 100 percent of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2062/63 was Rs. 53,178,064.00 and Rs.122, 421,536.00 at the end of fiscal year 2063/64 which covered 100 percent of total loan in this class. The provisioning for bad loan is enough and enough for each fiscal year and the bank has maintained the prudential regulation of NRB.

The over all loan loss provisioning of SBI is as specified by NRB directives and it is in sound level which shows that there is no alarming signal of risk to the bank.

4.3 Data Presentation and analysis of "Bank of Kathmandu Limited"

4.3.1 Total Assets and total performing Loan of BOK

Table 4.9

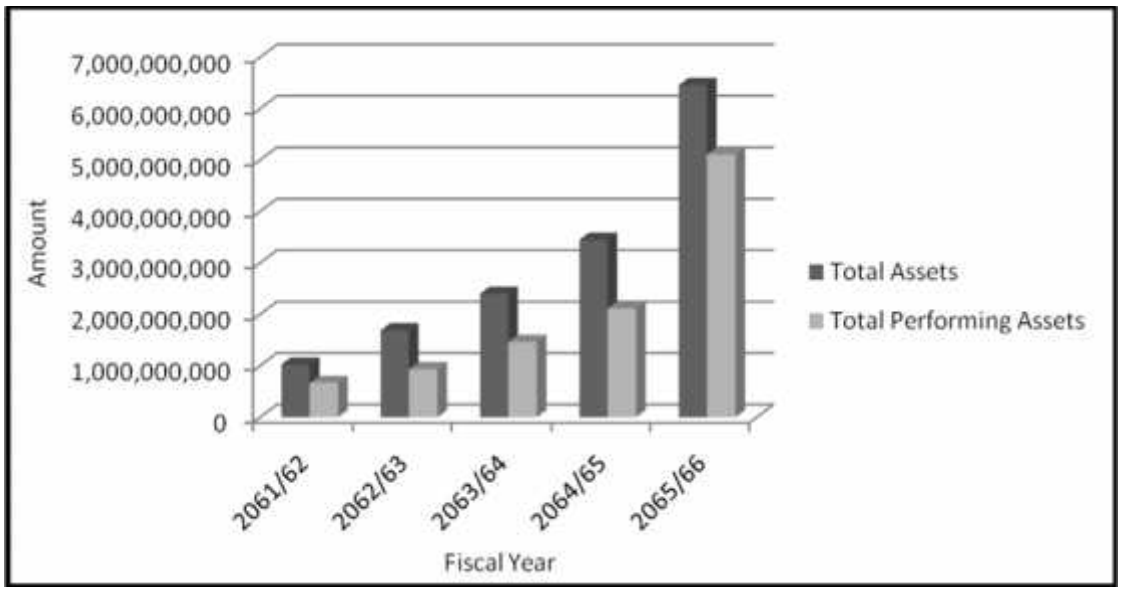
Total Assets and Total Performing Loan of BOK

S.N	Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
1.	Total Assets	1023435674	1688747183	2,399,857,094	3,448,634,251	6,456,460,820
2.	Total Performing Assets	667829467	9322645013	1,464,766,122	2,115,804,974	5,110,362,471

(Source: the 12th, 13th, 14th and 15th Annual Report of Bank of Kathmandu Ltd.)

Figure 4.6

Total Assets and Performing Asset of BOK



(Source: Table 4.9)

Total assets include sum of all the items at the assets side of balance sheet as it is mentioned in the introduction of balance-sheet items in the course of literature review. The figure of total assets was Rs 1023435674 in 2061/62, Rs 1688747183 in 2062/63, and Rs. 2,399,857,094.00 at the end of fiscal year 2063/64 which increased to Rs. 344, 863, 4251.00 at the end of fiscal year 2064/65 and Rs. 6,456,460,820.00 at the end of fiscal year 2065/66.

The performing loans comprise those loans, which are not overdue, or they are earning in cash. At the end of fiscal year 2061/62, the total performing loan of Nepal SBI Bank Limited was Rs 667829467, Rs 93226450 in 2062/63, Rs. 1,464,766,122.00, 2063/64 which increased to Rs. 2,115,804,974.00 in fiscal year 2064/65, and Rs. 5,110,362,471.00 at the end of fiscal year 2065/66.

Percentage of Performing Loan to Total Assets of BOK

Table 4.10
Performing Loan to Total Assets of BOK

Fiscal Year	Total Assets	Performing Loan	% of Pass Loan to Total Assets
2061/62	1023435674	667829467	65.25
2062/63	1688747183	932645013	55.26
2063/64	2,399,857,094	1,464,766,122	61.04
2064/65	3,448,634,251	2,115,804,974	61.35
2065/66	6,456,460,820	5,110,362,471	79.15

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Ltd.)

The percentage of performing loan to total assets was 65.25% at the end of 2061/62, 55.26 % in 2062/63, which was 61.04% at the end of fiscal year 2063/64. It increased to 61.35% at the end of fiscal year 2064/65 and 79.15% at the end of fiscal year 2065/66. This shows that the bank is far from the risk of its default.

4.3.2 Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of BOK

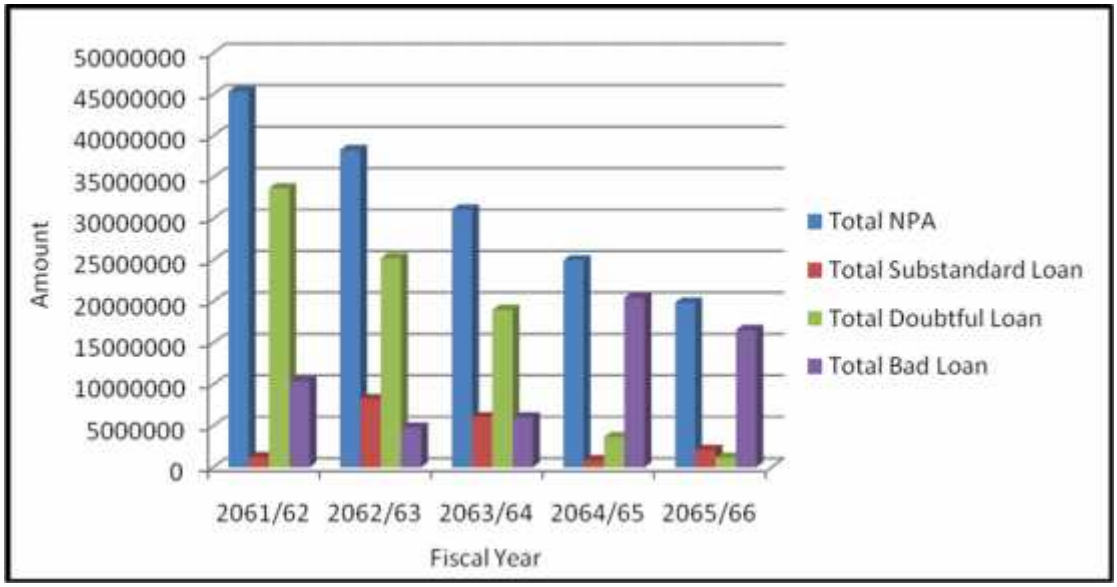
Table 4.11
Total NPA, Substandard Loan, Doubtful Loan and Bad Loan

Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
Total Non-performing Assets	4,53,46364	38287975	31,098,986	24,983,046	19,860,891
Total Substandard Loan	123425326	8253612	6,052,732	843,817	2,113,042
Total Doubtful Loan	33678286	25234679	19,014,889	3,656,287	1,178,854
Total Bad Loan	10425546	4799684	6,031,364	20,482,941	16,568,994

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Ltd.)

Figure 4.7

NPA, Substandard Loan, Doubtful Loan and Bad Loan of BOK



(Source: Table 4.11)

The entire loan overdue for more than 3 months to 1 year falls in the class of Non-performing Assets. This covers substandard loan, doubtful loan and bad as well. The total figure of total Non-performing Assets was Rs 45346364 at the end of 2061/62, Rs 38287975 in 2062/63, it was Rs. 31,098,986.00 at the end of fiscal year 2063/64. The total NPAs figure was Rs. 24,983,046.00 at the end of fiscal year 2064/65 and Rs. 19,860,891.00 at the end of fiscal year 2065/66.

The entire loan, which is overdue for more than 3 months to 6 months, falls in this category. The amount of such loan was Rs 123425326 at the end of 2061/62, Rs 8253612 in 2062/63, it was Rs. 6,052,732.00 at the end of fiscal year 2063/64. It declined to Rs. 843,817.00 at the end of fiscal year 2064/65 and Rs. 2,113,042.00 at the end of fiscal year 2065/66.The loan, which is overdue for more than 6 months to one year, falls in this class. The amount of such loan was Rs 33678286 in 2061/62, Rs 25234679 in 2062/63, and Rs.19, 014,889.00 at the end of fiscal year 2063/64. It increased to 3,656,287.00 at the end of fiscal year 2064/65 and decreased to 1,178,854.00 at the end of fiscal year 2065/66.

The entire loan overdue for more than one year falls in the category of bad loan. The figure of such loan was Rs 10425546 in 2061/62, Rs 9799648 in 2062/63, was Rs. 6,031,364.00 in the fiscal year 2063/64. It increased to Rs. 20,482,941.00 at the end of fiscal year 2064/65 and Rs. 16,568,994.00 at the end of fiscal year 2065/66.

