CHAPTER – I

INTRODUCTION

1.1 Background of the Study

"In any economy the importance of the financial sector in general and the banking sector in particular cannot be underestimated. Banking plays a pivotal role in the overall development of an economy. Economic reforms initiated by the government 18 years ago have changed the landscape of several sectors of the Nepalese economy. The Nepalese banking sector is no exception. This sector has been going through major changes as a consequence of the economic reforms. The changes effects the ownership pattern of banks, regulatory aspects, availability of funds, cost of funds , opportunities to earn , a range of services (fee based and fund based) and management of priority sector lending. As a consequence of liberalization in interest rates and cutthroat competition, banks are operating on a reduced spread."(Jha , Resta- Kathmandu Post)

"Banking system is volatile and sensitive sector of national economy, which requires effective monitoring and efficient supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of banking activities carried out by governmental and non-governmental and financial institution." (Gandhi, Pandit, 2002: 31)

National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Banks constitute an important segment of financial infrastructure of any country. Bank came into existence mainly with the objective of collecting the idle funds and mobilizing them to productive sectors causing overall economic development, which finally leads to national development of the country. "A bank can be defined as a 'financial department store' which renders a host of financial services besides taking deposits and taking loans". (Dahal and Dahal, 2002:7) Bank's performance can be measured in terms of its ability to meet up with the expectation of owners, employees, depositors, and borrowers. Bank's performance can be evaluated by analyzing some financial ratios from its financial reports, report of condition and report of income. Analysis of bank's performance is usually based on the specific objective of the banks.

Commercial banks collect deposits from the public and the largest portion of deposited money is utilized in disbursing loan and advances. Loans and advances constitute a major portion of the assets and deposits constitute a major portion of the liabilities of balance sheet of commercial banks. Similarly earning of the banks depends upon the spread that it enjoys between the interest it receives from the borrowers and that to be paid to the borrowers. An average, bank generates sixty to seventy percent of its revenue through its lending activities. The return that the bank enjoys of deposit mobilization through loan and advances is very attractive but they do not come free of cost and free of risk. There is risk inherent in lending portfolio. Banking sector is exposed to number of risk like, interest rate risk, liquidity risk, credit risk or default risk, borrowers risk, security risk , earning risk etc. Such risk are excessive had led many banks to go bankrupt in a number of countries. Performing loans have multiple benefits to the society while non-performing loan erodes even existing capital. (Singh H.B. 2008)

Performing loans are the loans which loans are repaid principle and interest timely to the bank .While Non-Performing Loans (NPLs) are the loans that do not repay principle and interest timely to the bank. NPL has many different meanings, when varies from country to country. In some countries non-performing loan means, the loan is impaired. In some countries, it means that payment are past due, but there are significant differences among countries how many days a payment should be in arrears before past due status is triggered. Nevertheless, a rather common feature of NPL appears to be that a payment is 'more than 90 days past due'. In Nepal also, if the loan is past due for over 3 months, it is non-performing loans. Hence, the loans falling under substandard, doubtful and loss categories are regarded as non-performing loans. In Nepalese context, 1 percent provisioning should be made for pass loan (i.e. past due for 3 months), 25 percent for sub standard loan (i.e. past due for 6 months), 50 percent for doubtful loan (i.e. past due for 1 year), and 100 percent for loss loan (i.e. past due over 1 year).

1.2 Evolution of Banking

The evolution of banking industry had started a long time back, during ancient times. There was reference to the activities of money changes in temple of Jerusalem in the New Testament. In ancient Greece, the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transactions. However, as a public enterprise, banking made its first beginning around the middle of the 12th century in Italy. The bank of Venice, founded in 1157 was supposed to be the most ancient bank. Following it were established the Bank of Barcelona and the Bank of Geneva in 1401 and 1407 respectively. Subsequently, Bank of Amsterdam set up in 1609, which was very popular then the Bank of Venice and the Bank of Geneva continued to operate until the end of eighteenth century. With the expansion of commercial banking activities in Northern Europe, there sprang up a number of private banking houses in Europe and slowly it spread throughout the world. (Thapa K. & Neupane D.K. 2008)

In the context of Nepal, the development of banking is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc. are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient times. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a Sudra merchant of Kantipur in 880 A.D. After having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. The establishment of "Tejarath Adda" during the year 1877 A.D. was in the first step in institutional development of Banking sector in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently the major parts of the country remain untouched from this limited banking activities. The “Udyog Parishad” was constituted in 1936 A.D. to facilitate trade with India and other countries. one year after it’s formulation, it formulated the “Company Act” and “Nepal Bank Act” in 1937 A.D.

In Nepal, modern banking practices emerged with the establishment of Nepal Bank Limited in 1937 A.D. However, the stand of Nepal Bank Limited alone in total monetary and financial sector was not sufficient and satisfactory. Thus, Nepal Rastra Bank was set upon 2013/01/14 B.S. as a Central Bank under Nepal Rastra Bank Act 2012 B.S. Similarly on 2022/10/10 Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality/competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development Center was set up in 2013 B.S. which was converted in to Nepal Industrial Development Corporation (NIDC) in 2016 B.S. Similarly, Agricultural Development Bank of Nepal (ADB/N) was established in 2024/10/07 B.S. with an objective to promote agricultural products. So that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

As a first joint venture bank, NABIL Bank Limited (erstwhile Nepal Arab Bank Limited) was established on 2041/03/29 B.S. Having observed the success on NABIL based on marketing concept and also because of liberal economic policy adopted by the successive governments, many commercial banks have been established till date.

1.3 Focus of the Study

This research will focus in the financial performance of selected Nepalese commercial banks such as Nepal Bank Limited, Nabil Bank Limited ,Standard Chartered Bank Nepal Ltd. ,Bank of Kathmandu Ltd. and Himalayan Bank Limited.

Nepal Bank Limited (NBL)

Nepal's first commercial bank, Nepal Bank Limited established on 30th Kartik 1994 B.S. (1937 A.D.) in the technical assistance of Imperial Bank of India under Nepal Bank Act 1937 A.D.; was inaugurated by His Majesty King Tribhuwan Bir Bikram Shah Dev. The establishment of NBL laid the foundation of institutional banking system in the country. "Nepal Bank Limited has a Herculean responsibility of attracting people toward banking sector from the predominant money lenders' net and of expanding banking services." (Banking and Financial Statistics, 2003: 10). Nepal Bank Limited was headquartered in Kathmandu and had altogether 97 branches in different urban and semi-urban parts of the country. There are 5250 employees working in the bank. As NBL was established prior to Nepal Rastra Bank, i.e. Central Bank, it carried out the function of commercial bank as well as of the central bank until the inception of NRB. How in the presence of a separate central bank, it is providing wide range of commercial banking services.

NBL was established as a joint venture of government and private individuals. At first the government owned the majority of the share. Now the government owns only 40 percent share with the suggestion of World Bank to transfer the ownership to the private sector for better functioning of the financial sector. The present shareholding pattern is as follows.

Share Holding pattern

Nepalese Government	40.49 percent
Nepalese General Public	59.51 percent

Even being one of the largest and oldest banks of the country, the financial health of the banks was very bad. Due to its ill health, under financial sector reform program of NRB in technical assistance program of World Bank and DFID, a management team "ICCMT" consisting of International Bankers from Bank of Scotland (Ireland) has been appointed in NBL in July 22, 2002 to restructure the bank for two years contract. Recently NRB had renewed the contract for 6 month in 2007.

Nabil Bank Limited (NABIL)

Nabil Bank Limited formerly named as Nepal Arab Bank Limited was established on July 12th 1984 under a technical service agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank, UAE. It is the pioneer joint venture bank of Nepal. NABIL is amongst the most successful bank in Nepal registering strong growth in the balance sheet footing as well as profits year after year. The initial capital of Rs. 30 million has grown to Rs. 1, 314 million as at mid July 2006. Nabil launched it's operation with the marketing concept. NABIL has also been a pioneer in introducing modern banking and innovative products in Nepal like consortium finance, credit card etc. NABIL is the sole banker to a multitude of International Aid Agencies, Non-Government Organization, Embassies and consultant in the kingdom. Nabil has been providing wide range of banking services to various part of the society. There are altogether 441 employees work in the banks and 29 branches.

Share Holding Pattern

NB International Limited, Ireland	50 percent
Local Financial Institution	20 percent
Nepalese Public	30 percent

Standard Chartered Bank Nepal Ltd. (SCBNL)

Standard Chartered Bank Nepal Limited, formerly known as Nepal Grindlays Bank Limited, was established in 1987 as the third joint venture Bank of Nepal in technical collaboration with ANZ Grindlays Bank. In 2000, ANZ Grindlays Bank was amalgamated in Standard Chartered Banking Group and 50 percent share of Nepal Grindlays Bank was transferred to Standard Chartered Banking Group. Consequently the name of the bank has been changed as Standard Chartered Bank Nepal Limited. SCBNL has altogether 10 branches/outlets within the kingdom. SCBNL is also one, which comes under the top three financial institution of Nepal and has also won the "Bank of the year" award in 2002. There are altogether 345 employees working in the bank.

Share Holding Pattern

Standard Chartered Grindlays Bank Limited	50 percent
Nepal Bank Limited	35 percent
Nepalese Public	15 percent

Everest Bank Limited (EBL)

Everest Bank Limited was established in 1992 under the Company Act, 1964 with an objectives of carrying out commercial banking activities under the Commercial Bank Act, 1974. United Bank of India Ltd. under Technical Services Agreement signed between it and Nepali promoters was managing the bank from the very beginning till November, 1996. Later on, it handed over the management to the Punjab National Bank Limited, India which holds 20 percent equity on the bank's share capital. There are altogether 306 employees working in the bank and 29 branches.

Share Holding Pattern

Nepalese owner	80 percent
Foreigner owner	20 percent

Bank of Kathmandu Limited (BOKL)

Bank of Kathmandu Limited (BOKL) was established in 1993 in collaboration with SIAM Commercial Bank PCC, Thailand under the Company Act, 1997. The major objective of the bank was to operate commercial banking activities throughout the country with the approval of Nepal Rastra Bank.

The SIAM Commercial Bank out of it's 30 percent holding diluted it's 25 percent holding to the Nepalese citizen in 1998. There are altogether 194 employees working in the bank and 11 branches.

Share Holding Pattern

Promoters	42 percent

General Public	58 percent

1.4 Statement of the Problem

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

After the liberalization started in 1980s, the financial sector made some progress and prudent regulatory measures have been introduced by Central Bank. However, actual performance of the financial institution could not improve. Commercial banks/financial institutions in Nepal have been facing several problems like lack of smooth functioning of economy, different policies and guide lines of NRB, political instability, security problem, poor information system, over liquidity caused by lack of good lending opportunities, increasing non-performing assets (NPAs) etc. In the present context, where Nepalese Banks are facing the problem of increasing NPAs, more amounts have to be allocated for loan loss provision. As earlier mentioned, the provision amount is taken out by deducting from the profit of the bank; the bank's profit might come down. This research has been conducted to find out the solution of the following problems.

i) What is the proportion of credit & deposits in the selected commercial banks?

ii) What are the guidelines and provisions pertaining to loan classification and loan loss provisioning?

iii) What is the relationship between loan and loan loss provision in selected commercial banks?

iv) What is the impact of loan loss provision on the profitability of the commercial bank?

1.5 Objectives of the Study

The main objectives of this research was to examine and study of financial performance on performing loan, non-performing assets (NPAs) , total assets, total deposit and lending of Nepalese commercial banks. The specific objectives are as follows:

i) To identify the financial performance of the selected commercial banks.

ii) To analyze the guidelines and provisions pertaining to loan classification.

iii) To examine the relationship between loan and loan loss provision in the selected commercial bank.

iv) To identify the impact of non-performing loan on the profitability of the commercial banks.

1.6 Significance of the Study

Commercial bank is the bank, which deals in exchanging currency, accepting deposit, giving loan and doing commercial transaction. Therefore commercial bank acts as a pool between savers and users of money. It means commercial bank collect fund in term of deposit capital etc. from savers and gives loan to the user of money. The bank either gives loan to the user or invest in different investment alternatives such as corporate shares, debentures, and government bond etc. out of its collected fund and makes profit.

Increasing non-performing loan followed by increased loan loss provision is one of the challenges faced by commercial banks in the present context. Proper classification of loans and adequate loan loss provisioning strengthens the financial health of the banks. It also reflects the true picture of bank's asset. This research will able to deliver some of the present issues, latest information and data regarding financial performance. Hence, this study will be significant to bankers, shareholders, depositors, further researchers, students etc.

1.7 Limitation of the Study

This research study will be conducted with certain limitations, which may some extent affect the result and conclusion .The study has been conducted to fulfill the partial requirement for M.B.S. program of Tribhuvan University. Furthermore the following points will determine the certain limitation for this study.

i) This research is concerned only with financial performance of Nepalese commercial banks. It does not consider other aspects of the banks.

ii) Only Nepalese commercial banks have been considered for the study and five banks have been selected as samples for the study.

iii) The period of the study is limited from mid-July 2003 to mid-July 2007.

iv) The study is basically based on secondary data, which may or may not provide exact vision of the field. The data published in annual reports of the respective banks, articles, publication, journals etc. have been taken into consideration. Any misrepresentation, mistakes, omission etc. may effect the outcome to the study. Thus, the reality of study depends on secondary sources of data and questionnaire filled and response given by the respondents.

v) All the analysis in this study is based on the date as of end of fiscal year i.e., mid July of respective years. Any abnormality in this data may affect the conclusion of the study.

1.8 Organization of the Study

This research work has been divided into five chapters, namely Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and finally Summary, Conclusion and Recommendation.

Chapter I: Introduction

The first chapter includes various aspects of this study like background of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

The second chapter incorporates review of theoretical and related literature regarding the subject matter. Many writers and researchers have been given their ideas about the related topic.

Chapter III: Research Methodology

This chapter explains about the research methodology used to evaluate and analysis. This includes research design, population and sample, nature and types of data, sources of data, data collection techniques and data analysis techniques, research variables, different statistical tools used in the study.

Chapter IV: Presentation and Analysis of Data

This chapter deals with the major part of the study. This chapter includes presentation and analysis of data using different statistical tools and major findings.

Chapter V: Summary, Conclusion and Recommendation

This chapter deals with summary and conclusion of the study and recommendations regarding to the subject matter.

CHAPTER – II

REVIEW OF LITERATURE

In this chapter, effort has been made to examine and review some of the related books, articles published in different national and international journals, dissertation papers, magazines, newspaper directives of NRB issued for commercial banks and websites. In brief, this chapter includes review of following:

Review of Related Terms, Review of Relevant Books, Review of Working Papers, Seminar Papers and Reports, Review of Relevant Articles/Journals, Review of Dissertation, Review of NRB Directives and Interview/Opinion of Experts

2.1 Review of Related Terms

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

2.1.1 Loans and Advances

The main function of the commercial bank is to create credit from its borrowed fund. The bank doing so converts its liability into active assets. Loans and advances are the assets coming from such activities. Loans and advances is the most important item on the assets side of the balance sheet of the bank. Loans and advances may take different forms and are allowed against various types of securities. Loans, overdrafts, discounting of bills of exchange etc. are some of the forms of bank lending. Granting loans and advances always carries a certain degree of risk. This loans and advances are also regarded as risky assets of bank. Therefore, the profitability of the bank depends upon the extent to which it grants loans and advances.

2.1.2 Loan Classification

As per the NRB directive NPLs are said as classified loans and this includes sub-standard, doubtful and loss categories as defined by new NRB Directives (NRB Circular, 2057).

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

2.1.3 Past Due/Overdue

An amount due under any credit facility is treated as past due to over due when it has not been paid on the due date fixed by the bank.

2.1.4 Performing Loans

Performing loans are those loans that repay principle and interest timely to the bank from the cash flow it generates. In the context of Nepal, the loans classified as ‘pass’ category in termed as performing loan.

2.1.5 Non-Performing Loans/Non-Performing Assets (NPLs/NPAs)

Non-Performing Loan means an outstanding loan that is not repaid timely, i.e. neither payments on interest or principle are made. Non-Performing Loans has many different meanings, which differs from country to country. In some countries, it means that the payments are past due, but there are significant differences among countries how many days a payment should be in arrears before past due status is triggered. Nevertheless, a rather common future of NPL appears to be that a payment if ‘more than 90 days’ pass due. In Nepal also, if the loan is past due for over 3 months, it is non-performing loans. Hence, the loans falling under substandard, doubtful and loss categories are regarded as non-performing loans.

2.1.6 Loan Loss Provision

Loan loss provision is the accumulated fund that is provided as a safe guard to cover possible losses upon classification of risk inherited by individual loans. There is risk inherent in every loan. Hence, provisioning is made as cushion against possible losses and to reflect the true picture of banks’ asset. So, there is practice of showing net loan (Total Loans – Loan loss provision) in financial statements. The amount required for provisioning depends upon the level of NPLs and their quality. High amount of provision is an indication of that banks’ credit portfolio needs serious attention. One percent provision of total credit is an ideal position as it is the minimum requirement for all good loans. In Nepal, 1%, 25%, 50% and 100% provisioning should be made for pass, substandard, doubtful and loss loans respectively.

2.2 Review of Relevant Books

Shrestha, M.K. and Bhandari, D.B. (2004) in their book entitled “Financial Market and Institutions” have written about “Loan Losses”. As per their view, customers do not pay the loans either intentionally or due to some genuine causes and the factors beyond the control.

“Banks face loan loss due to the borrower’s defaults of loan obligation. It is not possible for the bank to 100 percent success in selecting the good clients. Since in practice, some percentage of customers do not pay the loans either intentionally or due to some genuine causes and the factors beyond the control. There are many other factors like change in economic environment, keen competition in the economy, managerial weakness and other outright frauds that bring the loan losses to the bank. This affects the earnings and the reserve building capability of the banks. In such situation, the regulatory body like central bank compels the commercial banks to maintain loan loss provisions according to classification of loans into various categories" like pass loan, substandard loan, doubtful loan and loss loan. Loan loss provisioning is the part of bank capital.

Commercial banks have to be very selective and careful in providing loan, so that loan will be minimized and loan loss provision will automatically become less for the commercial banks. Among the commercial banks developed in the country, local commercial banks have to face much more loan loss.

Pradhan, R.S. (2004) has studied on "Financial Distress, Financial Ratios, Stock Holder Losses in Corporate Restructuring: A Case of Nepal" published in the book "Research in Nepalese Finance". In this study attempt is made at determining the extend of financial distress in Nepalese enterprises, indicating how financial ratios deteriorate as the firms move in financial distress, pointing out concessions to be made by various stockholders in the restructuring process, and analyzing legal framework concerning financial distress in Nepal. The study used both primary and secondary data.

In this study attempt is made to form portfolio on net profit ratio, "indicated how profitability ratio deteriorate in financial distressed firms. As net profit ratio increased from 33 percent in portfolio 4, return on capital employed and return on equity also improved significantly. Similarly, it may also be seen how improvement in net profit improved operating ratio as on movers from portfolio 1 to 4. Increase in Net profit ratio lead to increase in liquidity ratio, and turnover ratios. As the enterprises moved into financial distress, labour productivity and debt coverage ratios also deteriorated. The regression result showed that net profit ratios are negatively related to operating expenses and are positively related to liquidity, turnover, labour productivity, and interest coverage".

In this study, it is concluded that despite of significant number of financially distress firm, legal frame work has not received much attention in Nepal. The Companies Act, the Industrial Policy, and Ninth Plan, are all silent on financial distress in Nepal. The industrial enterprises act 1997 came up with the delimination of sick industry on in 1997 through the first amendment. Some facilities were specified for the sick industries while importing machineries and equipment. There are many actions, which the government might take concerning the financial distressed firms. These actions included soft loan schemes for financially distressed firms, policy of merging financial distressed firms, establishing an industrial reconstruction bank and so on.

Approaches to Resolving Non-Performing Assets during Financial Crises" published by IMF in the book "Building Strong Banks through Surveillance and Resolution".

According to him "Non-Performing Assets are generally a manifestation of weakness in the corporate sector (obligor of the assets) and immediate source of problem in the financial sector (holder of the assets). Effective assets management policies need to be recognize these linkage and the interdependence between two sectors. In this sense, asset management policies cannot be independently formulated and must be conceived in the context of a comprehensive framework for the restructuring of the financial and the corporate sectors".

In this chapter, he has explained two assets management approaches that have been used extensively during the recent Asian crises to help face plate the restructuring of the financial and the corporate sectors: assets management companies serving primarily as a vehicle for financial restructuring and out of court centralized corporate debt workout frame work for corporate restructuring.

Finally, he concluded that these approaches have inherent weakness and their dependence on government involvement is likely to lead to outcomes that are neither the most efficient nor the optimal in normal times.

Mr. Bhuwan Dahal and Mrs. Sarita Dahal (2002) in their book "A Hand Book to Banking" have dealt with different aspects of banking. As per their view, banks have gained paramount trust in the public and they are rendering wide range of services covering different strata of society.

"A bank is judged on the basis of capital, assets quality, management, earning, liquidity and sensitivity to market risk (CAMELS). Almost all the government banks are running at loss. Though almost all the private sector banks are showing profit, it is very difficult to call them sound if appraised from CAMELS approach. Some banks have very low Capital Adequacy Ratio (CAR) while some banks have piled up Non-Performing Assets (NPAs). Similarly, banks do not have proper system in place for management of market risks. The people have been raising questions over the correctness of credit classification and provisioning of some banks should the suspicion come true, it will prove very costly to the depositors, creditors and national economy as a whole. It would be prudent to advice NRB to strictly implement its recently introduced directive so that other banks overt the fate of NBL, RBB and NIDC".

They stated that loans and advances dominate the assets side of the balance sheet of any bank and earning from such loans and advances occupy a major space in income statement. "Most of the banks failures in the world are due to shrinkage in the value of the loan and advances. Hence, loan is known as risky assets. Risk of non-repayment of loan is known as credit or default risk. Performing loans have multiple benefits to the society while non-performing loan erodes even existing capital. If loan is given to viable project not only lenders and borrowers but also the whole society gets benefit but society loses its scarce capital if loan is given to project which is not viable".

As per their view, there is risk inherent in every loan and efforts should be made to have proper control in every step of loan management. They further suggested that bank should not take risk above certain degree irrespective of returns prospects." Through all the loans are good at the time of disbursement, with the passes of time, they show the sign of problem. Based on the health of the loan, the loan should be classified and provided accordingly. Provisioning is made as cushion against possible losses and to reflect the true picture of bank's assets. Hence, there is practice of showing net loan (Total loan – Loan loss provision) in financial statements. The bank should comply with the statutory regulation relating to loan classification and provisioning.

Rodman (2005) has written a chapter entitled “Progress towards the Resolution of Non-Performing Loans” in a book “Corporate Restructuring: Lesson from Experiences” published by World Bank.

In this chapter, the writer has recommended that multiple strategies should be used to resolve non performing loans, depending in part, on the effectiveness of legal and regulatory institution. The seller of non performing loan need to view the problem realistically, accept that non-performing loan sell for substantially less than face value, and close transaction at market clearing prices. Seller should welcome foreign investment and financial advise to guide transaction, ensures transparency, and carry out due diligence.

Similarly, he recommended “Government needs create resolution friendly non-performing loan regulation, including market-clearing principal for the disposition of non performing loan, and to enforce them through strong political leadership. Capital and bailout monies are required to make the process work, along with efforts to promote transparency and support the development of capital market”.