The Percentages of Substandard Loan, Doubtful Loan and Bad Loan to Total NPA

Table 4.12

Substandard Loan, Doubtful Loan and Bad Loan to Total NPA

Fiscal Year	% of Substandard loan to NPA	% of Doubtful loan to NPA	% of Bad loan to total NPA
2061/62	27.40	74.27	23
2062/63	21.56	65.91	12.54
2063/64	19.46	61.14	19.40
2064/65	3.38	14.64	81.99
2065/66	10.63	5.94	83.43

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Ltd)

The percentage of sub-standard loan to total NPA was 27.40% at the end of 2061/62, 21.56% in 2062/63, and 19.46 % at the end of fiscal year 2063/64. It increased to 3.38 % at the end of fiscal year 2064/65 and 10.63 % at the end of fiscal year 2065/66. This position indicates the satisfactory recovery of loan.

The percentage of doubtful loan to total NPA at the end fiscal year 2061/62 was 74.27%, 65.91% in 2062/63, it was 2063/64 was 61.14 %. It found to be reduced to 14.64 % at the end of fiscal year 2063/64 and 5.94% at the end of fiscal year 2064/65. The decreasing trend of portion of the doubtful loan of the bank shows the satisfactory recovery position of doubtful loan. The percentage of bad loan to total NPA was 23 in 2061/62, 12.54 in 2062/63, and 19.40 % at the end of fiscal year 2063/64. It increased to 81.99 % at the end of fiscal year 2064/65 and 81.43% at the end of fiscal year 2065/66. Though nominal, the

increasing trend of bad loan to total NPA alarms that there may raise high credit risk of the bank. So the bank has to be conscious of getting steps towards the timely recovery of loan.

4.3.3 The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA

Table 4.13

Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA

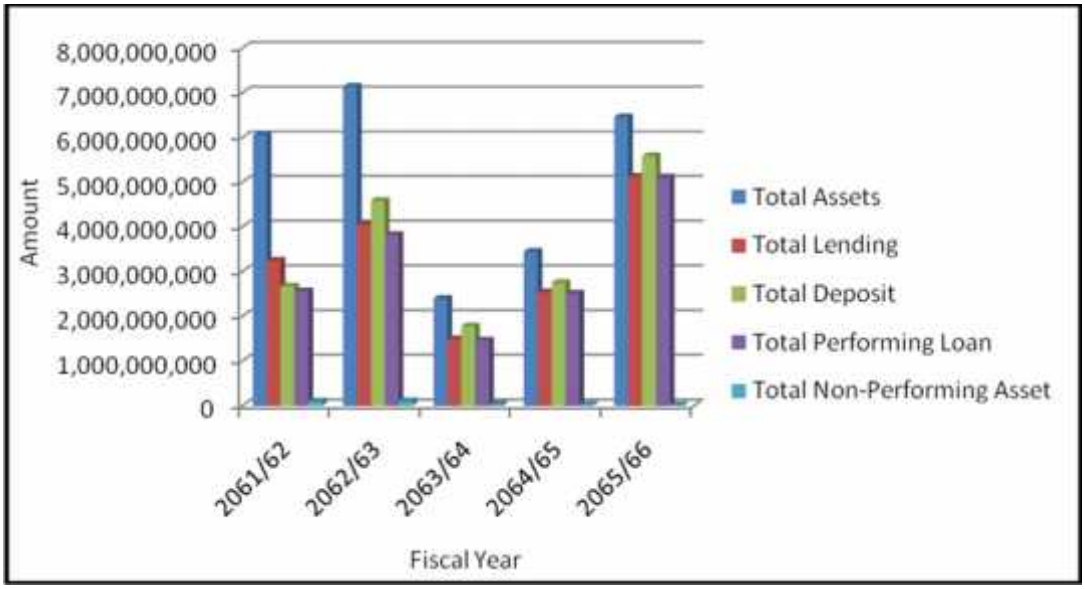
(Amount in Rs.)

Fiscal Year	Total Assets	Total Lending	Total Deposit	Total Performing Loan	Total NPA
2061/62	1023435674	896792045	968745826	667829467	45356364
2062/63	1688747183	1026521849	1145028732	932645113	38287975
2063/64	2,399,857,094	1,495,865,108	1,778,786,289	1,464,766,122	31,098,986
2064/65	3,448,634,251	2,540,788,021	2,754,632,089	2,515,804,974	24,983,046
2065/66	6,456,460,820	5,130,223,362	5,586,802,644	5,110,362,471	19,860,891

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Ltd)

Figure 4.8

Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA



(Source: Table 4.13)

The total assets include sum of all items at the assets side of balance sheet of bank. The figure of total assets of BOK was Rs 1023435674 at the end of year 2061/62, Rs 1688747183 in 2062/63, which was Rs. 2,399,857,094.00 at the end of fiscal year 2063/64 which increased to Rs. 3,448,634,251.00 at the end of fiscal year 2064/65 and Rs. 6,456,460,820.00 at the end of fiscal year 2065/66.

The total lending includes the entire loan and advances and bills purchased and discounted by the bank. The figure of total lending was Rs 836792045 in 2061/62, Rs 1826521849 in 2062/63, which was Rs. 1,492,865,108.00 at the end of fiscal year 2063/64 and it increased to Rs. 2,540,788,021.00 at the end of fiscal year 2064/65 and Rs. 5,130,223,362.00 at the end of fiscal year 2065/66.

The total deposits in the bank comprise the deposits by government, government organizations, banks, business houses, foreign institutions and agencies, other financial institutions, individuals and other organizations. Similarly such deposits can be divided into interest bearing deposits and non-interest bearing deposits. The figure of total deposits at the end of fiscal year 2061/62 was Rs 968745826, Rs 1145028732 in 2062/63, which was Rs. 1,778,786,289.00 in 2063/64, which increased to Rs. 2,754,632,089.00 at the end of fiscal year 2064/65 and Rs. 5,586,802,644.00 at the end of fiscal year 2065/66.

The figure of total performing loan in different fiscal years is mentioned above. The figure of Non-performing Assets in different fiscal years is mentioned above.

Percentage of Performing and NPA of Bank of Kathmandu Limited in Total Assets, Total Lending and Total Deposit

Table 4.14

Performing and NPA of Bank of Kathmandu Limited in Total Assets, Total Lending and Total Deposit

S.N	Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
1.	Percentage of Performing Loan/Total Assets	65.25	55.22	61.04	61.35	79.15
2.	Percentage of Performing Loan/Total Lending	74.47	90.85	97.92	99.02	99.61
3.	Percentage of Performing Loan/Total Deposit	86.94	81.45	82.35	76.81	91.47
4.	Percentage of NPA to Total Assets	4.4	2.27	1.30	0.72	0.31
5.	Percentage of NPA to Total Lending	5.06	3.73	2.08	0.99	0.39
6.	Percentage of NPA to Total Deposits	4.68	3.34	1.75	0.91	0.36

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Ltd)

The percentage of performing loan to total lending at the end of fiscal year 2061/62 was 65.25%, in year 2062/63 was 55.22, which was 97.92% in 2063/64. It increased to 99.02% at the end of fiscal year 2064/65 and 99.61 % at the end of fiscal year 2065/66.

The percentage of performing loan to total deposits at the end of fiscal year 74.47 % in 2061/62, 90.85% in 2062/63, it was 82.35% in 2063/64. It increased to 76.81% at the end of fiscal year 2064/65 and 91.47% at the end of fiscal year 2065/66.

The percentage of NPAs to total assets was 4.4% in 2061/62, 2.27% in 2062/63, and 1.30 % at the end fiscal year 2063/64. It reduced to 0.72% at the end of fiscal year 2064/65 and remained unchanged 0.31% at the end of fiscal year 2065/66.

The percentage of NPA to total lending was 5.06% in 2061/62, 3.73% in 2062/63, and 2.08% at the end of fiscal year 2063/64. It declined to 0.99% at the end of fiscal year 2064/65 and 0.39% at the end of fiscal year 2065/66.

The percentage of NPA to total deposits at the end of fiscal year 2061/62 was 4.68%, in 2062/63 was 3.34%, and in 2063/64 was 1.75%. It remained 0.91% at the end of fiscal year 2064/65 and 0.36% at the end of fiscal year 2065/66.

4.3.4 Return on Total Assets and Return on Shareholder's Equity of BOK

Table 4.15

ROA and ROE of Bank of Kathmandu Limited

Fiscal Year	Total Assets	Shareholder's Equity	Net Profit	% of ROA*	% of ROE*
2061/62	1023435674	402742846	10367846	1.03	2.57+
2062/63	1688747183	462724746	13406576	0.8	3.33+
2063/64	2399857094	501705898	15307485	0.64	3.05+
2064/65	3448634251	554221843	46689945	1.35	8.42+
2065/66	6456460820	637739384	84870027	1.31	13.31+

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Ltd)

Total assets are the sum of the all particulars on the assets side of balance sheet. The amount of total assets is Rs 1023435674 at the end of year 2061/62, Rs 1688747183 in Year 2062/63, Rs. 2,399,857,094.00 at the end of fiscal year 2063/64. This amount increased to Rs. 3,448,634,251.00 at the end of fiscal year 2064/65 and reached to Rs. 6,456,460,820.00 at the end of fiscal year 2065/66.

The net profit after tax is Rs 10367846 at the end of 2061/62, Rs 13406576 in 2062/63,Rs.15,307,485.00 at the end of fiscal year 2063/64. This amount is Rs.46, 689,945.00 and Rs. 84,870,027.00 at the end of fiscal years 2064/65 and 2065/66 respectively.

The ROE, which comprises of share capital and general reserves in BOK, remained the same, Rs 402742846 at the end of 2061/62, Rs 4627244746 in

2062/63, Rs.501, 705,898.00 in the fiscal year 2063/64. This figure increased to 554,221,843.00 at the end of fiscal year 2064/65 and Rs. 637,739,384.00 at the end of fiscal year 2065/66.