2.3 Review of the Working Papers, Seminar Papers and Reports

A SEACEN Seminar Paper (2001) had prepared in Taipei on “The NPL Resolution Mechanism and its Impact on Financial System.” As per this paper, Thailand also took legal and regulatory initiatives as taken by its counterparts to the impacts of crisis, further to resolve the problem of non-performing loans. In this regard, establishment of Deposit Insurance Agency, their Credit Bureau, Central Credit Information Service, Empowerment of the Bank of Thailand were the important steps towards legal reform. In addition, risk-based consolidated supervision of financial institutions, internal reform and capacity building of the bank of Thailand, financial sector master plan brought into execution for the stability of financial system. Concerning to the non-performing loans resolution, a series of measures have been implemented. Among them, Financial Sector Restructuring Authority (FRA) and Corporate Debt Restructuring Advisory committee (CDRAC) were formed initially aiming to rehabitate and liquidate the assets of financial companies and to promote voluntary out-of-court corporate debt workout. Later on, with the view to enhance the stability of the financial sector and promote efficient management of NPLs. “Thai Assets Management Corporation (TAMC)” came into effect in June 2001. Nonetheless, Thailand has also encouraged establishing bank based asset management company. Following the above reforms, Thailand became able to lower down the non-performing loans from 45.0 percent in 1998 to 13.0 percent in July 2001. (Cited from Prashikshan, NRB Training Center, 2004)

Cho, J. (2003) had prepared a Lecture note at workshop on “Financial Reform in Korea Experience and Simplification.” As per this notes, South Korean economy revealed a successive large corporate insolvencies and the enlargement of NPLs since the end of 1997. In order to resolve financial crisis there by, non-performing loans, South Korea took measures like : closing non-viable financial institutions (the total number of financial institutions reduced to 178 as April 2003 from 238 in January 1998), strengthening prudential regulation and supervision, improving transparency of financial institutions management, introduction of financial holding companies, relaxation of ownership restriction of commercial banks and restoring Korean Asset Management Company (KAMCO) and Korean Deposit Insurance Corporation (KDIC).

The main objective of strengthening KAMCO and KDIC was to dispose NPLs and recapitalize financial institutions by raising public funds. Both the entities did wonder such that the level of NPL reduced from 21.8 percent of total loans in June 1998 to 2.7 percent at the end of the March 2003.

National Planning Commission (2005) had published progress report of implementation of Tenth Plan. As per this report about financial sector reform, Nepal’s financial sector is very weak and lacks competitiveness. In the past, the government made attempts to inject fresh capital in publicly-owned companies and to introduce expertise by opening up the sector to foreign joint ventures. However, the sector remains dominated by two-government owned and semi owned-commercial banks that account for almost one-half of the total transaction volume. Both of these banks are in serious trouble, as their non-performing assets exceed the acceptable limit.

The government has been implementing a financial sector reform program since July 2002 to address the weakness of the sector, which even though not directly pro-poor has a direct bearing on the larger economic environment that in turn influences economic environment that in turn influences economic growth and poverty reduction. The reform objective include making the two problematic banks financially sound through improved accounting and auditing standards and loan recovery, strengthen the monitoring, and regulatory capacity of the Central Bank and legislative and institutional framework, and to eventually restructure and privatize the banks. The reform also includes restructuring the state-owned Nepal Industrial Development Corporation, an industrial financial institution, and the agriculture development banks, both of which face serious financial problems.

International consultants were hired to manage two banks and implement the reforms during the transaction. The new management have under taken a series of measures to improve performance. The two banks, Nepal Bank Limited and the Rastriya Banijya Bank and operating losses of over Rs. 2 billion and Rs. 7 billion respectively when the reform were started. Both the banks have reported operating profits. In summary, the reform have helped to check the speed at which the two banks were failing but they still have large stocks of non-performing assets. The reforms have also resulted in progress in terms of rationalizing the workforce, financial disclosure, credit appraisal mechanism, improved revenue and cost control.

The banking sector also has a new legislative framework that grants greater independence to the central bank and empowers it to better perform its regulatory functions. The central bank has also introduced accounting standard in the financial sector.

Measures taken to resolve the crisis and NPLs in Asian countries Legislative and institutional arrangements were the prominent measures adopted to overcome the problems of non-performing loans largely caused by the weak financial programs, policies and practices.

2.4 Review of the Relevant Article/Journals

In the article by Mr. Deependra B. Chhetri, titled "Non Performing Assets: A need for Rationalization", the writer has attempted to provide conation of the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian Region. He had also given possible measures to contain NPA. "Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing".

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPAs are classified according to international practice into 3 categories namely Substandard, Doubtful and Loss depending upon the temporal position of loan default. "Thus the degree of NPA assets depends solely on the length of time the asset has been in the form of non obliged by the loaner. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. As per Mr. Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system, credit program sponsored by Government, slowdown in economy/recession, diversion of fund are some of the factors leading to accumulation of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extend to extra amount that requires by regulation of supervisory authority in the form of provisioning as the amount required for provisioning depends upon the level of NPAs and their quality. As per his view, rising level of NPAs create a psyche of worse environment especially in the financial sector. He mentioned that by reviving the activities of the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc. NPAs can be reduced.

Finally, he concluded that financial institutions are best with the burden of mounting level of NPAs in developing countries. "Such assets debar the income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPAs cannot be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigour to gear up the banking and financial activities in more active way contributing to energizing growth.

'Portion of NPA in Commercial Banks – High in Public, Low in Private'

Mr. Narayan Sapkota has written an article titled "Portion of NPA in Commercial Banks – High in Public, Low in Private" which was published in Rajdhani on 19 May 2004. In this article, Mr. Sapkota has stated the problem of NPL is seen less in private banks in comparison to Public banks. The NPA of two big nationalized banks being about 60% of the total loans is very serious situation. He further mentioned that in order to improve this situation and to make healthy banking environment, financial reform program has been brought as its consequences, the management of two big banks was handed to foreign company on a contract but the ratio of NPA was not reduced.

Even most of the privately owned banks has NPA within international standard, some privately owned bank's NPA is higher than international standard. As per international standard 5% NPA is acceptable. He also states that, Nepal's total NPA of banking sector is 30%, which is very high.

'Credit Sector Reform & NRB'

Mr. Binam Ghimire in his article titled "Credit Sector Reform & NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is common across most of the banks is the increased size of non performing assets (NPAs). To resolve the problem of the losses or likely losses of this nature facing the industry, NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years."

As opined by him, since majority of the loans of most of the commercial banks of the county at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lendable as they help to strengthen banks financially. He added that we also must remember that the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that loan loss provisioning as a percentage of total credit of April 12, 2001 as 5.2% but as April 13, 2003, it has jumped to 18.39%. If only private banks are considered, it is 2.12% of April 2001 where as it is 6.30% as of April 13, 2003. The total increment in LLP is Rs. 11, 328.11 million and the total increment in credit is only Rs. 7,976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns.

In the conclusions he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis. "All prudential directives of NRB in connection credit sector reform have been made revised on after April 2001. To adapt to such changes there can be some difficulties and for a better & harmonized reform NRB should continue to be supportive, proactive and also participative to take opinions of bankers for change in regulation/policy taking place in the future".

'Why Asset management Co. is considered the best option to resolve the non-performing loan problem?'

Mr. Bhishma Raj Dhungana in his article titled as above has tried to highlight one of the approach mainly Asset Management Company (AMC) for resolving the problem of NPL. As per him, AMC is the specialized financial intermediary to management non-performing and distress loans of banks and financial institutions who buy the NPL from financial institution and take necessary steps to recover the maximum value from the acquired assets. As per his view, if NPLs are not resolved in time there would be inherent direct of indirect costs to the economy. As stated by him NPL may arise due to the external factors like decrease in market value of collateral, deterioration in borrower's repayment capacity, economic slowdown, borrower's misconduct, improper credit appraisal system, lack of risk management practice, ineffective credit monitoring and supervision system. Hence, he suggested that, NPL should be kept at minimum level and the specialized institution such as AMCs should management the distressed loans.

He says that, both traditional approach and AMC are available to deal with NPL problem. Under traditional approach, bank handles the NPL's in its own way especially through recovery unit who focus on continuing negotiation with the borrower and give top priority to the loan recovery. As opined by the writer, this approach is useful in dealing with small business loans where personal touch is adopted but for big loans this approach does not work. "AMCs seem as the only realistic option when the financial sector recovery is the underlying objective in financial system where the institution fails to resolve the

NPL problem through their own effort. He states that the main advantage of establishing AMC is that AMC is able to move in an expeditious manner removing the distraction of managing NPLs from the banking system and frees up resources within the financial institutions allowing them to concentrate on their core activities.

He concludes, "as in most of the countries, Nepalese Financial system is largely dominated by the banking sector. The banking sector is severely affected by the NPL problem, it is estimated that NPL of the Nepalese Banking system is around 16%. Therefore, there is no doubt that it has serious implication on the economic performance of the country. It will be the eclipse in the development of financial soundness in the economy, if not controlled in time. However, traditional or AMC root can be practiced to get recovery from this sickness of the financial system, the AMC root can be practiced to get recovery from this sickness of the financial system, the AMC root may be more effective approach to be quick recovery as it has been experienced around the world.:

'Loan Loss Provision Rises Notably'

In a post titled 'Loan Loss Provision Rises Notably' published in The Kathmandu Post, the reporter had made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks. "The banking sector is witnessing a huge surge in loan loss provisioning reserves lately. The increment is primarily a result of a directive issued by Nepal Rastra Bank (NRB) in 2001 that introduced stringent loan provisioning criteria for commercial banks. As per data recently released by the central bank, the total loan loss provision in the country's banking sector increased from around Rs. 8.73 billion in mid-April 2001 to Rs. 13.18 billion in mid-April 2003. The increment is over 51 percent. As per the latest NRB figures, a remarkable surge has been seen in loan provision of Nepal Bank Ltd. (NBL). Against the provision of Rs. 1.7 million in mid-April 2002, the loan provision amount surged to a whopping Rs. 7.33 billion in a year."

The reporter further states that apart from the two technically insolvent government-invested banks, loan provision of other joint venture private banks has also risen significantly and the notable increments seen in the loan loss provisioning amounts is due to eight-pint prudential directives that the central bank issued in mid-2001 to all commercial banks.

The reporter concludes, “The directives laid down stringent guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directive requires loans to be provisioned to the extent for cent percent if payment id defaulted for one year. Likewise, the directives require loans to be provisioned to the extent of 25 percent if payment is defaulted for over three months and 50 percent if the period of default extends beyond six months. The earlier directive required progressive provisioning of loans, but allowed a maximum of three years, unlike the present system of just a year, for loans to be provisioned to the extent of cent percent.”

‘Doubtful Debtors and changed New Provision’

The article titled as above was written by Mr. Suman Sapakota, which was published in Nepal Bank Patrika, Jestha-Magh 2058. As per his view, the main purpose of establishment of bank in to collect idle fund general public disburses them to needy people/institution in the form of loans and advances. Loans and advances are given for a certain period of time but it is not sure that all the loans are recovered within time. The function of any commercial bank is considered successful only when the loans and advances are recovered easily within stipulated time. Hence, it is often said that, it is easy to disburse loans but as much hard to recover loans and interest.

He stated that as per new provision, loans and advances are classified on the basis of ageing of past dues and collateral value. On that basis loans and advances need to be classified into four categories namely, pass, substandard, doubtful and loss. With the change in time and demand, change was made in provision of loan classification and provisioning. He has also mentioned that previously loans and advances are categorized into six categories as pass, acceptable, indicative substandard, doubtful and loss. With the old provision the loan would be non performing only if it is past due for more that 1 year but as per new provision, the loan would be non performing if the loan is past due for more than three months.

He opined by the writer, these changed provisions would contribute to healthy, transparent and increased risk bearing capacity of the banks. If NPL increases it affects adversely to the various sectors. Hence, the writer concluded with the hope that the new provision if properly implemented would help to reduce NPL and helps banks from financial crisis.

'Bad Loans of Banking Sector – Challenges and Efforts to Resolve it'

Mr. Him Pd. Neupane, in his article titled as above, has thrown some views regarding bad loans of banking sector. As mentioned by him there was various types of risk inherent in the credit. One, who manages risk, earns profit. He further added that the recent financial crisis in banking sector is due to weak accounting procedures, defect in loan classification, lack of transparency, loss control measures etc.

Like the other writers, Mr. Neupane has also stated that NPL is the indicator of financial crisis and the factors leading to NPL in economic slowdown, recession, bad intention of the borrower, lack of credit policy, increase in interest rate etc. NPL increases resource mobilization cost and reduce profit-earning capacity of the bank. He has also mentioned that international standard of acceptable NPA is 4% but there is about 26% NPL in Nepalese banking sector which is due to high level of NPL of two nationalized banks. As stated by the writer, the major implications of NPL are banks cannot return depositors money on demand and its limits lending capacity of the bank. The writer has suggested internal and external measures for reducing NPL and its effect. Internal measures comprise classification of loans and advances and providing provisions for probable loss and external measures comprises of help from Credit Information Bureau (CIB), appointment of Asset Management Company (AMC) and Debt Recovery Tribunal (DRT).

He has concluded, “Banks must give priority for reducing NPA. He has also mentioned that many countries are adopting various measures for reducing loan loss. Recently the president of Philippines has announced tax rebate system for reducing NPA. Now, it is high time to improve bad debts of banking sector with firm determination.

2.5 Review of Dissertation

Ms. Anjana Shilpakar (2003) in her thesis, “A Study on Lending Practices of Finance Companies of Nepal’ aimed to analyze performance of finance company regarding lending quantity and quality and its contribution in profitability. She concluded that Loans and Advances in one of the main sources of income of finance companies. This is what is also shown by the high degree positive correlation between total income and Loans and Advances. “Loan Loss Provision is like a by product of Loans and Advances, thus, with Loans and Advances, Loan Loss Provision does increase in synchronize.”

She recommended that Loans and Advances of finance companies are increasing and so are the Non-Performing Loans and Loan Loss provision. Hence, extra efforts should be enforced to control over NPL

Ms. Anju Khadka (2002) has carried out research on “A Comparative Study on Investment Policy of Commercial Banks” with an objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL.

She concludes “NBL is comparatively less successful in on balance sheet as well off-balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the competitive market of banking. Profitability positions of NBL is comparatively worse than that of other CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and its all customers if it cannot increase its volume even in future."

As the banks experience many difficulties in recovering the loans and advances and their large amount in being blocked as non performing assets, she suggested that there is an urgent need to workout a suitable mechanism through which the overdue loan can be realized.

Mr. Dev Raj Adhikari (2002) of his study on "Evaluating the financial performance of Nepal Bank Limited". The main objectives of the study are to examine the deposit trend, costs of deposits, mobilization, assess the investment portfolio of the bank ,credit operation of the bank ,liquidity and profitability ,earning and dividend paying ability of the bank and finally provide suggestion based on the findings.

The major findings are, the fixed deposit had the highest share of deposit in the bank with the current deposit share remaining the lowest in share. The growth in total deposit, average growth in total deposits, average growth in cost of deposit loans and advances share in the investment, investment portfolio on government securities increases (risk less asset portfolio) which is not principal of the commercial banks. Liquidity position of the bank is not so bad , return on capital , EPS is in declining trend.

Mr. Raja Ram Khadka (1996) in his thesis on "A Study on the Investment Policy of Nepal Arab Bank Limited in Comparison to Other Joint Venture Banks of Nepal" has concluded that NABIL is comparatively less successful in on balance sheet utilization a well as off balance sheet operations than that of other JVBs. Mr. Khadka warned that in coming days NABIL may be behind in the competitive market if it cannot mobilize its resources as efficiently as other JVBs. He recommended, "The bank most utilize depositors money as Loans and Advances to get success in competitive banking environment. The largest item of the bank in the asset side is Loans and Advances. Negligence in administrating this asset could be the main cause of a liquidity crisis in the bank and one of the main reasons of a bank failure."

Ms. Shama Bhattarai (2004) in her study "Implementation of Directives Issued by Nepal Rastra Bank: A Comparative Study of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited" has made an attempt to analyze various aspects of NRB Directives with respect to Capital Adequacy and Loan Classification and Provisioning. As per her view the process of continual review and classification of loans and advances enables banks to monitor the quality of their loan portfolios and to take remedial action to counter deterioration in the credit quality of their portfolios.

She concluded that with the new provisions the banks will have its provision amount increasing in coming years and subsequently profitability of the banks will also come down. However, the true picture of the quality of the assets will be painted in the coming years to come. She recommends, "The banks should be very careful while analyzing the paying capacity of its credit clients. With longer period of past due, the bank will end up increasing its provisions which will keep the bottom line low if the bank is not careful.

Mr. Santosh Pandey (2002) has carried out study on "Nepal Rastra Bank – Directives Their Implementation and Impact on the Commercial Banks: A Case Study of Himalayan Bank Limited" with the objectives to find out the impact of changes in NRB directives on the performance of the commercial banks and to find out whether the directives were implemented or not.

"The directives if not properly addressed have potential to wreck the financial system of the country as they are the only tool of the NRB to supervise and monitor the financial institutions. The directives in themselves are not that important unless properly implemented. The implementation part depends upon the commercial banks. In case commercial banks are making such huge profit with full compliance of NRB directives, then the commercial banks would deserve votes of praise because they would then be instrumental in the economic development of the country. All the changes in NRB directives made impacts on the bank and the result are the followings:

- Increase in operational procedures of the bank which increases the operational cost of the bank.
- A short term decrease in profitability which result to lesser dividends to shareholders and lesser bonus to the employees.
- Reduction in the loan exposure of the bank, which decreases the interest income but the increase the protection of the depositor's money.
- Increase protection to the money of the depositors through increased capital adequacy ratios and more stringent loan related documents.
- Increase demand for shareholder's contribution in the banks by foregoing dividends for loan loss provisions and various other reserves to increase the core capital.

All the aforesaid results lead to one direction; the bank will be financially healthy and stronger in the future. HBL will be able to withstand tougher economic situations in the future with adequate capital and provision for losses. The tough time through which the bank is undergoing at present will prevail only for a couple of years but in the long run, it will be strong enough to attract more deposits and expose itself to more risk with capita cushion behind it. The quality of the assets of the banks will become better as banks will be careful before creating credit. Ultimately, the changes in the directives will bring prosperity not only to the shareholders but also to the depositors, the employees and the economy of the country as a whole.

He recommended that the bank has to make its monitoring and follow up department stronger needs to give priority in human resource development through training to its staffs and make them efficient enough to monitor and collect already disbursed loans.

2.6 Review of Relevant NRB Directives

Loan Classification and Provisioning

NRB issues various directives relating banking regulations and prudential norms. Among various directives issued in 2001 directive No. 2 is relating to loan classification and provisioning.

Directives Relating to Loan Classification and Provisioning (Directive No. 2)

Effective FY 2058/59 (2001/02), banks shall classify outstanding loan and advances on the basis of aging of principal amount into the following 4 categories.

Pass

Loans and advances whose principal amount are not past due and past due for a period up to 3 (Three) months shall be included in this category. These are classified and defined as **Performing Loans**.

Substandard

All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category.

Doubtful

All loans and advances which are past due for a period of 6 months to 1 (one) year shall be included in this category.

Loss

All loans and advances which are past due for a period of more than 1 (one) year as well as advances which have last possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loans and advances failing in the category of Sub-standard, Doubtful, and Loss are classified and defined as **Non-Performing Loan**.

Loan Loss Provisioning

The loan loss provisioning on the basis of the outstanding loans and advances and bills purchases classified as per this directives, shall be provided as follows:

Classification of Loan	Loan Loss Provision
Pass	1 percent
Substandard	25 percent
Doubtful	50 percent
Loss	100 percent

Loan loss provision set aside for performing loan is defined as "General Loan Loss Provision" and Loan loss provision set aside for Non-Performing loan is defined as "Specific Loan Loss Provision". Where the banks provide for loan loss provisioning in excess of the proportion as required under the directives of NRB, the whole amount of such additional provisioning may be included in General Loan Loss Provision under the supplementary capital.

2.7 Interview/Opinion of Experts

Himalayan SJB Rana, Chairman, Himalayan Bank Limited, while giving interview with New Business Age said, "You perhaps unwittingly omitted to mention another measure taken to reduce the NPA – that is the setting up of a special judicial court or tribunal to hear the loan recovery cases. So, now before filing a case in the regular courts, the first step from the bank will be to file it with the tribunal. This law was passed after lots of follow up by us bankers. But even after the bank wins the case from the court and takes the collateral into its possession the bank may find it difficult to sell the property, as is the case even today. The buyers simply do not come forward. When they come they are very few and often they join hands and offer a very small amount. There is a sort of buyers' market here. So, the AMC was proposed. At this moment I cannot say whether this AMC will or will not work well in Nepal. Globally, there are mixed reports. As I have heard, AMCs could not do well in Latin America while they did very well in Thailand, Philippines and Malaysia. Our central bank people have gone there (Thailand, Philippines and Malaysia) and studied how the AMCs functioned there and they are trying to model the proposed AMC of Nepal accordingly. But I think the success of AMC depends on the leadership of the AMC.”

Mr. Yuba Raj Khatiwada, executive director NRB and President of Management Association of Nepal, while giving interview with New Business Age said, “Growth of NPAs has been faster than growth of credit. Management is not professional for many banks, they seem to run by the strength of capital not by expertise.”

Mr. Narendra Bhattarai, Chairman, Nepal Banker’s Association, while giving opinion in The Himalayan Times said “The budget 2004-05 should look into the banking sector’s problems very seriously. Due to fragile law and order situation prevailing in the country and on-going political uncertainties resulting in numerous bandhs, and strikes, the level of non performing loans (NPL) in most banks have increased alarmingly. As per existing government stipulations, five percent of total bank loans, are allowed as NPL. According to existing Nepal Rastra Bank directives, Income tax assessment are done incorporating five percent NPLs, which increases the volume of ‘income tax’ burden on banks that already are under a lot of pressure. Therefore, the provision of NPL should also be applicable for income tax assessment. Banks and financial institutions pay a higher tax by five percent than what the corporate sector is paying.”

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a research during the course of studying a problem with certain objectives. Methodology is the research method used to test the hypothesis in which different process are used to collection, analysis and interpretation of facts and figures. A research methodology helps us to find out accuracy, validity and suitability. Research is a systematic inquiry of any particular topic and methodology is the method of doing research in a well manner. Hence, research methodology is the systematic study of research problem that solves them with some logical evidence.

3.1 Research Design

Research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the study purpose with economy in procedure. To fulfill the objectives of this study, secondary data is used. The study is descriptive as well as analytical.

Research design is the plan structure and strategy of investigation convinced so as to obtain answer to research questions and to control variance. The plan is overall scheme of programmed of the research. It includes on outline of what the investigator will do from writing the hypothesis and their operational implication to the financial analysis of data. (Wolf, and Pant, 1999: 50)

Research design is the specification of methods and procedures of acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. This research is aimed at studying the non-performing loan and loan loss provisioning of commercial bank. For this purpose, this research follows descriptive and analytical research design.

3.2 Population and Sample

Population refers to the entire group people, events or things of interest that a research is about non-performing loan and loan loss provisioning of Nepalese commercial Banks, the population for this study comprises all the licensed commercial banks of the country. A list of licensed commercial banks was obtained from NRB. There are altogether 25 commercial banks in Nepal. The commercial bank of Nepal can be categorized into two types namely public sector and private sector.

Public sector banks include three old banks NBL, RBB and ADB/N and private sector banks comprise remaining 20 banks. Out of the total population following 5 commercial banks were selected as sample for the study by using Judgmental sampling method.

i) Nepal Bank Limited (NBL)
ii) Nabil Bank Limited (NABIL)
iii) Standard Chartered Bank Nepal Limited (SCBNL)
iv) Everest Bank Limited (EBL)
v) Bank of Kathmandu Limited (BOKL)

Nepal Bank Limited was selected from public sector commercial banks and other four major joint venture bank NABIL, SCBNL, EBL and BOKL were selected from private sector commercial banks. So that the study could represent the picture of commercial banks.

3.3 Natures and Types of Data

Since this study aims to assets the performance on the profitability of the bank as well as the influencing variables of NRB, the nature of data is both primary and secondary in nature.

3.4 Sources of Data

Data and information have been collected from both primary and secondary sources. Following are the secondary sources of data used in the study.

- Annual reports, newsletter, Brochure etc. of the subjected banks.
- Financial statistics of Nepal Rastra Bank.
- Laws, guidelines and directives regarding the subject matter.
- Articles published in newspapers, journals, magazines, and other publications.
- Unpublished thesis and dissertation.
- Text books.
- Various reports published by NRB, CIB, NEPSE etc.
- Unpublished official records.
- Others: ascertains, interviews, opinion by the experts.
- Various related websites etc.

3.5 Data Collection Techniques

Data are collected mainly from secondary data. While secondary data are collected through the annual reports of Nepal Bank Limited, Nabil Bank Limited, Standard Charted Bank Limited, Everest Bank Limited and Bank of Kathmandu Limited which were collected from concerned banks and other reports were downloaded from websites. Various publications of NRB were collected from concerned department of NRB. Similarly, reports of Credit Information Bureau have been collected from office of CIB, Thapathali. The reference of NRB directives and text books, Journals, and unpublished dissertations have been obtained by visiting T.U. Central Library and other libraries and Central Department of Management (CDM)'s Library.