The percentage of ROE or ratio of net profit to shareholders' equity was 2.57% in 2061/62, 3.33% in 2062/63, 3.05%, 8.42% and 13.31 % at the end of fiscal years 2063/64, 2064/65 and 2065/66 respectively. The increasing trend of return on shareholder's equity in the recent years shows that the bank's profitability is improving to sound way.

4.3.5 Loan Classification and Provisioning of BOK

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

Loan Classification of BOK

Table 4.16

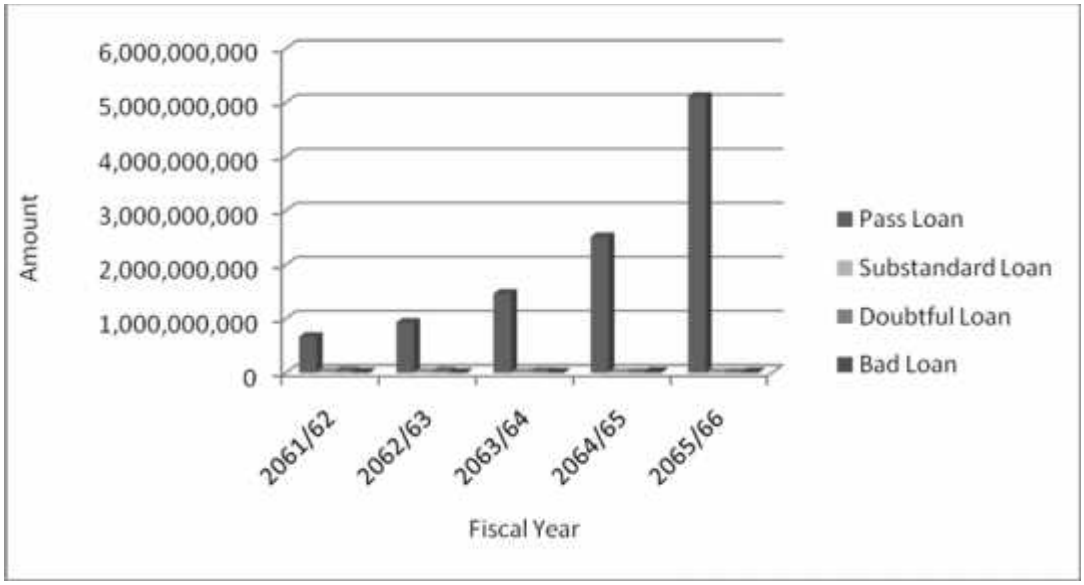
Loan Classification of BOK

Types of Loan	Outstanding Loan Amount				
	2061/62	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Pass loan	667829467	93264501	1,464,766,122	2,515,804,974	5,110,362,471
Substandard Loan	12425326	8253612	6,052,732	843,817	2,113,042
Doubtful loan	33678286	25234679	19,014,889	3,656,287	1,178,854
Bad loan	10425546	4799684	6,031,364	20,482,941	16,568,994

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Limited)

Figure 4.9

Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan



(Source: Table 4.16)

The pass loan or the loan non-overdue and/or overdue for three months falls in this class. Such loan amount was Rs 667829467 in 2061/62, Rs 93264501 in 2062/63, Rs.1, 464,766,122.00 at the end of fiscal year 2063/64.The loan in this category increased to 2,515,804,974.00 at the end of fiscal year 2064/65 and 5,110,362,471.00 at the end of fiscal year 2065/66.

The loan overdue for three months to six months falls in this class. Such loan in BOK at the end of fiscal year 2061/62 was 12425326, Rs 8253612 in 2062/63; it was Rs.6, 052,732.00 in 2063/64. This figure decreased to 843,817.00 at the end of fiscal year 2064/65 and Rs. 2,113,042.00 at the end of fiscal year 2065/66.

The loan overdue for 6 months to 1 year falls in this class. The amount of such loan in BOK at the end of fiscal year 2062/63 was Rs. 19,014,889.00. This figure increased to Rs. 3,656,287.00 at the end of fiscal year 2063/64 and decreased to Rs. 1,178,854.00 at the end of fiscal year 2064/65.

The loan overdue for more than 1 year falls in this class. The amount of such loan in BOK at the end of fiscal year 2061/62 was Rs. 6,031,364.00. This figure increased to Rs. 20,482,941.00 at the end of fiscal year 2062/63 and Rs. 16,568,994.00 at the end of fiscal year 2063/64. The increment of bad loan to total loan as well as NPA doesn't signify good repayment of disbursed loan, which has burden of more loss in cash for the bank.

Loan Loss Provisioning of BOK

The amount of provisioning for pass loan or overdue up to three months loan falls in this class. As per the directives of NRB issued to Banks and financial institutions licensed by NRB, the percentage of provisioning required for pass loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 14,647,661.00 at the end of fiscal year 2062/63. This covers 1 percent of total pass loan, which has maintained the required percentage.

Similarly, the amount of provisioning for pass loan at the end of fiscal year 2063/64 was Rs. 25,158,049.00 which covers the 1 percentage of total loans in this class and Rs. 51,103,624 at the end of fiscal year 2064/65, which also covers the 1 percent of total loan in this class. It shows that there is compliance with the regulation issued by NRB.

The amount of provisioning for substandard or overdue loan for more than three months up to six months falls in this class. As per the directives of NRB issued to Banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 25% of the total loan in the same class. The total loan in this class was Rs. 1,513,183.00 at the end of fiscal year 2063/64. This figure increased to Rs. 210,954.00 at the end fiscal year 2064/65 and Rs. 528,260.00 at the end of fiscal year 2065/66. The figure in the both fiscal years covers 25 percent of total loan in the class. It shows that the bank has compliance with the directive issued by NRB.

The amount of provisioning for doubtful or overdue loan for more than six months up to 1 year falls in this class. As per the directives of NRB issued to

Banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 50% of the total loan in the same class. The amount if provisioning for doubtful loan at the end of fiscal year 2063/64 was Rs. 9,507,444.00, which is 50 percent of the total loan in this class. Similarly, the amount of provisioning at the end of fiscal year 2064/65 was Rs. 1,828,143.00 and Rs. 589,427.00 at the end of fiscal year 2065/66. The provisioning in the both fiscal years covers 50 percent of total loan in this class. Therefore there is enough provisioning as per the directives issued by NRB.

The amount of provisioning for bad or overdue loan for more than 1 year falls in this class. As per the directives of NRB issued to Banks and financial institutions licensed by NRB, the percentage of provisioning required for this class loan is 100% of the total loan in the same class. The amount of provisioning at the end of fiscal year in this class loan was Rs. 6,031,364.00 or 100 percent of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2064/65 was Rs. 20,482,941.00 and Rs. 16,568,994.00 at the end of fiscal year 2065/66 which covered 100 percent of total loan in this class. It shows that the bank has followed the directives issued by NRB.

The overall provisioning for NPA of SBI shows that there is compliance to the prudential regulation issued by NRB. This further indicates that the bank's financial transaction is running in sound and healthy manner till the date of study.

4.3.6. Total Non-performing Asset and Net Profit

Table 4.17

Total NPA and Net Profit of BOK

Particular	2061/62		2062/63		2063/64		2064/65		2065/66
	Amount	Change %	Amount	Change %	Amount	Change %	Amount	Change %	Amount
NPA	45346365	-	38287975	(0.16)	31,098,986	(0.18)	24,983,046	(19.67)	19,860,891
Net Profit	10367846	-	13406576	0.29	15,307,485	(0.14)	46,689,945	20.501	84,870,027

(Source: The 12th, 13th, 14th & 15th Annual Report of Bank of Kathmandu Ltd)

The total NPA of BOK was Rs. 31,098,986 at the end of fiscal year 2063/64. It reduced to Rs. 24,983,046 at the end fiscal year 2064/65 and Rs.19, 860,891 at the end of fiscal year 2065/66. The decreasing trend of NPA in the recent years shows good recovery situation of the disbursed loan by the bank. The total NPA of the bank reduced by 19.67 percent in the fiscal year 2063/64 compared to the fiscal year 2064/65. Similarly this figure decreased by 20.50 percent in the fiscal year 2064/65 compared to the fiscal year 2065/66.

Net profit of the bank remained Rs. 15,307,485 in the fiscal year 2061/62. The amount of net profit significantly increased in the fiscal year 2062/63 and reached to Rs. 46,689,945. The increment of the net profit in this year compared to previous year is found to be by 205.01 percent. Similarly, the amount of net profit reached to Rs. 84,870,027 at the end of fiscal year 2063/64. This increment also was observed significantly high as compared to previous year. The increasing trend of net profit shows that the bank is earning well in terms of cash.

4.4 Comparative Study of Performing Asset and NPA of SBI and BOK

4.4.1 Performing Assets and NPA of SBI and BOK up to Fiscal Year 2065/66

Table 4.18

Performing Assets and NPA of SBI and BOK up to Fiscal Year 2063/64

S.N.	Particulars	Name of the Banks	
		SBI	BOK
1.	Percentage of Performing Assets/Total Assets	61.33	61.04
2.	Percentage of Performing Asset/Total Deposits	73.76	82.35
3.	Percentage of Performing Asset/Total Lending	97.78	97.92
4.	Percentage of NPA/Total Assets	1.38	1.30
5.	Percentage of NPA/Total Deposits	1.66	1.75
6.	Percentage of NPA/Total Lending	2.20	2.08

(Source: Calculated on the Basis of Annual Report of the Banks)

The table 4.18 shows the percentage of performing assets or loan and NPA to total assets, total deposits and lending of SBI and BOK as of end fiscal year 2063/64.

At the end of fiscal year 2063/64, the percentage of performing loan to total assets of SBI and BOK are 61.33 and 61.04 percent respectively. We can judge that the ratio of performing loan to total assets is quite similar to the both of the bank. It means that both of the banks have slight similarity in the management of loan and advances.

The percentage of performing loan to total deposit of Nepal SBI and BOK as of fiscal year 2063/64 end were 73.76 percent and 82.35 percent respectively. BOK has higher ratio of performing loan to total deposit as compared to that of SBI Bank Limited. The higher ratio of performing loan to total deposit signifies that there is less chance of default the credit as well as public deposit.

The percentage of Performing Loan to total lending of SBI and BOK, as of fiscal year 2063/64 end were 97.78 percent and 97.92 percent respectively. Though this ratio is quite similar in both of the banks, BOK has marginally higher ratio. Mainly performing loan is concerned with the lending and higher ratio of performing loan to total lending signifies that there is good recovery of the loan and advances. Since both of the banks have nearly 100 percent ratio of performing loan to total lending, there is least risk of default till the date of study.

The percentage of NPA to total assets of SBI was 1.38 percent at the end of fiscal year 2063/64. This ratio was 1.30 percent in the case of BOK in the same period. The ratio NPA to total assets of both banks was similar but slightly higher in SBI as compared to that of BOK. The higher ratio signifies higher chance of default. Since both banks have nearly 1 percent ratio of NPA to total assets, there is least chance of credit default.

The percentage of NPA to total deposit of SBI and BOK were 1.66 percent and 1.75 percent, as of end fiscal year 2063/64 respectively. There is similarity in the ratio of both banks, but slightly higher in SBI as compared to the BOK. The low ratio of NPA to total deposit in both banks signifies that there is least chance of default in payment to the depositors as well as credit repayment.

The percentage of NPA to total lending of SBI as of end fiscal year 2063/64 was 2.20 percent. This ratio was 2.08 in the case of BOK as of end 2061/62. Since both banks have 1 digit low level of NPA to total lending, they are within the prudent level as per the international banking practice. It means there is least chance of credit default till the date of study.

4.4.2 Performing Assets and NPA of SBI and BOK up to Fiscal Year 2064/65

Table 4.19

Performing Assets and NPA of SBI and BOK up to Fiscal Year 2064/65

S.N.	Particulars	Name of the Banks	
		SBI	BOK
1.	Percentage of Performing Asset/Total Assets	62.35	61.35
2.	Percentage of Performing Asset/Total Deposits	74.29	76.81
3.	Percentage of Performing Asset/Total Lending	98.28	98.00
4.	Percentage of NPA/Total Assets	1.09	0.72
5.	Percentage of NPA/Total Deposits	1.29	0.91
6.	Percentage of NPA/Total Lending	1.72	0.99

(Source: Calculated on the Basis of Annual Report of the Banks)

The table 4.19 shows the percentage of performing loan and NPA to total assets, total deposits and lending of SBI and BOK as of end fiscal year 2064/65.

At the end of fiscal year 2064/65, the percentage of performing loan to total assets of Nepal SBI and BOK are 62.35 and 61.35 percent respectively. We can judge that the ratio of performing loan to total assets is quite similar to the both

of the banks. It means both of the banks have slight similarity in the management of loan and advances in this period.

The percentage of performing loan to total deposit of SBI and BOK as of fiscal year 2064/65 end were 74.29 percent and 76.81 percent respectively. SBI has higher ratio of performing loan to total deposit as compared to that of BOK. The higher ratio of performing loan to total deposit signifies that there is less chance of default the credit as well as public deposit. Between the two banks the management of the loan and advances seem similar.

The percentage of Performing Loan to total lending of SBI and BOK, as of fiscal year 2064/65 end were 98.28 percent and 98.00 percent respectively. Though this ratio is quite similar in both of the banks, SBI has marginally higher ratio. Mainly performing loan is concerned with the lending and higher ratio of performing loan to total lending signifies that there is good recovery of the loan and advances. Since both of the banks have nearly 100 percent ratio of performing loan to total lending, there is least risk of default till the date of study.

The percentage of NPA to total assets of Nepal SBI was 1.09 percent at the end of fiscal year 2064/65. This ratio was 0.72 percent in the case of BOK in the same period. The ratio of NPA to total assets is slightly higher in SBI as compared to that of BOK. The higher ratio signifies higher chance of default but it is not so alarming. Since both banks have nearly 1 percent ratio of NPA to total assets, there is least chance of credit default as found till the date of study.

The percentage of NPA to total deposit of SBI and BOK are 1.29 percent and 0.91 percent, as of end fiscal year 2064/65 respectively. The ratio of SBI is slightly higher compared to BOK. Even though, we judge that there is no significant difference in the management of NPA in between the two banks. The existence of low ratio of NPA to total deposit in both banks signifies that

there is least chance of default in payment to the depositors as well as credit repayment.

The percentage of NPA to total lending of SBI as of end fiscal year 2064/65 was 1.72 percent. This ratio was 0.98 in the case of BOK as of end 2064/65. The SBI has 1 digit low level of NPA to total lending ratio while BOK has significantly low, i.e. below 1 percent ratio. Since both of the banks have below 5 percent ratio of NPA to total ending, they are within the prudent level as per the international banking practice. It means there is least chance of credit default till the date of study.

4.4.3 Performing Assets and NPA of SBI and BOK up to Fiscal Year 2065/66

Table 4.20

Performing Assets and NPA of SBI and BOK up to Fiscal Year 2065/66

S.N	Particulars	Name of the Banks	
		SBI	BOK
1.	Percentage of Performing Asset to Total Assets	65.90	79.15
2.	Percentage of Performing Asset to Total Deposits	76.96	91.47
3.	Percentage of Performing Asset to Total Lending	98.37	99.61
4.	Percentage of Non-performing Asset to Total Assets	1.09	0.31
5.	Percentage of Non-performing Asset to Total Deposits	1.28	0.36
6.	Percentage of Non-performing Asset to Total Lending	1.63	0.39

(Source: Calculated on the Basis of Annual Report of the Banks)

With the help of the table no 20, we know the percentage of performing and NPA to total assets, total deposits and lending of SBI and BOK as of end fiscal year 2065/66.

At the end of fiscal year 2065/66, the percentage of performing loan to total assets of SBI and BOK are 65.90 and 79.15 percent respectively. The ratio of performing loan to total assets in BOK is higher than that of SBI. The higher ratio of performing loan to total assets shows the stronger position of

outstanding loan and advances. It means BOK has better position of outstanding loan and advances compared to that of SBI.

The percentage of performing loan to total deposit of SBI and BOK as of fiscal year 2065/66 end were 76.96 percent and 91.47 percent respectively. BOK has higher ratio of performing loan to total deposit as compared to that of SBI. The higher ratio of performing loan to total deposit signifies that there is less chance of default the credit as well as public deposit. Between the two banks the management of the loan and advances seem somewhat better in BOK compared to SBI till the date of study.

The percentage of Performing Loan to total lending of SBI and BOK, as of fiscal year 2065/66 end were 98.37 percent and 99.61 percent respectively. Though this ratio is quite similar in both of the banks, BOK has marginally higher ratio. Mainly performing loan is concerned with the lending and higher ratio of performing loan to total lending signifies that there is good recovery of the loan and advances. Since both of the banks have nearly 100 percent ratio of performing loan to total lending, the management of loan and advances is better and there is least risk of default till the date of study.

The percentage of NPA to total assets of SBI was 1.09 percent at the end of fiscal year 2065/66. This ratio was 0.31 percent in the case of BOK in the same period. The ratio of NPA to total assets is slightly higher in SBI as compared to that of BOK. The higher ratio indicates higher chance of default. Since both banks have nearly 1 percent ratio of NPA to total assets, there is least chance of credit default as found till the date of study.

The percentage of NPA to total deposit of SBI and BOK were 1.28 percent and 0.36 percent, as of end fiscal year 2065/66 respectively. The ratio of SBI is slightly higher compared to BOK. Even though there is no significant difference in the management of NPA between the two banks. The existence of low ratio of NPA to

total deposit in both banks indicates that there is least chance of default in payment to the depositors as well as credit repayment.

The percentage of NPA to total lending of SBI as of end fiscal year 2064/65 was 1.63 percent. This ratio was 0.39 in the case of BOK as of end 2065/66. The SBI has 1 digit low level of NPA to total lending ratio while BOK has significantly low, i.e. the ratio is below 1 percent. Since both of the banks have below 5 percent ratio of NPA to total Lending, the NPA of both banks are within the prudent level as per the international banking practice. It means there is least chance of credit default till the date of study.

The three years period study shows that position of the all bank's NPA is somewhat constant, which indicates that the loan management of both banks are consistent and adequately sound.

In the international banking practice the level of NPA below the 5 percent or one digit level is generally acceptable and identified to be in prudent level. Since the level of NPA in these two banks is below the 5 percent, around 1 percent, till the date of study, there is no risk of default. Good recovery of loan and advances and sound management of them can maintain the prudent level of NPA. So it is necessary to maintain the prudent level of NPA, i.e. NPA below 5 percent by all the banks for safety transaction and sound financial position of the bank and public deposit as well.