3.6 Data Analysis Techniques

The data collected from different sources or recorded systematically and identified. The available information is grouped as per the need of the research work in order to meet research objection. The collected data are presented in appropriate forms of table and charts. For analysis purpose different kinds of appropriate financial tools, statistical tools and mathematical tools have been applied. Further to represent the data in simple form diagrams and graphs have also been used.

3.6.1 Financial Tools

"Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account." (I.M. Pandey, 1999: 108). Financial analysis is the use of financial position and performance and to assess future financial performance." (Wild, Subramanyam, and Halsey, 2003: 13)

3.6.1.1 Ratio Analysis

A ratio is defined as "The indicated quotient of two mathematics expression" and as the relationship between two or more things. (Spring mass and Merriam, 1975: 958)

A widely used tools of financial analysis is ratio analysis. It refers to the numerical or quantitative relationship between two items or variables. It is the expression of the relationship between two items either from balance sheet or from income statement or from both statements.

A ratio helps to the researcher to make quantitative judgment about the firm's financial position and performance. A ratio is calculated by dividing one item of the relationship with the other even though there are many ratios, only those ratios have been calculated which are related to the subject matter. Following ratios have been computed and analyzed in this study.

(a) Loans and Advances to Total Assets Ratio

Loans and advances of any commercial banks represent the major portion in volume of total assets. The ratio of loans and advances to total assets measures the volume of loans and advances in the structure of total assets. The high degree of ratio indicates the good performance of the banks in mobilizing its fund by way of lending functions. However in its reverse side, the high degree is representative of low liquidity ratio. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice versa. This ratio is calculated as follows:

$$\text{Loans and advances to total asset ratio X} \frac{\text{Loans and advances}}{\text{Total Asset}}$$

(b) Loans and Advances to Total Deposit Ratio (CD Ratio)

This ratio is calculated to find out how successfully the banks are utilizing their total deposits on credit or loans and advances for profit generating purpose as loans and advances yield high rate of return. Greater CD ratio implies the better utilization of total deposits and better earning, however, liquidity requirements also needs due consideration. Hence, 70% - 80% CD ratio is considered as appropriate. This ratio is calculated by dividing total credit by total deposit of the bank.

$$\text{Loans and Advances to Total Deposit Ratio X} \frac{\text{Loans and Advances}}{\text{Total Deposit}}$$

(c) Non-performing Loans to Total Loans and Advance Ratio

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

$$\text{Non performing loans to total loans and advances } X \frac{\text{Non Performing Loans}}{\text{Total Loans and Advances}}$$

(d) Loan Loss Provision to Loans and Advances Ratio

This ratio describes the quality of assets in the form of loans and advances that a bank is holding. Since there is risk inherent in loans and advances, NRB has directed commercial banks to classify its loans into different categories and accordingly to make provision for probable loss. Loan loss provision signifies the cushion against future contingency created by the default of the borrower in payment of loans and ensures the continued solvency of the banks. Since, high provision has to be made for non-performing loan, higher provision for loan loss reflects increasing non-performing loan, higher provision for loan loss reflects increasing non-performing loan in volume of total loans and advances. The low ratio signifies the good quality of assets in the volume of loans and advances. It indicates how efficiently it manages loan and advances. It indicates how efficiently it manages loan and advances and makes efforts to cope with probable loan loss. Higher ratio implies, higher portion of NPL in the total loan portfolio. This ratio is calculated as follows:

$$\text{Loan Loss Provision Ratio } X \frac{\text{Loan Loss Provision}}{\text{Total Loans and Advances}}$$

(e) Provision Held to Non-performing Loan

This ratio determines the proportion of provision held to non-performing loan of the bank. This ratio measures upto what extent of risk inherent in NPL is covered by the total loan loss provision. Higher ratio signifies that the banks are safeguarded against future contingencies that may create due to non-performing loan or in other words banks have cushion of provision to cope the problem that may be caused due to NPL. Hence, higher the ratio better is the financial strength of the bank. This ratio is calculated as follows:

$$\text{Pr ovision Held to Non performing loan } X \frac{\text{Total Loan Loss Provision}}{\text{Non Performing Loan}}$$

(f) Return on Loans and Advances

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

$$\text{Re turn on loans and advances X} \frac{\text{Net Profit}}{\text{Total Loans and Advances}}$$

(g) Return on Total Assets Ratio

This ratio is very much crucial for measuring the profitability of the funds invested in the banks' assets. It measures the return on assets. It is computed it dividing the net profit after tax by total assets.

Higher the ratio indicates the higher efficiency in the utilization of the total assets and vice-versa. Ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice versa and calculated by applying the following formula:

$$\text{Net Profit to total assets ratio X} \frac{\text{NPAT}}{\text{Total Assets}}$$

3.6.2 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. "Statistical Analysis is one particular language, which describes the data and makes possible to talk about the relations and the difference of the variables." Following statistical tools have been used in this study.

3.6.2.1 Percentages

A percent is a number of hundredth parts one number to another. Uses of percentages make the data much simpler and grasp. It is the simplest statistical device used in interpretation of phenomenon. It can reduce everything to a common base and thereby helps in meaningful presentation. Mathematicaly, let

A represent the base used for comparison, B represent the given data to be compared with the base, then the percentage of given number in the base may be calculated as

$$\text{Percentage (P\%)} \ X \frac{B}{A} \mid 100$$

3.6.2.2 Measures of Central Tendency

Measures of central value are simple statistical treatments of distribution that attempts to find the single figure to describe the entire distribution. It is the best possible value of a group of variables that singly represents to whole group. In the statistical analysis the central value falls within the approximately middle value of the whole data. Among the several tools of measuring central value, the mean has been used in this analysis where and when necessary. The mean is the arithmetic average of a variable.

$$\text{Mean } (\overline{X}) \ X \frac{X}{N}$$

3.6.2.3 Measures of Dispersion

Dispersion measures the variation of the data from the central value. The central value alone is not enough to analyze the quality of data regarding its variability. With the light of dispersion, an average becomes more powerful and meaningful. Following tools of measuring dispersion has been used in this study.

3.6.2.4 Standard Deviation

Standard Deviation (S.D.) is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution. It can be calculated as follows:

$$\text{Standard Deviation } (\exists) \ X \sqrt{\frac{(X - \overline{X})^2}{N}}$$

3.6.2.5 Coefficient of Variation

The risk per unit of expected return can be measured by the coefficient of variation, which is computed as follows:

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}} \times 100$$

3.6.2.6 Correlation Coefficient (r)

Correlation refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. If between the variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. "Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one is accompanied by the change of another variable." There are different techniques of calculating correlation coefficient. Among various techniques we have used Karl Pearson coefficient of correlation. It is calculated as follows:

$$\text{Correlation Coefficient (r)} = \frac{XY}{\sqrt{X^2 . \; Y^2}}$$

The Karl Pearson Coefficient of correlation always falls between – 1 to + 1. The value of correlation in minus signifies, the negative correlation and in plus signifies the positive correlation. If,

r = 0, there is no relationship between the variables.

r < 0, there is negative relationship between the variables.

r > 0, there is positive relationship between the variables.

r = +1, the relationship is perfectly positive.

R = –1, the relationship is perfectly negative.

The reliability of the correlation coefficient is judged with the help of probable error (P.E.). It is calculated as follows:

$$\text{Probable Error (P.E.)} = \frac{0.6745\,(1 - r^2)}{\sqrt{N}}$$

Where, r = correlation coefficient

N = No. of pairs of observation

If r > 6 P.E., then the correlation coefficient is significant and reliable.

If r < P.E., then the correlation coefficient is insignificant and there is no evidence of correlation.

3.6.3 Trend Analysis

Trend Analysis is one of the statistical tools, which is used to determine the improvement or deterioration of its financial situation. Trend Analysis informs about the expected future values of various variables. The Least square method has been adopted to measure the trend behaviors of these selected banks. This method is widely used in practices. The formula of least square method for the straight line is represented by the following formula.

$$Y_c \; X a \; \Gamma \; bX$$

Where, Y_c = Trend values

a = Y intercept or the computed trend figure of the Y variable, when X = 0

b = Slope of the trend line of the amount of change in Y variable that is associated with change in 1 unit in X variable.

X = Variable that represent time i.e. time variable.

The value of the constants a and b can be determined by solving the following two normal equations.

$$Y \; X Na \; \Gamma \; b \quad Y \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{(i)}$$

$$XY \; X a \quad X \; \Gamma \; b \quad Y \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{(ii)}$$

Where, N = Number of years.

But for simplification, if the time variable is measured as a deviation form its mean i.e. mid point is taken as the origin, the negative value in the first half of the series balance out the positive values in the second half so that ($X \; X 0$).

The value of constant a and b can easily be determined by using following formula.

$$a \; X \frac{Y}{N}$$

$$b \; X \frac{XY}{X^2}$$

3.6.4 Diagrammatic and Graphical Representation

Diagrams and graphs are visual aids that give a bird eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Hence, various bar diagrams, pie charts and graph have been used for presentation and analysis of data.

3.6.5 Regression Analysis

Regression Analysis only the simple has been used to study the influence of independent variables on dependent variables in this study. The simple regression analysis has helped in studying the effect and magnitude of the effect of a simple independent variable on the dependent variables. Regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is known as the simple regression analysis (Sthapit, A.B., 2003). The general form of simple regression can be presented as follows:

$$y \; X a \; \Gamma bx$$

where,

y = dependent variable,

a = intercept of the line,

b = coefficient of independent variables or it measures the rate of relationship and

x = independent variables

The above symbols indicate for this study purpose as:

y = dependent variable like Net Profit

a = intercept

b = coefficient of independent variables

x = Net Profit

The simple regression analysis has been done by using the above specified variables' relationship to get the expected result.

3.7 Research Variable

In this research, focus has been given to non-performing loan of commercial bank in Nepal for the five year. For the analysis, non-performing loan is taken as independent variable and net profit is taken as dependent variables. In this way, effect of NPL on different variables is analyzed under the study.

3.8 Questionnaire

A questionnaire is distributed to the officers of credit department of concerned banks. To find highly correct response, in formal reviews with credit officers are also conducted. In the questionnaire, ten closed end questions are asked. All the questions are concerned with financial performance, NPL and NRB directives.

After highlighting the research methodology, the next chapter concentrates on presentation and analysis of the study.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, efforts have been made to present and analyze the collected data. Data collected from various sources are classified and tabulated as requirement of the study and in accordance to the nature of collected data. Data collected from various sources are changed into an understandable presentation using financial as well as statistical tools supported by diagrams and graphs as mentioned in the previous chapter. This chapter is the heart of the study as all the findings, conclusion and recommendations are going to be derived from the calculations and analysis done in this section.

4.1 Ratio Analysis

4.1.1 Loans and Advances to Total Assets Ratio

Loans and advances to total assets ratio measures the volume of loans and advances in the structure of total assets. The high degree of ratio indicates the good performance of the banks in mobilizing its fund by way of lending functions. Granting loans and advances always carries a certain degree of risk. Thus this assets of banking business is regarded as risky assets. Hence this ratio measures the management attitude towards risky assets. The low ratio indicates low productivity and high degree of safety in liquidity and vice versa. Following table make easier and clear to understand the position of loans and advances in total assets.

Table No. 4.1.1: Loans and Advances to Total Assets Ratio (%)

Banks / Year (Mid-July)	NBL	NABIL	SCBNL	EBL	BOKL
2003	48.87	44.26	30.88	61.21	76.92
2004	45.54	49.00	28.57	62.72	65.23
2005	40.62	51.05	28.31	63.44	63.27
2006	35.85	64.15	38.66	67.33	62.51
2007	35.86	59.47	35.72	63.63	61.44
Mean	41.35	53.59	32.43	63.67	65.87
S.D.	5.20	7.22	4.10	2.02	5.66
C.V.	12.57	13.47	12.64	3.17	8.59

(Source: Annual Reports and Websites of Concerned Banks)

The above table no. 4.1.1 shows the loans and advances to total of five banks for five respective years. This ratio shows decreasing trend in NBL and BOKL but other banks i.e. NABIL, SCBNL and EBL trend is fluctuating trend. The overall ratio of five banks has been ranged from 28.31% of SCBNL in 2005 to 76.92% of BOKL in 2003.