4.4.4 Loan Loss Provisioning of SBI and BOK

Table 4.21
Loan Loss Provisioning of SBI and BOK at the end Fiscal Year 2063/64

S.N.	Particulars	Name of the Banks	
		SBI (%)	BOK (%)
1.	For Pass Loan	1.63	1
2.	For Substandard Loan	25	25
3.	For Doubtful Loan	50	50
4.	For Bad Loan	100	100

(Source: Calculated on the basis of Annual Report of the Banks)

The table 4.21 depicts the percentage of the loan loss provision of SBI and BOK as of fiscal year end 2063/64. As per the prevailing directives issued by NRB to bank and financial institutions, bank has to maintain the different requirement of provision as classification of the loan and advances. According to this, 1 percent provision is required for pass or good loan, 25 percent provision for substandard loan, 50 percent for doubtful loan and 100 percent for bad loan.

SBI has maintained 1.63 percent, 25 percent, 50 percent and 100 percent provision for pass, substandard, doubtful and bad loan respectively. Similarly, BOK has maintained 1 percent, 25 percent, 50 percent and 100 percent provision for pass loan, substandard loan, doubtful loan and bad loan respectively. The data shows that, both of the banks have maintained enough provision as per directives of NRB. Thus it is known that the banks have followed the prudential regulations and there is good management of risk against loan and advances.

Loan Loss Provisioning of SBI and BOK at the end Fiscal Year 2064/65

Table 4.22

Loan Loss Provisioning of SBI and BOK at the end Fiscal Year 2064/65

S.N	Particulars	Name of the Banks	
		SBI (%)	BOK (%)
1.	For Pass Loan	2.26	1
2.	For Substandard Loan	25	25
3.	For Doubtful Loan	50	50
4.	For Bad Loan	100	100

(Source: Calculated on the basis of Annual Report of the Banks)

The table 4.22 depicts the percentage of the loan loss provision of SBI and BOK as of fiscal year end 2064/65.

SBI has maintained 2.26 percent, 25 percent, 50 percent and 100 percent provision for pass, substandard, doubtful and bad loan respectively. Similarly,

BOK has maintained 1 percent, 25 percent, 50 percent and 100 percent provision for pass loan, substandard loan, doubtful loan and bad loan respectively. The data shows that, both of the banks have maintained enough provision as per directives of NRB. Thus it is learnt that the banks have followed the prudential regulations and there is good management of risk against loan and advances.

Loan Loss Provisioning of SBI and BOK at the end Fiscal Year 2065/66

Table 4.23

Loan Loss Provisioning of SBI and BOK at the end Fiscal Year 2065/66

S.N.	Particulars	Name of the Banks	
		SBI (%)	BOK (%)
1.	For Pass Loan	1.44	1
2.	For Substandard Loan	25	25
3.	For Doubtful Loan	50	50
4.	For Bad Loan	100	100

(Source: Calculated on the basis of Annual Report of the Banks)

The table 4.23 depicts the percentage of the loan loss provision of SBI and BOK as of fiscal year end 2065/66.

SBI has maintained 1.44 percent, 25 percent, 50 percent and 100 percent provision for pass, substandard, doubtful and bad loan respectively. Similarly, BOK has maintained 1 percent, 25 percent, 50 percent and 100 percent provision for pass loan, substandard loan, doubtful loan and bad loan respectively. The data shows that, both of the banks have maintained enough provision as per directives of NRB. Thus it is learnt that the banks have followed the prudential regulations and there is good management of risk against loan and advances.

4.5 Correlation Analysis

The correlation analysis is generally used to describe the degree to which one variable is related to another. In statistics it is used to depict the co-variance between two or more variables. In this study it helps to determine whether,

i. A positive or negative relation exists,
ii. The relation is significant or insignificant,
iii. Establish cause and effect relation,

That means any relationship between NPA and ROA, ROE and also explains whether the relationship is significant or not. The NPA denotes percentage of Non-Performing Asset to total lending of the bank, which is also known as the level of NPA.

4.5.1 Correlation between NPA and ROA of SBI and BOK

Table 4.24

Correlation Coefficient between NPA and ROA of SBI and BOK

Banks	coefficient of correlation (r)	Relationship	coefficient of determination$(r)^2$	probable error (PE)	Insig/ significant
SBI	-0.996	Negative	0.992	0.5396	Insignificant
BOK	-0.5	Negative	0.95	0.641	Insignificant

Source: Annex I & II

The table 4.24 explains the relationship between level of Non-performing Asset to total lending (denoted here as NPA) and return on total assets ROA. The coefficient of correlation between NPA and ROA of SBI and BOK are -0.99 and -0.5 respectively.

The table shows the similar type of correlation between the level of NPA and ROA of both banks. In case of SBI, there is negative and high degree of correlation which is insignificant. On the other hand, BOK has negative and moderate degree of correlation which is insignificant as well.

Similarly, the coefficient of determination (r^2), of SBI and BOK are 0.992 and 0.95 respectively. It means 99 percent and 95 percent of the total variation in ROA of SBI and BOK has been explained by the NPA.

Since the number of observations is small in both banks, i.e. only for 5 years data is used, significance and insignificance relationship between NPA and ROA can not be concluded. But it can be clearly concluded from the analysis that the ROA is dependent on the level of NPA of the bank. It means that the NPA somehow determines the ROA.

In the case of SBI, 99 percent of the ROA is determined by the level of NPA. Therefore, it will be better to reduce the level of NPA to get higher return in its total assets. On the other hand, 95 percent of ROA is determined by the level of NPA in BOK. Though the level of ROA determination by NPA is somewhat less than of SBI in this bank, it is better to reduce the level of NPA to keep on getting higher return in its total assets.

In aggregate we can conclude that, the ROA is dependent upon the level of NPA. If a bank desires to increase its ROA, the bank should reduce its level of NPA to reasonable level. The negative correlation between NPA and ROA clearly indicates that the decrease in NPA will increase the ROA.

4.5.2 Correlation Coefficient between NPA and ROE of SBI and BOK

Table 4.25

Correlation Coefficient between NPA and ROE of SBI and BOK

Banks	Coefficient of correlation (r)	Relationship	Coefficient of determination $(r)^2$	Probable error (PE)	Sig/ insignificant
SBI	-0.9543	Negative	0.95634	0.5236	Insignificant
BOK	-0.8288	Negative	0.6869	0.5818	Insignificant

Source: Annex I & II

The table 4.25 explains the relationship between level of Non-performing Assets to total lending (denoted here as NPA) and ROE. The coefficient of correlation between NPA and ROE of SBI and BOK during the period of study was -0.9543 and 0.8288 respectively.

The table shows the similar type of result in the correlation between the level of NPA and ROE. In case of SBI, there is negative and high degree of correlation which is insignificant. In the same way, BOK also has negative and high degree of correlation which is insignificant as well.

Similarly, the coefficient of determination (r^2), of SBI and BOK are 0.95634 and 0.6869 respectively. It means 95 percent and 68 percent of the total variation in ROE of SBI and BOK has been explained by the NPA.

Since the number of observations is small in both banks, i.e. only for 5 years data is used, significance and insignificance relationship between NPA and ROA can not be concluded. But it can be clearly concluded from the analysis that the ROE is dependent on the level of NPA of the bank. It means that the NPA somehow determine the ROE.

In the case of SBI, 95 percent of the ROE is determined by the level of NPA. Therefore, the level of NPA in this bank should be reduced to get higher return in its total assets. In the same way, 68 percent of ROE is determined by the level of NPA in BOK. It is better for the bank to reduce the level of NPA to keep up the getting higher return to its total assets.

In aggregate we can conclude that, the ROE is dependent upon the level of NPA. If a bank desires to increase its ROE, the bank should reduce its level of NPA to reasonable level. The negative correlation between NPA and ROE clearly indicates that the decrease in NPA will increase the ROE.

4.6 Major Findings

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

1. The percentage of NPA to total assets of SBI decreased at the end of fiscal year 2061/62 compared to that of fiscal year 2062/63. Again it is

decreased at the end of fiscal year 2063/64 compared to year 2062/63.It remained in the same percentage at the end of fiscal year 2065/66.The percentage of NPA to total assets was 1.62 at the end of year 2061/62, 1.45 in 2062/63, 1.38 percent at the end of fiscal year 2063/64 while it reduced to 1.09 percent at the end of both fiscal years 2064/65 and 2065/66.

2. Similarly the percentage of NPA to total lending of SBI decreased at the end of fiscal year 2061/62 than of 2062/63, 2063/64 and 2064/65 compared to that of previous fiscal years. The NPA to total lending was 3.03 percent of the end of 2061/62, 2.54 percent in 2062/63, and 2.20 percent at the end of fiscal year 2063/64 while it decreased to 1.72 percent and 1.63 percent at the end of fiscal years 2064/65 and 2065/66 respectively.
3. The percentage of NPA to total deposit of the Bank decreased at the end of fiscal year 2062/63 than 2061/62,in 2063/64 than 2062/63 and it is also decreased at the and of year 2065/66 compared to that of previous years 2064/65. The NPA was 3.38 percent at the end of 2061/62, 2.25 percent in 2062/63, 1.66 percent at the end of fiscal year 2063/64 while it decreased to 1.29 and 1.28 percent at the end of fiscal years2064/65 and 2065/66 respectively.
4. The level of NPA to total assets, total lending and total deposits of SBI seems at acceptable level at the end of all fiscal years. That means the bank has good management of loan and advances that doesn't seem to be alarming to danger till the date of study.
5. The percentage of NPA to total assets of BOK has decreased compared to that of previous years. The percentage of NPA to total asset was 4.43 percent at the end of year 2061/62, 2.27 percent in 2062/63. 1.30 percent at the end of fiscal year 2063/64 while it further decreased to 0.72 and 0.31 percent at the end of fiscal years 2064/65 and 2065/66 respectively.
6. The percentage of NPA to total lending of BOK found to be decreasing during different fiscal years. It decreased at the end of each fiscal year

compared to respective previous years. The NPA to total lending was 5.06 percent at the end of 2061/62, 3.72 percent in 2062/63, and 2.08 percent at the end of fiscal year 2063/64 while it decreased to 0.98 percent at the end of fiscal year 2064/65 and further decreased to 0.39 percent at the end of fiscal year 2065/66.

7. The percentage of NPA to total deposit of BOK decreased at the end of each fiscal year 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 compared to that of previous fiscal years. The NPA to total deposit was 4.68 percent at the end of 2061/62, 3.34 percent in 2062/63, 1.75 percent at the end of fiscal year 2063/64 while it decreased to 0.91 and 0.36 percent at the end of fiscal years 2064/65 and 2065/66 respectively.
8. The level of NPA to total assets, total lending and total deposits of BOK seems at acceptable level at the end of all fiscal years. That means the bank has good management of loan and advances that doesn't seem to be alarming to danger till the date of study.
9. The analysis concludes that till the date of study, both of the banks have followed the directives issued by NRB to bank and financial institutions. They have maintained prudential requirement of loan loss provision as per the directive of NRB. There is no violence of regulation and indicates that there is good management of loan and advance.
10. The result of correlation analysis concludes that ROA and return on equity ROE of the bank somehow depend upon the level NPA. The high degree of negative correlation between NPA and ROA as well as between NPA and ROE clearly indicates that there is inverse relation between NPA and ROA as well between NPA and ROE. It indicates that a bank should reduce its NPA to increase the ROA and ROE of the bank and vice-versa.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Although banking is a service, it has been a great business to the entrepreneurs in modern age. A commercial bank does the same business to earn profit by its transaction. Generally, commercial bank does the functioning pool between the saving communities and need group of the society. They accept deposit from the public on the condition that they pay the deposit on demand or on short notice. The banks mobilize the funds to different need group on their demand of loan. Apart from accepting deposit, banks are engaged in the exchanging currency, operating other commercial transactions viz. purchase and discount of bills other financial instruments. Among the many items of transactions of the bank, accepting deposit and lending or giving loan and advances occupy major space in its transaction. So bank's major concern is found to be concentrated on the loan.

The successful working of the bank depends upon the ability of the management to distribute the fund among various kind investments: outstanding loan and advances, investment on shares, debentures and bonds, bill purchase and discount etc. make assets as a whole. Among them loan and advances are the most profitable assets of a bank. So bank is always willing to invest on loan and advances as much as possible. But it is not so easy to earn by lending and bank has to pay more attention to safety of the disbursed loan and advances. If a bank is too much timid, it may fail to obtain the adequate return on loan able fund, which is confined to it for use. On the other hand, if the bank is too much liberal, it may easily impair its profits with the increment of bad debts or non-performing loan. Therefore, banks should keep in mind the fact that most of the bank failures in the world are due to shrinkage of loan and advances.

The outstanding loan and advances of the bank can be classified into two classes: performing assets and non-performing assets. The loan and advances which are not overdue or overdue up to three months are performing loan or pass loan, which are known as performing assets. Where as the loan and advances overdue for more than three months are non-performing loan and they are classified into substandard loan, doubtful loan and bad loan according to their overdue aging period. Loan become non-performing while the principal and its interest amount is not paid back by the borrower to the bank for above stated period. Since NPA is not paid back its interest and principal to the bank, it could wreck banks' profitability both through loss of interest and write off of the principal loan amount. Since loan occupies major space in the assets of the bank, it is synonymously used to the assets in banking literature. Hence in narrow sense, non-performing loan is known as NPA. Performing assets have multiple benefits to the banks as well as to the whole economy while non-performing assets erode even existing capital of the bank.

The existing level of NPA has been great problem in the contemporary banking business of the world. In this context, Nepal can't remain exception of the NPA problem. The level of NPA in Nepalese banking business is quite alarming. It is widespread fact that the bank and financial institution in Nepal are facing the winding problem of NPA and it is challenging even in the future. The latest figure of NPA as of mid-Jan 2006 as mentioned by Mr. M.P. Adhikary, the Director of N.R.B. is Rs. 29.06 billion which is equivalent to 18.19 percent of the total loan. It is a great figure regarding the prudential level of NPA that should be below 5 percent. It is even worse in the case of public sector banks: NBL and RBB which posses around 50 percent NPA till mid-Jan 2007.

Since the level of NPA has been widespread issue in the contemporary banking industry, this study was concerned to find out the level of NPA and its effect on ROA and ROE of Nepalese commercial banks. Due to time constraint and consult to the guide to this thesis, only two commercial banks: The SBI Bank

Limited (SBNL) and Bank of Kathmandu (BOK) are selected as sample bank and study was focused on their financial statistics.

The level of NPA to total assets in SBI at the end of fiscal year 2063/64 was 1.38 percent. It decreased to 1.09 percent at the end both fiscal years 2064/65 and 2065/66. It is encouraging NPA level and no alarming situation regarding it. Similarly, the level of NPA to total lending at the end of fiscal year 2063/64 was 2.20 percent. It reduced to 1.72 and 1.63 percent at the end of fiscal year 2064/65 and 2065/66 respectively. The decreasing trend of NPA to its marginal level is quite encouraging in this bank. The level of NPA to total deposit at the end of fiscal year 2063/64 in SBI was 1.66 percent. It decreased to 1.29 percent and 1.28 percent at the end of fiscal year 2064/65 and 2065/66 respectively. The small fluctuation in the level of NPA towards the marginal level is not so serious. Till the date of study, it concludes that the bank is cautious of managing its loan in prudent manner. This result indicates that there is good corporate governance in the bank, which won the first position in overall CAMELS rating by NRB at the second quarter of fiscal year 2065/66.

The level of NPA to total lending in BOK at the end of fiscal year 2063/64 was 2.08 percent. It increased to 0.98 percent at the end of fiscal year 2064/65 and decreased to 0.39 percent at the end of fiscal year 2065/66. The fluctuation of NPA is within the acceptable level and the trend is not so alarming till the date of study. The level of NPA to total asset in BOK was 1.30 percent at the end of fiscal year 2063/64. It decreased to 0.72 percent at the end fiscal year 2064/65 and to 0.31 percent at the end of fiscal year 2065/66. Similarly, the level of NPA to total deposit in this bank was 1.75 percent at the end of fiscal year 2063/64. It decreased to 0.91 percent at the end fiscal year 2064/65 and further decreased to 0.36 percent at the end of fiscal year 2065/66. There is decreasing trend of NPA in the bank towards the marginal level. So it concludes that the bank is cautious of managing its loan in prudent manner till the date of study.

The bank seems to implement the directive of NRB in prudent manner and indicates that there is good corporate governance in the bank.

NRB as supervisory and regulatory authority of Nepalese banking sector has issued directive regarding the outstanding loan and advances of the bank. According to this directive, a bank has to maintain the provision against the classification of its loan. The directive has made provision of 1 percent against pass loan, 25 percent against substandard loan, 50 percent against doubtful loan and 100 percent against bad loan. The loan loss provisions made by both of the sample banks are enough till the date of study. This result concludes that there is good compliance of NRB directive in both of the banks.

5.2 Conclusion

Finally, we can draw the conclusion that there is no alarming situation of NPA in the sampled banks till the date of study. But external as well as internal forces are always responsible for the transaction of the banks. So there is no situation of keeping themselves quiet in their transactions. The outstanding loan may get changed into bad loan within the days to come. So the banks should keep them alert towards up to date repayment of the loan. For this they have to visit the running projects whether they are operating well or not, where they have invested.

The crux of this study is that the high degree of negative correlation of the banks between the NPA and ROA or NPA and ROE indicates towards the inverse relation between NPA and ROA or NPA and ROE. It means that the level of NPA effect the ROA and return on ROE. That is why it is always necessary to reduce the level of NPA to increase the ROE and ROA. The true fact that should always keep in mind by the banks is, reducing the level of NPA, maintains your sound financial health.

5.3 Recommendations

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

Need for Proper NPA Management

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

Efficient Management and Corporate Governance

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

Compliance to the Legal and Regulatory Provision

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

Need for Credit Risk Management and Risk Focused Supervision

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

Enough Staff and Good Corporate Structure

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

Miscellaneous

It is found that big borrowers' borrowings from the banks are changed in to NPA. The borrowers influence the political leaders as well as administrators and don't pay the loan even though they are already NPA. Therefore, the political leaders and administrators should be far from the influence of

borrowers to enforce the law made for the recovery of bad loan. Similarly, an ethics should be developed in the borrowers and society for the timely recovery of loan to the banks. The borrowers should be aware of the facts that the loan is the lump of small savings from the people.

If the above suggested recommendations are made practical, the level of NPA certainly will decrease to acceptable level and there will be no more growth of NPA.