The mean ratio of NBL, NABIL, SCBNL, EBL and BOKL is 41.35%, 53.59%, 32.43%, 63.67% and 65.87% respectively. Hence among the five banks, BOKL has the highest proportion (i.e. 32.43%) and SCBNL has the lowest proportion (i.e. 32.43%) of loans and advances in the total assets structure. This refers that SCBNL has the lowest degree of investment in risky assets. The management of SCBNL is risk averse as they has invested higher proportion of their assets in risk free or nominally risky assets like treasury bills, debentures, National Saving Bonds (NSBS) etc. But mean ratio of BOKL refers that BOKL has the highest degree of investment in risky assets. The management of BOKL is risk taker as they have invested higher proportion of assets in risky assets like common stock.

The standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 5.20, 7.22, 4.10, 2.02 and 5.66 respectively. Coefficient of variation of NBL, NABIL, SCBNL, EBL and BOKL are 12.57%, 13.47%, 12.64%, 3.17% and 8.59% respectively (Appendix-) or the standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 5.20, 7.22, 4.10, 2.02 and 5.66 and C.V.S. are 12.57%, 13.47%, 12.54%, 3.17% and 8.59% respectively (Appendix-). Thus it can be interpreted that NABIL has higher deviation with higher degree of variation in this ratio. Even though this ratio is least of EBL; It has the most consistent ratio and the least deviation during the study period. NBL and SCBNL has higher deviation with higher degree of variation. BOKL is moderate in terms of deviation and variability of ratio during the study period.

4.1.2 Loans and Advances to Total Deposit Ratio

The ratio of loans and advances to total deposit measures the volume of loans and advances in the structure of total deposit. This ratio after is called Credit Deposit ratio (CD ratio). This ratio is calculated to find out how successfully the banks are utilizing their deposits on credit or loans and advances for profit generating purpose as loans and advances yield high rate of return. Greater loans and advances to total deposit ratio implies the better utilization of total deposits and better earning.

Table No. 4.1.2: Loans and Advances to Total Deposit Ratio (%)

Banks / Year (Mid-July)	NBL	NABIL	SCBNL	EBL	BOKL
2003	56.19	50.32	35.97	73.97	85.45
2004	51.79	60.34	31.99	75.45	78.69
2005	50.20	60.55	31.63	75.60	77.60
2006	46.94	75.05	43.49	78.23	68.87
2007	35.95	68.64	39.92	73.57	71.93
Mean	48.21	62.98	36.6	75.36	76.51
S.D.	6.82	8.38	4.51	1.67	5.75
C.V.	14.14	13.30	12.32	2.22	7.51

(Source: Annual Reports and Websites of Concerned Banks)

The above table no. 4.1.2 shows the loans and advances to total deposit of five banks for five respective years. This ratio shows decreasing trend in NBL and BOKL, EBL has increasing trend and NABIL, SCBNL has fluctuating trend. The overall ratio of five banks has been ranged from 31.63% of SCBNL in 2005 to 85.45 of BOKL in 2003. BOKL has the highest ratio for the whole period except in 2006 and 2007.

The mean ratio of NBL, NABIL, SCBNL, EBL and BOKL are 48.21%, 62.98%, 36.6%, 75.36% and 76.51% respectively. Hence among the five banks, BOKL has the highest proportion (i.e. 76.51%) of loans and advances in the total deposit and SCBNL has the lowest proportion (i.e. 36.6%) of loans and advances. NBL, NABIL and EBL has moderate proportion of loans and advances to total deposit. It signifies that NBL and NABIL, EBL and BOKL have been ahead than SCBNL in utilizing depositor's money on loans advances with the objectives to earn profit. This refers that SCBNL has very low investment in the form of loans and advances. The management of SCBNL is risk averse as they have invested higher proportion of their deposit in risk free or nominally risky assets like treasury bills debentures, National Saving Bonds (NSBs) etc.

The standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 6.82, 8.38, 4.51, 1.67 and 5.75 and C.V.S. are 14.14%, 13.30%, 12.32%, 2.22% and 7.51% respectively (Appendix-). Thus it signifies that SCBNL, NABIL and NBL has higher deviation with higher degree of variation in this ratio. Even though this ratio is least of EBL; It has the most consistent ratio and the least deviation during the study period. BOKL is moderate in terms of deviation and variability during the study period.

4.1.3 Non-Performing Loans to Total Loans and Advances Ratio

Non-performing Loans to total loans and advances ratio determines the proportion of non-performing loans in the total loan portfolio. As per NRB directives the loans falling under category of substandard, doubtful and loss are regarded as non-performing loan. Higher ratio implies the bad quality of assets of banks in the form of loans and advances. Hence lower NPL to total credit ratio is preferred.

Table No. 4.1.3: Non-performing Loans to Loans and Advances Ratio (%)

Banks / Year (Mid-July)	NBL	NABIL	SCBNL	EBL	BOKL
2003	56.27	7.14	4.85	1.04	8.12
2004	60.47	5.55	4.13	2.20	8.67
2005	53.74	3.25	3.77	1.72	6.66
2006	49.64	1.32	2.69	1.63	4.99
2007	25.11	1.25	2.12	1.20	2.52
Mean	49.05	3.72	3.51	1.56	6.19

S.D.	12.47	2.33	0.99	0.44	2.24
C.V.	25.43	62.63	28.06	28.37	36.13

(Source: Annual Reports and Websites of Concerned Banks)

The above table no. 4.1.3 shows the ratio of non-performing loans to loans and advances of NBL, NABIL, SCBNL, EBL and BOKL for five consecutive years. The figure represented in the above table no. 4.1.3 shows that NBL has the highest ratio throughout the study period and also shows decreasing trend. EBL shows the least ratio during the study period. NABIL, SCBNL and BOKL ratio has moderate and shows decreasing trend. Decreasing trend of NPL is the result of effective credit management of bank and its efforts of recovering bad debts through establishment recovery cell. The overall ratio has been ranged from 1.04% of EBL in 2003 to 60.47% of NBL in 2004.

The mean non-performing loan to total loan ratio of NBL, NABIL, SCBNL, EBL and BOKL are 49.05%, 3.72%, 3.51%, 1.56% and 6.19% respectively. This ratio of NBL is significantly high of NBL in comparison to other four banks and portrays the critical condition of the banks. Although this ratio of NBL is reduced in recent year, it shows NBL is managing to reduce this ratio in these recent years. The average percentage of NPL to total loans and advances of EBL is very low than other banks. It shows that EBL's management is very good.

The standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 12.47, 2.33, 0.99, 0.44 and 2.24 and C.V.S. are 25.43%, 62.63%, 28.06%, 28.37% and 36.13% respectively (Appendix-). Thus it signifies that EBL has the least deviation but moderate degree of variation in this ratio. Among the five banks, SCBNL and BOKL has moderate in terms of deviation and variability and NBL has the highest deviation but the least variability of ratio during the study period. NABIL has moderate deviation but highest variability of the ratio during the study period. Since NPL is one of the causes of banking crisis, NBL and even other four banks should give serious attention to this matter. So the management of these all banks should be serious to reduce the NPL.

4.1.4 Loan Loss Provision to Total Loans and Advances Ratio

There is risk inherent in loans and advances, NRB has directed commercial banks to classify its loans into different categories and accordingly to make provision for probable loss. This ratio describes the quality of assets in the form of loans and advances that a bank is holding. Loan loss provision signifies the cushion against future contingency created by the default of the borrower in payment of loans and ensures the continued solvency of the banks. Since high provision has to be made for non-performing loan, higher provision for loan loss reflects increasing non-performing loan in volume of total loans and advances. The low ratio signifies the good quality of assets in the volume of loans and advances. Higher ratio implies, higher portion of NPL in the total loan portfolio. This ratio indicates how efficiently it manages loan and advances and makes efforts to cope with probable loan loss.

Table No. 4.1.4: Loans Loss provision to Total Loans and Advances Ratio (%)

Banks / Year (Mid-July)	NBL	NABIL	SCBNL	EBL	BOKL
2003	55.13	4.67	5.83	2.37	5.64
2004	56.04	4.41	5.07	2.79	6.45
2005	44.45	4.20	5.24	3.48	6.03
2006	48.18	3.30	3.30	3.57	4.37
2007	17.10	2.68	2.94	3.30	3.05
Mean	44.18	3.85	4.28	3.10	5.11
S.D.	14.21	0.74	1.08	0.45	1.24
C.V.	32.17	19.33	25.12	14.64	24.32

(Source: Annual Reports and Websites of Concerned Banks)

The above table no. 4.1.4 shows the ratio of loan loss provision to loans and advances of NBL, NABIL, SCBNL, EBL and BOKL for five consecutive years. The figure represented in the above table no. 4.1.4 shows that NBL has the highest ratio throughout the study period and also shows the decreasing trend. EBL shows the least ratio during the study period and its overall ratio shows increasing trend. NABIL, SCBNL and BOKL are moderate in loan loss provision ratio and this ratio shows decreasing tend. The overall ratio has been ranged from 2.37% of EBL in 2003 to 56.04% of NBL in 2004.

The mean loan loss ratio of NBL, NABIL, SCBNL, EBL and BOKL are 44.18%, 3.85%, 4.28%, 3.10% and 5.11% respectively. The ratio of NBL is significantly high in comparison to other banks. Higher LLP is indicative of poor and ineffective credit policy, higher proportion of non-performing assets and poor performance of the economy. Hence, the greater ratio of NBL suggests that there is high proportion of NPL in the total loans and advances. Decreasing trends of NABIL, SCBNL and BOKL explains that these banks have been successful to reduce its non-performing loan resulting to decreasing LLP. NBL trend is also decreasing. So, NBL is improving to reduce its NPL and LLP.

The standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 14.21, 0.74, 1.08, 0.45 and 1.24 and C.V.S. are 32.17%, 19.33%, 25.12%, 14.64% and 24.32% respectively (Appendix-). Thus it signifies that NBL has higher deviation with higher degree of variation in this ratio. Among the five banks EBL has least deviation with least degree of variation in this ratio and other has moderate deviation and variability ratio.

4.1.5 Provision Held to Non-performing Loan Ratio

This ratio determines the proportion of provision held to non-performing loan of the bank. This ratio measures upto what extent of risk inherent NPL is covered by the total loan loss provision. Higher ratio signifies that the banks are safe guarded against future contingencies that may create due to non-performing loan or in other words banks have cushion of provision to cope the problem that may be cause due to NPL. Hence higher the ratio better is the financial position of the bank. Lower the ratio shows the poor financial performance of bank in the case of loan loss provision.

Table No. 4.1.5: Provision Held to Non-performing Loan (%)

Banks / Year (Mid-July)	NBL	NABIL	SCBNL	EBL	BOKL
2003	97.98	65.35	120.29	228.57	69.52
2004	92.67	79.56	122.58	127.03	74.35

2005	82.72	125.09	112.70	201.90	90.5
2006	97.07	248.97	123.00	218.61	87.38
2007	68.09	214.46	138.97	274.59	121.05
Mean	87.71	146.69	123.51	210.14	88.56
S.D.	11.20	73.00	8.43	47.94	18.03
C.V.	12.77	49.76	6.82	22.81	20.56

(Source: Annual Reports and Websites of Concerned Banks)

The above table no. 4.1.5 shows the ratio of provision held to non-performing loan of NBL, NABIL, SCBNL, EBL and BOKL for five consecutive years. The figure represented in the above table no. 4.1.5 shows that EBL has the highest ratio throughout the study period except in 2006. NABIL, SCBNL and BOKL is moderate in this ratio and shows increasing trend. NBL is moderate in this ratio and shows fluctuating trend. The overall ratio has been ranged from 65.35% of NABIL in 2003 to 274.59 of EBL in 2007.

The mean ratio of NBL, NABIL, SCBNL, EBL and BOKL are 87.71, 146.69, 123.51, 210.14 and 122.32% respectively. This ratio of EBL is significantly high in comparison to other four banks and portrays that the bank has adequate provision against non-performing loan but this ratio of NBL is comparatively lower.

The standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 11.20, 73.00, 8.43, 74.94 and 18.03 and C.V.S. are 12.77%, 49.76%, 6.82%, 22.81% and 20.56% respectively (Appendix-). Thus it signifies that NABIL has the highest deviation along with the highest degree of variation in this ratio. Among the five banks, NBL and BOKL has moderate in terms of variability and SCBNL has the least variability of ratio during the study period.

4.1.6 Return on Loans and Advances

This ratio is calculated by dividing net profit of the bank by total loans and advances. This ratio indicates how efficiently the bank has employed it's resources in the form of loans and advances. This ratio measures bank's profitability with respect to loans and advances. Higher the ratio better is the performance of the bank.

Table No. 4.1.6: Return on Loans and Advances (%)

Banks / Year (Mid-July)	NBL	NABIL	SCBNL	EBL	BOKL
2003	-15.95	3.49	8.41	2.10	0.59
2004	-1.39	5.13	8.45	1.86	1.69
2005	3.96	5.32	8.04	2.36	2.13
2006	10.26	4.75	6.37	2.17	2.27
2007	9.37	4.78	7.16	2.33	2.68
Mean	1.25	4.69	7.69	2.16	1.87
S.D.	9.56	0.64	0.81	0.18	0.72
C.V.	7.65	13.62	10.47	8.28	38.26

(Source: Annual Reports and Websites of Concerned Banks)

The above table no. 4.1.6 shows the ratio of return on loans and advances on NBL, NABIL, SCBNL, EBL and BOKL for five consecutive years. The figure represented in the above table no. 4.1.6 shows that NBL has the highest ratio throughout the study period. NBL shows increasing trend in first four years and then decreasing trend. NABIL is moderate in this ratio and shows increasing trend for three years. NBL shows loss during the period upto 2004 and then NBL shows positive return. The overall ratio has been ranged from -15.95% of NBL in 2003 to 10.26% of NBL in 2006.

The mean ratio of NBL, NABIL, SCBNL, EBL and BOKL are 1.25%, 4.69%, 7.69%, 2.16% and 1.87% respectively. Since the SCBNL has the highest net profit among all the five banks. The standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 9.56, 0.64, 0.81, 0.18. 0.72 and C.V.S. are 7.65%, 13.62%, 10.47%, 8.28% and 38.26% respectively (Appendix-). Thus it signifies that EBL has the least deviation with the least degree of variation in this ratio. Among the five banks, NABIL and SCBNL are moderate in terms of deviation and variability. NBL has the highest deviation with moderate variability. BOKL has the highest variability of ratio during the study period. Thus it can be concluded that even though NBL has the highest exposure on loans and advances, the bank's management is very weak to earn return on loans and advances.

4.1.7 Return on Total Assets

This ratio is calculated by dividing net profit of the bank by total assets. This ratio indicates how efficiency the bank has employed it's resources in the form of total assets. This ratio measures the bank's profitability with respect to total assets. Higher the ratio better is the performance of the bank.

Table No. 4.1.7: Return on Total Assets (%)

Banks / Year (Mid-July)	NBL	NABIL	SCBNL	EBL	BOKL
2003	-7.80	1.54	2.60	1.29	0.46
2004	-6.33	2.51	2.41	1.17	1.10
2005	1.61	2.72	2.28	1.50	1.35
2006	3.68	3.05	2.46	1.46	1.42
2007	3.36	2.84	2.56	1.49	1.65
Mean	-1.10	2.53	2.46	1.38	1.20
S.D.	5.41	0.28	0.012	0.13	0.17
C.V.	49.18	10.99	4.88	9.17	13.83

(Source: Annual Reports and Websites of Concerned Banks)

The above table no. 4.1.7 shows the ratio of return on total assets of NBL, NABIL, SCBNL, EBL and BOKL for five consecutive years. The figure represented in the above table no. 4.1.7 shows that NBL has the highest and lowest ratio through out the study period. NBL has increasing trend for four years. NBL shows negative return in year 2003 and 2004. The other four bank's return has positive. The overall ratio ha been ranged from -7.80% of NBL is 2003 to 3.68% of NBL in 2006.

The mean ratio of NBL, NABIL, SCBNL, EBL and BOKL are -1.10%, 2.53%, 2.46%, 1.38% and 1.20% respectively. Since NABIL's net profit is the highest among all the five banks. The standard deviation of NBL, NABIL, SCBNL, EBL and BOKL are 5.41, 0.28, 0.012, 0.13, 0.17 and C.V.S. are 49.18%, 10.99%, 4.88% 9.17% and 13.83% respectively (Appendix-VII). SCBNL has the least deviation with the least degree of variation in this ratio. Among the five banks NABIL, EBL and BOKL has moderate in terms of deviation and variability. NBL has highest deviation as well as variability.

Table No. 4.1.8: Performing, non-performing loan and loan loss provision of NBL

Year(mid-July)	2003	2004	2005	2006	2007
Performing loan	8419	7167	8298	8494	9645
Non-performing loan	10834	10965	9640	8372	3234
Loan loss provision	10615	10161	7974	8127	2202

Figure No. 1

Performing, Non-performing Loan and Loan Loss Provision of NBL

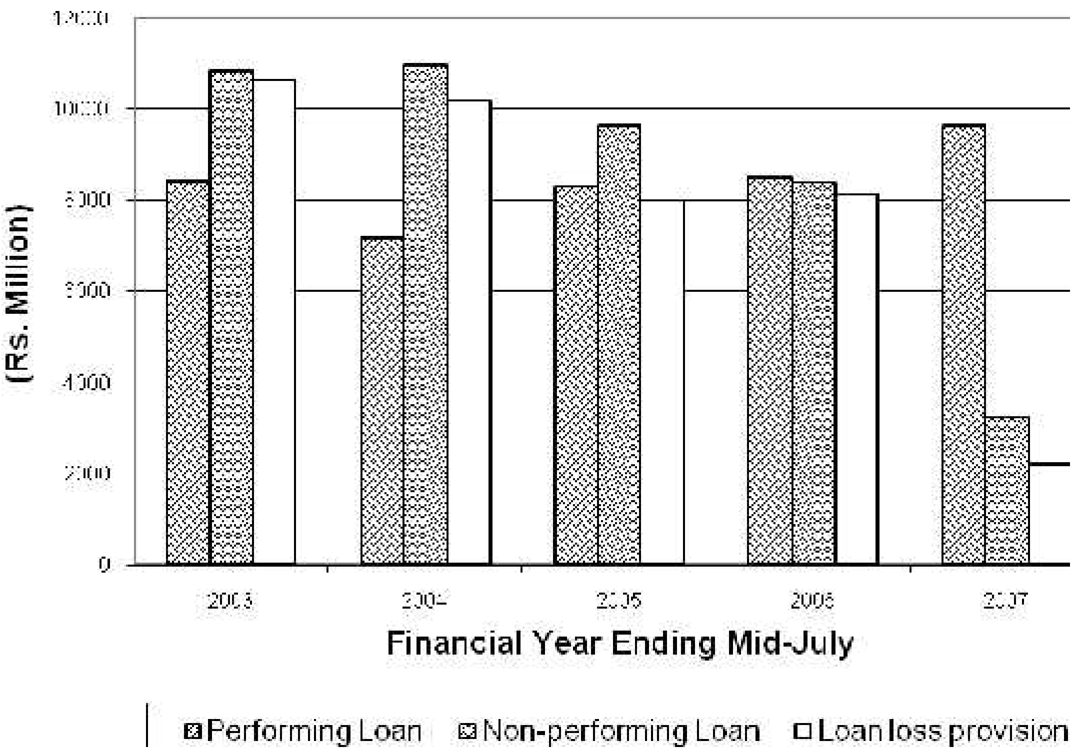


Table No. 4.1.9: Performing, non-performing loan and loan loss provision of NABIL

Year(mid-July)	2003	2004	2005	2006	2007
Performing loan	7245	7664	8262	10802	13096
Non-performing loan	557	450	287	145	166
Loan loss provision	364	358	359	361	356

Figure No. 2
Performing, non-performing loan and loan loss provision of NABIL

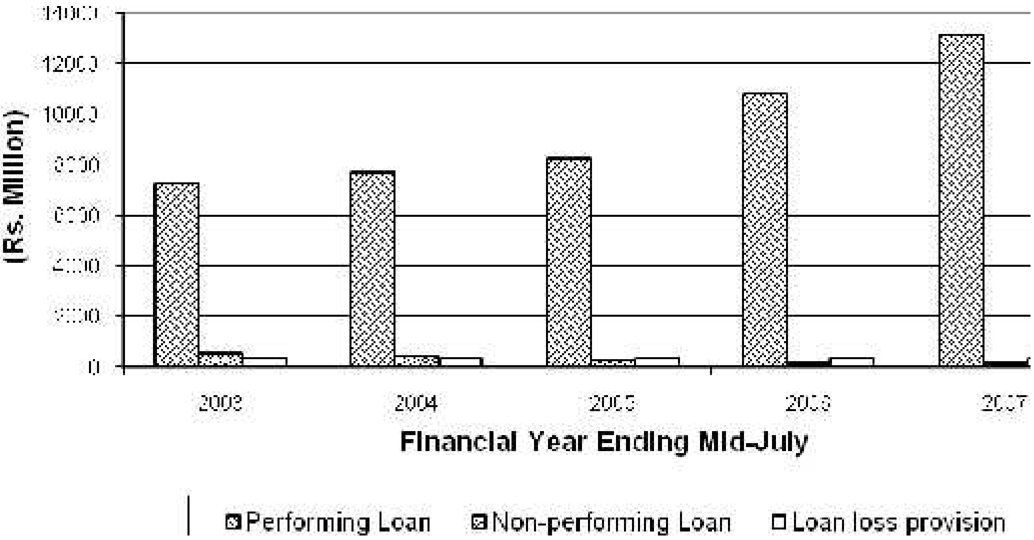


Table No. 4.1.10: Performing, non-performing loan and loan loss provision of SCBNL

Year(mid-July)	2003	2004	2005	2006	2007
Performing loan	5420	5752	6442	8195	9010
Non-performing loan	276	248	252	226	195
Loan loss provision	332	304	284	278	271

Figure No. 3

Performing, non-performing loan and loan loss provision of SCBNL

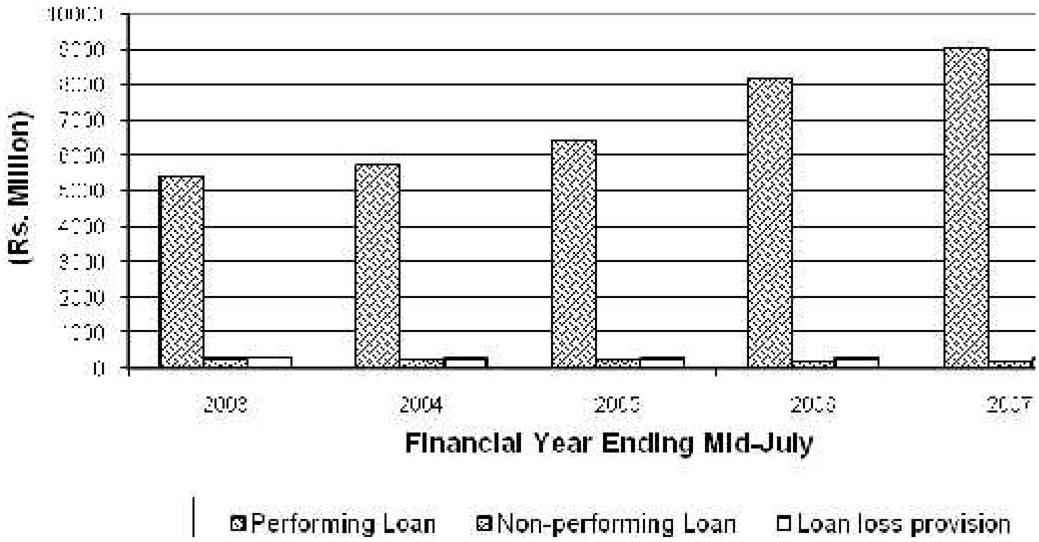


Table No. 4.1.11: Performing, non-performing loan and loan loss provision of EBL

Year(mid-July)	2003	2004	2005	2006	2007
Performing loan	4002	4938	5991	7771	10007
Non-performing loan	42	111	105	129	122
Loan loss provision	96	141	212	282	335