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http//www.nrb.org

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ANNEXURE

Annex-1

Calculation for SBI

1. Calculation of percentage of substandard loan to NPA of SBI

Fiscal Years (1)	Total NPA (2)	Total Substandard Loan (3)	% of S.L. to Total NPA (3)/(2)=(4)
2061/62	98356721	54728132	55.64
2062/63	103243256	43846304	42.47
2063/64	111,191,103	41,954,709	37.73
2064/65	104,755,369	11,082,572	10.58
2065/66	128,807,745	4,408,738	3.42

2. Calculation Parentage of Doubtful Loan to Total NPA of SBI

Fiscal Years (1)	Total NPA (2)	Total Doubtful Loan (3)	% of D.L. to Total NPA (3)/(2)=(4)
2061/62	98356721	29346428	29.84
2062/63	103243256	35167032	34.06
2063/64	111,191,103	38,055,772	34.23
2064/65	104,755,369	40,494,733	38.66
2065/66	128,807,745	1,977,471	1.54

3. Calculation Parentage of Bad Loan to total NPA of SBI

Fiscal Years (1)	Total NPA (2)	Total Bad Loan (3)	% of B.L. to Total NPA (3)/(2)=(4)
2061/62	98356721	14282161	14.52
2062/63	103243256	24229920	23.47
2063/64	111,191,103	31,180,622	28.04
2064/65	104,755,369	53,178,064	50.76
2065/66	128,807,745	122,421,536	95.04

4. Calculation parentage of NPA to Total Assets of SBI

Fiscal Years (1)	Total NPA (2)	Total Asset (3)	% of NPA to Total Asset (2)/(3)= (4)
2061/62	98356721	6053247125	1.62
2062/63	103243256	7142318215	1.45
2063/64	111,191,103	8,052,209,125	1.38
2064/65	104,755,369	9,608,570,861	1.09
2065/66	128,807,745	11,792,126,009	1.09

5. Calculation parentage of NPA to Total Lending of SBI

Fiscal Years (1)	Total NPA (2)	Total Lending (3)	% of NPA to Total Asset (2)/(3)= (4)
2061/62	98356721	3247345672	3.03
2062/63	103243256	5058692312	2.54
2063/64	111,191,103	5,049,581,309	1.20
2064/65	104,755,369	6,095,841,087	1.72
2065/66	128,807,745	7,900,090,271	1.63

6. Calculation of percentage of NPA to Total Deposit of SBI

Fiscal Years (1)	Total NPA (2)	Total Deposit (3)	% of NPA to Total Deposit (2)/(3)=(4)
2061/62	98356721	2674864250	3.68
2062/63	103243256	4585753150	2.25
2063/64	111,191,103	6,694,963,060	1.66
2064/65	104,755,369	8,063,902,086	1.29
2065/66	128,807,745	10,097,690,989	1.28

7. Calculation percentage of Performing Loan to Total Deposit of SBI

Fiscal Years (1)	Total P.A. (2)	Total Deposit (3)	% of PA to Total Deposit (2)/(3)=(4)
2061/62	2565172336	2674864252	95.89
2062/63	3828281125	4585753150	83.48
2063/64	4,938,390,206	6,694,963,060	73.26
2064/65	5,991,085,718	8,063,902,086	74.29
2065/66	7,771,282,526	10,097,690,989	76.96

8. Calculation percentage of Performing Loan to Total Lending of SBI

Fiscal Years (1)	Total P.A. (2)	Total Lending (3)	% of PA to Total Lending (2)/(3)=(4)
2061/62	2565172336	3247345672	78.99
2062/63	3828281125	4058682312	94.32
2063/64	4,938,390,206	5,049,581,309	97.78
2064/65	5,991,085,718	6,095,841,087	98.28
2065/66	7,771,282,526	7,900,090,271	98.37

9. Calculation percentage of Performing Loan to Total Assets of SBI

Fiscal Years (1)	Total P.A. (2)	Total Assets (3)	% of PA to Total Assets (2)/(3)=(4)
2061/62	2565172336	6053247125	42.38
2062/63	3828281125	7142318215	53.60
2063/64	4,938,390,206	8,052,209,125	61.33
2064/65	5,991,085,718	9,608,570,861	62.35
2065/66	7,771,282,526	11,792,126,009	65.90

10. Calculation Loan Loss provision of SBI for 2063/64

Types of Loan	for Fiscal Year 2063/64		
	Loan Amount in Rs.	provisioning in Rs.	Provisioning in %
Pass Loan	4,938,390,206	80,423,477	1.63
Substandard Loan	41,954,709	10,488,677	25
Doubtful Loan	38,055,772	19,027,886	50
Bad Loan	31,180,622	31,180,622	100
Total	5,049,581,309	141,120,662	2.79

11. Calculation Loan Loss provision SBI for 2064/65

Types of Loan	for Fiscal Year 2064/65		
	Loan Amount in Rs.	provisioning in Rs.	Provisioning in %
Pass Loan	5,991,085,718	135,522,405	2.26
Substandard Loan	11,082,572	2,770,643	25
Doubtful Loan	40,494,733	20,247,366	50
Bad Loan	53,178,064	53,178,064	100
Total	6,095,841,087	211,718,478	3.47

12. Calculation Loan Loss provision of SBI for 2065/66

Types of Loan	for Fiscal Year 2065/66		
	Loan Amount in Rs.	Provisioning in Rs.	Provisioning in %
Pass Loan	7,771,282,526	112,264,660	1.44
Substandard Loan	4,408,738	1,102,184	25
Doubtful Loan	1,977,471	988,735	50
Bad Loan	122,421,536	122,421,536	100
Additional	-	44,641,680	-
Total	7,900,090,271	281,418,795	3.56

13. Calculation of ROA of SBI

Fiscal Years (1)	Total Assets (2)	Net Profit (3)	ROA (4)=(3)/(2)
2060/61	6053247125	42162462	0.70
2061/62	7142318215	63271342	0.88
2062/63	8,052,209,125	94,180,428	1.17
2063/64	9,608,570,861	143,566,683	1.49
2064/65	11,792,126,009	170,807,797	1.45

14. Calculation of ROE of SBI

Fiscal Years (1)	Shareholders' equity (2)	Net Profit (3)	ROE (4)=(3)/(2)
2060/61	483423723	42162462	8.00

2061/62	534515612	63271342	7.5
2062/63	612,824,701	94,180,428	15.36
2063/64	680,318,543	143,566,683	21.10
2064/65	769,617,365	170,807,797	22.19

15. Calculation of Correlation Coefficient between NPA to Total Lending and ROA of SBI

Solution,

Where X denotes NPA to total lending and Y denotes ROA

Fiscal Year	X	Y	XY	X^2	Y^2
2060/61	3.03	0.7	2.121	9.181	0.49
2061/62	2.54	0.89	2.261	6.452	0.792
2062/63	2.20	1.17	2.5740	4.8400	1.3689
2063/64	1.72	1.49	2.5628	2.9584	2.2201
2064/65	1.63	1.45	2.3635	2.6569	2.1025
Total	∑X=11.12	∑Y=5.7	∑XY=11.8823	$\sum X^2$ =26.0883	$\sum Y^2$ =6.9735

Here, n=3, ∑x=11.12, ∑Y=5.7, ∑XY=11.8823, $\sum X^2$=26.0883, $\sum Y^2$ =6.9735

Now, correlation coefficient between X and Y

$$Rxy \; X \frac{n \quad XY - \quad X \quad Y}{\sqrt{n \quad X^2 \; Zf \quad XÃ^2}\sqrt{n \quad Y^2 \; Zf \quad YÃ^2}}$$

$$X \frac{5 \times 11.8823 - 11.12 \times 5.7}{\sqrt{5 \times 26.0883 - (11.12)^2}\sqrt{5 \times 6.9735 - (5.7)^2}}$$

$$X \frac{59.41 - 63.384}{\sqrt{6.787}\sqrt{2.378}}$$

=-0.996

The coefficient of determination $r^2 = (-0.996)^2 = 0.992$

P.E (r) = 0.6745× S.E.(r)

Where,

S.E.(r) $X1-\frac{r^2}{\sqrt{n}}$ = 1- $\frac{0.992}{5}$ = 1-0.1984 = 0.80

P.E.(r) = 0.6745×0.80

= 0.5396

16. Calculation Correlation of coefficient between NPA to Total Lending and ROE of SBI

Where, X denotes NPA to Total Lending and Y denotes the ROE

Fiscal Year	X	Y	XY	X^2	Y^2
2060/61	3.03	8	24.24	9.181	64
2061/62	2.54	7.5	19.05	6.452	56.25
2062/63	2.20	15.36	33.792	4.8400	235.9296
2063/64	1.72	21.10	36.292	2.9584	445.2100
2064/65	1.63	22.19	36.1697	2.6569	492.3961
Total	∑X=11.12	∑Y=74.15	∑XY= 149.544	$\sum X^2$=26.0883	$\sum Y^2$=1293.7857

We have,

N=5, ∑X=11.12, ∑Y=74.15, ∑XY= 149.544, $\sum X^2$=1293.7857, $\sum Y^2$=1293.7857

Now, correlation coefficient between X and Y is:

$$Rxy\ X\frac{n\quad XY-\quad X\quad Y}{\sqrt{n\quad X^2\ Zf\quad XÃ^2}\sqrt{n\quad Y^2\ Zf\quad YÃ^2}}$$

$$X\frac{5\times149.544-11.12\times74.15}{\sqrt{5\times26.0883-(11.12)^2}\sqrt{5\times1293.7857-(74.15)}}$$

$$X\frac{-76.828}{\sqrt{6.787}\sqrt{970.706}}\quad=-0.9543$$

The coefficient of determination $r^2 = (-0.9543)^2 = 0.95634$

P.E (r) = 0.6745* S.E.(r)

Where, S.E.(r) = $X\frac{1-r^2}{\sqrt{n}}$

$$X\frac{1-0.9543}{\sqrt{5}} = .8087$$

P.E.(r) = 0.6745×0.8087

= 0.5336

Annex-2

Calculation for BOK

1. Calculation of Percentage of Substandard Loan to Total NPA of BOK

Fiscal Years (1)	Total NPA (2)	Total Substandard Loan (3)	% of S.L. to Total NPA (3)/(2)=(4)
2061/62	45346364	12342532	27.22
2062/63	38287975	8253612	21.56
2063/64	31,098,986	6,052,732	19.46
2064/65	24,983,046	843,817	3.38
2065/66	19,860,891	2,113,042	10.63

2. Calculation Parentage of Doubtful Loan to Total NPA of BOK

Fiscal Years (1)	Total NPA (2)	Total Doubtful Loan (3)	% of D.L. to Total NPA (3)/(2)=(4)
2061/62	45346364	33678286	74.27
2062/63	38287975	25234679	64.23
2063/64	31,098,986	19,014,889	61.14
2064/65	24,983,046	3,656,287	14.64
2065/66	19,860,891	1,178,854	5.94

3. Calculation Parentage of Bad Loan to Total NPA of BOK

Fiscal Years (1)	Total NPA (2)	Total Bad Loan (3)	% of B.L. to Total NPA (3)/(2)=(4)
2061/62	45346364	10425546	22.99
2062/63	38287975	4799684	12.54
2063/64	31,098,986	6,031,364	19.40
2064/65	24,983,046	20,482,941	81.99

2065/66	19,860,891	16,568,994	83.43

4. **Calculation Parentage of NPA to Total Assets of BOK**

Fiscal Years (1)	Total NPA (2)	Total Asset (3)	% of NPA to Total Asset (2)/(3)= (4)
2061/62	45346364	1023435674	4.43
2062/63	38287975	1688547183	2.27
2063/64	31,098,986	2,399,857,094	1.30
2064/65	24,983,046	3,448,634,251	0.72
2065/66	19,860,891	6,456,460,820	0.31

5. **Calculation parentage of NPA to Total Lending of BOK**

Fiscal Years (1)	Total NPA (2)	Total Lending (3)	% of NPA to Total Asset (2)/(3)= (4)
2061/62	45346364	896792045	5.06
2062/63	38287975	1026521849	3.72
2063/64	31,098,986	1,492,118,362	2.08
2064/65	24,983,046	2,540,788,021	0.99
2065/66	19,860,891	5,130,223,362	0.39

6. **Calculation of percentage of NPA to Total Deposit of BOK**

Fiscal Years (1)	Total NPA (2)	Total Deposit (3)	% of NPA to Total Deposit (2)/(3)=(4)
2061/62	45346364	968745826	4.68
2062/63	38287975	1145028732	3.34
2063/64	31,098,986	1,778,786,289	1.75
2064/65	24,983,046	2,754,632,089	0.91
2065/66	19,860,891	5,586,802,644	0.36

7. **Calculation percentage of Performing Loan to Total Deposit of BOK**

Fiscal Years (1)	Total P.A. (2)	Total Deposit (3)	% of PA to Total Deposit (2)/(3)=(4)
2061/62	667829467	968745826	68.94
2062/63	932645113	1145028732	81.45
2063/64	1,464,766,122	1,778,786,289	82.35
2064/65	2,115,804,974	2,754,632,089	76.81

2065/66	5,110,362,471	5,586,802,644	91.47

8. Calculation percentage of Performing Loan to Total Lending of BOK

Fiscal Years (1)	Total P.A. (2)	Total Lending (3)	% of PA to Total Lending (2)/(3)=(4)
2061/62	667829467	896792045	74.47
2062/63	932645113	10265211849	90.85
2063/64	1,464,766,122	1,492,118,362	97.92
2064/65	2,115,804,974	2,540,788,021	98.00
2065/66	5,110,362,471	5,130,223,362	99.61

9. Calculation percentage of Performing Loan to Total Assets of BOK

Fiscal Years (1)	Total P.A. (2)	Total Assets (3)	% of PA to Total Assets (2)/(3)=(4)
2061/62	667829467	1023435674	65.25
2062/63	932645113	168874783	55.23
2063/64	1,464,766,122	2,399,857,094	61.04
2064/65	2,115,804,974	3,448,634,251	61.35
2065/66	5,110,362,471	6,456,460,820	79.15

10. Calculation Loan Loss provision of BOK for 2063/64

Types of Loan	for Fiscal Year 2063/64		
	Loan Amount in Rs.	provisioning in Rs.	provisioning in %
Pass Loan	1,464,766,122	14,647,661	1
Substandard Loan	6,052,732	1513,183	25
Doubtful Loan	19,014,889	9,507,444	50
Bad Loan	6,031,364	6,031,364	100
Total	1,495,865,108	31,699,653	2.12

11. Calculation Loan Loss provision of BOK for 2064/65

Types of Loan	for Fiscal Year 2064/65		
	Loan Amount in Rs.	provisioning in Rs.	provisioning in %
Pass Loan	2,515,804,974	25,158,049	1
Substandard Loan	843,817	210,954	25
Doubtful Loan	3,656,287	1,828,143	50

Bad Loan	20,82,941	20,482,941	100
Total	2,540,788,021	47,680,089	1.88

12. Calculation Loan Loss provision of BOK for 2065/66

Types of Loan	for Fiscal Year 2065/66		
	Loan Amount in Rs.	provisioning in Rs.	provisioning in %
Pass Loan	5,110,362,471	51,103,624	1
Substandard Loan	2,113,042	528,260	25
Doubtful Loan	1,178,854	589,427	50
Bad Loan	16,568,994	16,568,994	100
Total	5,130,223,362	68,790,306	1.34

13. Calculation of ROA of BOK

Fiscal Years (1)	Total Assets (2)	Net Profit (3)	Return on Total Assets (ROA) (4)=(3)/(2)
2061/62	1023435674	10367846	1.03
2062/63	1688747183	13406576	0.80
2063/64	2,399,857,094	15,307,485	0.64
2064/65	3,448,634,251	46,689,945	1.35
2065/66	6,456,460,820	84,870,027	1.31

14. Calculation of ROE of BOK

Fiscal Years (1)	Shareholders equity (2)	Net Profit (3)	ROE (4)=(3)/(2)
2061/62	402742846	10367846	2.57+
2062/63	462724746	13406576	3.33+
2063/64	501,705,898•	15,307,485	3.05+
2064/65	554,221,843•	46,689,945	8.42+
2065/66	637,739,384•	84,870,027	13.31+

***Calculated by the formula,

$$\mathrm{ROE} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}} \mid 100\%$$

15. Calculation Correlation of coefficient between NPA to Total Lending and ROA of BOK

Where, X denotes NPA to Total Lending and Y denotes the ROA

Fiscal Year	X	Y	XY	X^2	Y^2
2061/62	5.057	1.03	5.2087	25.573	1.0609
2062/63	3.73	0.8	2.984	13.913	0.64
2063/64	2.08	0.64	1.3312	4.3264	0.4096
2064/65	0.98	1.35	1.3230	0.9804	1.8225
2065/66	0.39	1.31	0.5109	0.1521	1.7161
Total	$\sum X$= 12.237	$\sum Y$ = 5.13	$\sum XY$= 11.3578	$\sum X^2$= 44.9249	$\sum Y^2$ = 5.6491

We have,

N=5, $\sum X$=12.237, $\sum Y$=5.13, $\sum XY$= 11.3578, $\sum X^2$=44.924, $\sum Y^2$=5.6491

Now, correlation coefficient between X and Y is

$$Rxy \; X \frac{n \quad XY - \quad X \quad Y}{\sqrt{n \quad X^2 \; Zf \quad XÃ^2}\sqrt{n \quad Y^2 \; Zf \quad YÃ^2}}$$

$$X \frac{5 \times 11.3578 - 12.237 \times 5.13}{\sqrt{5 \times 44.9249 - (12.237)^2}\sqrt{5 \times 5.6491 - (5.13)^2}}$$

$$X \frac{-5.9868}{12.0172} = \mathbf{-0.5}$$

The coefficient of determination $r^2 = (-0.5)^2 = 0.25$

P.E (r) = 0.6745 ×S.E. (r)

Where,

$$S.E.\ (r)\ X \frac{1 - r^2}{\sqrt{n}} \quad X \frac{1 - 0.25}{\sqrt{5}} = 0.95$$

$$P.E.\ (r) = 0.6745 \times 0.095 = 0.641$$

16. Calculation of Correlation coefficient between NPA to Total Lending and ROE of BOK

Where, X denotes NPA to Total Lending and Y denotes the ROE

Fiscal Year	X	Y	XY	X^2	Y^2
2061/62	5.057	2.57	12.99649	25.573	6.6049
2062/63	3.73	3.33	12.4209	13.913	11.0889
2063/64	2.08	3.05	6.344	4.3264	9.3025
2064/65	0.98	8.42	8.2516	0.9604	70.8964
2065/66	0.39	13.31	5.1909	0.1521	177.1561
Total	$\sum X$ = 12.237	$\sum Y$ = 30.68	$\sum XY$= 45.2039	$\sum X^2$ =44.9249	$\sum Y^2$=275.0488

We have,

N=5, $\sum X$=12.237, $\sum Y$=30.68, $\sum XY$= 45.2039, $\sum X^2$=44.9249, $\sum Y^2$=275.0488

Now, correlation coefficient between X and Y is

$$Rxy = \frac{n \quad XY - \quad X \quad Y}{\sqrt{n \quad X^2 \; Zf \quad XÃ^2}\sqrt{n \quad Y^2 \; Zf \quad YÃ^2}}$$

$$= \frac{5 \times 45.2039 - 12.237 \times 30.68}{\sqrt{5 \times 44.9249 - (12.237)^2}\sqrt{5 \times 257.0488 - (30.68)^2}}$$

$$= \frac{-149.4117}{180.2676} = \mathbf{-0.8288}$$

The coefficient of determination $r^2 = (-0.8288)^2 = 0.6869$

P.E (r) = 0.6745* S.E.(r)

Where,

S.E.(r) $X\frac{1-r^2}{\sqrt{n}}$ $X\frac{1-0.6869}{\sqrt{5}} = 0.8626$

P.E. (r) = 0.6745×0.8626

= 0.5818