Figure No. 4

Performing, non-performing loan and loan loss provision of EBL

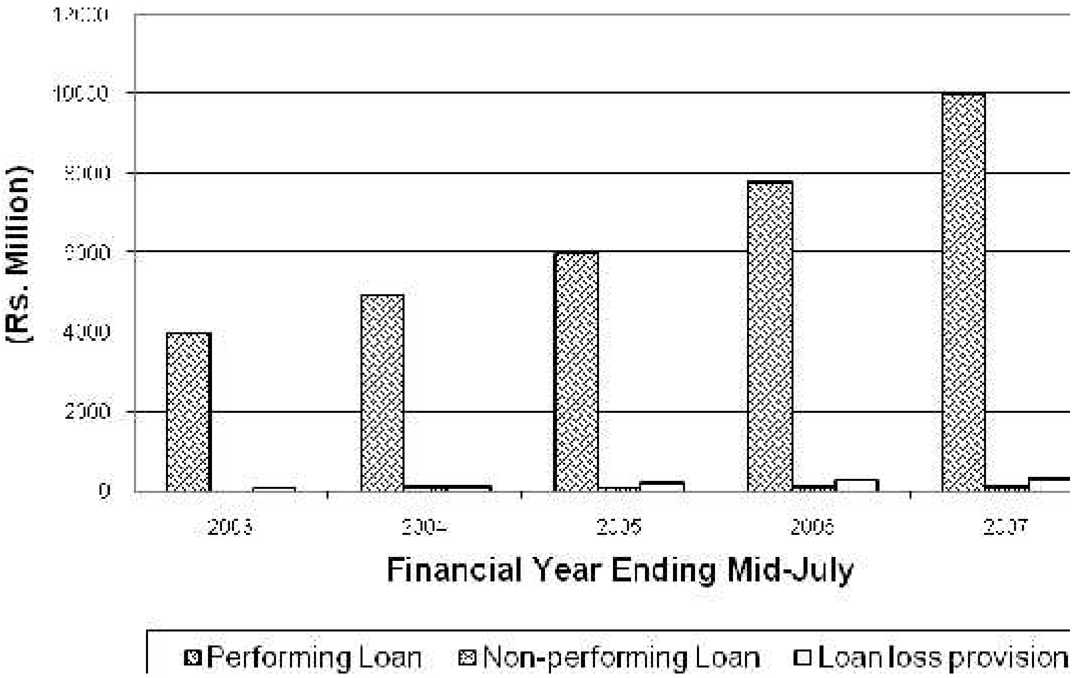
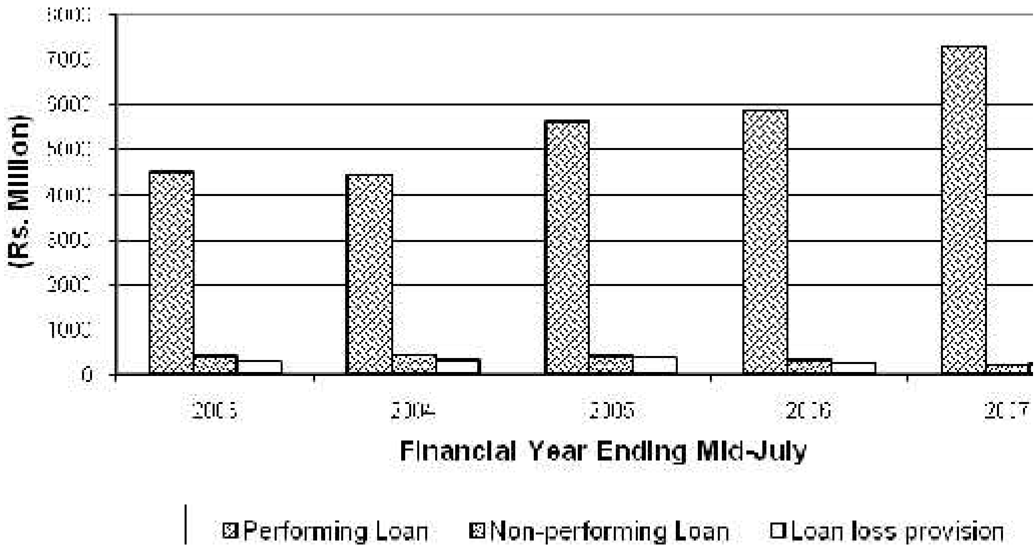


Table No. 4.1.12: Performing, non-performing loan and loan loss provision of BOKL

Year(mid-July)	2003	2004	2005	2006	2007
Performing loan	4493	4435	5608	5874	7285
Non-performing loan	397	421	400	309	190
Loan loss provision	276	313	362	270	230

Figure No. 5

Performing, non-performing loan and loan loss provision of BOKL



4.2 Correlation Analysis

4.2.1 Correlation between Loans and Advances and Deposit

Correlation measures the relationship between two dependent and independent variable. The correlation between loans and advances and deposit shows the degree of relationship between these two items. How a unit increases in deposit impact in the volume of loans and advances is measured by this correlation. Here deposit is independent variable and loans and advances are dependent variables.

Table No. 4.2.1: Correlation between Loans and Advances and Deposit

Banks	Correlation Coefficient (r)	Probable error (P.E.)	6 × PE
NBL	-0.648	0.1750	1.0499
NABIL	0.804	0.1067	0.6400
SCBNL	0.672	0.1654	0.9926
EBL	0.997	0.0018	0.0120
BOKL	0.977	0.0137	0.0823

The above table no. 4.2.1 shows the relationship between loans and advances and deposit. Here correlation coefficient of NBL is -0.648 and it is less than P.E. and even lesser than 6 times the value of its P.E., the correlation coefficient is insignificant. In other words, the total loans and advances of NBL is not correlated with total deposit during the study period. The main reason behind this is, NBL's deposit is increasing but it's loans and advances are decreasing, as NBL has no further investment in the form of loans and advances.

The respective values of correlation coefficient of NABIL, EBL and BOKL are 0.804, 0.997 and 0.977, which are greater than 6 times the value of their respective probable error. Hence it can be interpreted that the correlation between these two variables in NABIL, EBL and BOKL is certain and significant. That means increase in volume of deposit leads to increment in loans and advances of NABIL, EBL and BOKL. The correlation coefficient of SCBNL is 0.672 and it's P.E. is 0.1654 and 6 P.E. is 0.9926. Since r is greater than P.E., there is positive correlation coefficient is said to be insignificant.

4.2.2 Correlation between Loan Loss Provision and Loans and Advances

Here loans and advances is independent variable and Loan loss provision is dependent variable. The correlation coefficient between loans loss provision and loans and advances describes the degree of relationship between these two variables. Hence how a unit increases in loans and advances impact in the loan loss provision is measured by this correlation coefficient.

Table No. 4.2.2: Correlation between Loan Loss Provision and Loans and Advances

Banks	Correlation Coefficient (r)	Probable Error (P.E.)	6 × P.E.
NBL	0.975	0.0149	0.0894
NABIL	-0.571	0.2033	1.220
SCBNL	-0.867	0.0749	0.4494
EBL	0.982	0.0108	0.0646
BOKL	-0.482	0.2316	1.3894

The above table no. 4.2.2 shows relationship between LLP and Loans and Advances. Here the respective correlation of NABIL, SCBNL and BOKL are -0.571, -0.867 and -0.482, which are less than P.E. and even lesser than 6 time the value of it's P.E., the correlation coefficient is insignificant. In other words, the total LLP of NABIL, SCBNL, and BOKL are not correlated with the loans and advances during the study period. The correlation coefficient is negative as the loans and advances are increasing but LLP is decreasing due to decreasing in non-performing loan of these banks. The correlation coefficient of NBL and EBL are 0.975 and 0.982, which are greater than 6 times the value of their respective probable error. Hence it can be interpreted that the correlation between these two variables in NBL and EBL are significant and reliable.

4.2.3 Correlation between Loan Loss Provision and Non-performing Loan

Correlation between LLP and NPL shows the degree of relationship between thee two variables. Here non-performing loan is independent variable and loan loss provision is dependent variable. How a unit increases in NPL affect the LLP is measured by this correlation. As earlier mentioned NPL are the loans falling on the category of substandard, Doubtful and Loss Loan and respective provisioning requirement is 25 percent, 50 percent and 100 percent. Higher the NPL, higher will be the provisioning amount.

Table No. 4.2.3: Correlation between Loan Loss provision and Non-performing Loan

Banks	Correlation Coefficient (r)	Probable Error (P.E.)	6 × P.E.
NBL	0.984	0.0096	0.0575
NABIL	0.532	0.2163	1.2976
SCBNL	0.860	0.0786	0.4713
EBL	0.783	0.1167	0.7003
BOKL	0.785	0.1158	0.6946

The above table no. 4.2.9 shows the relationship between LLP and NPL. Here all the five banks have positive correlation between LLP and NPL. That means increment in NPL leads to increment in LLP. The correlation coefficient of NBL, SCBNL, EBL and BOKL are 0.984, 0.860, 0.783 and 0.785 respectively. Since correlation coefficient (r) is greater than 6 times the value of P.E., the correlation coefficient is significant and reliable. In other words, the total LLP of these four banks is highly correlated with the non-performing loan during the study period and the increase in LLP of these four banks is due to increase in NPL for these banks. The correlation coefficient of NABIL is 0.532. It is less than six times the value of P.E. but higher than the value of P.E. Hence there is positive correlation between NPL and LLP of NABIL but the correlation coefficient is not significant.

4.3 Analysis of Loan Classification as per New Directive

The new directives issues in 2001, regarding loan classification and provisioning was effective from fiscal year 2001/02. According to the new directive, loans and advances are to be classified into four categories, namely, pass, substandard, doubtful and loss with respective provisioning 1 percent, 25 percent, 50 percent and 100 percent respectively on the basis of period of past dues.

4.3.1 Classification of Loan of NBL

According to the new directive issued in 2001 regarding the classification of loan, loans are classified into performing loan and non-performing loan.

Table No. 4.3.1: Loan Classification of NBL

(In million Rs.)

Year (Mid-July)	2003		2004		2005		2006		2007	
	Loan O/S	% of Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total loan
Performing Loan	8418	43.72	7167	39.53	8298	46.26	8494	50.36	9645	74.89
Pass	8418	43.72	7167	39.53	8298	46.26	8494	50.36	9645	74.89
Non-performing Loan	10835	56.28	10965	60.47	9640	53.74	8373	49.64	3234	25.11
Substandard	1319	6.85	1291	7.12	358	2	128	0.76	53	0.21
Doubtful	4038	20.98	2644	14.58	1779	9.92	234	1.38	146	1.33
Loss	5478	28.45	7030	38.77	7503	41.82	8011	47.50	3035	23.57
Total	19253	100	18132	100	17938	100	16867	100	12879	100

(Source: Websites of NBL and NRB)

The above table no. 4.3.1 shows different categories of loans and advances of NBL for the fiscal year 2002/03 to 2006/07. In 2003, the total loan outstanding of NBL is Rs.19253 million. Out of total loan, pass, substandard, doubtful and loss loan comprises 43.72 percent, 6.85 percent, 20.98 percent and 28.45 percent respectively. Hence only 43.72 percent of total loan is performing and remaining 56.28 percent is non-performing. Besides this NBL has the highest degree of loss graded loan followed by doubtful loan and then substandard loan in total NBL. It implies that quality of assets of NBL is very bad.

In 2004, the total loan outstanding of NBL has decreased to Rs. 18132 million but its non-performing loan has increased. Out of total loan pass, substandard, doubtful and loss loan comprises 39.53 percent, 7.12 percent, 14.58 percent and 38.77 percent respectively.

In 2005, the total loan outstanding of NBL has decreased to Rs.17938 million. Out of total loan pass, substandard, doubtful and loss loan comprises 46.26 percent, 2 percent, 9.92 percent and 41.82 percent respectively. In 2005, pass and loss loan has increased but substandard and doubtful loan has decreased. It implies that performing loan has increased and non-performing loan has decreased.

In 2006, the total loan outstanding of NBL has decreased to Rs. 16867 million. Out of total loan pass, substandard, doubtful and loss loan comprises 50.36 percent, 0.76 percent, 1.38 percent and 47.5 percent respectively. In 2006, pass and loss loan has increased but substandard and doubtful loan has decreased.

In 2007, the total loan of outstanding of NBL has decreased to Rs. 12879 million from Rs. 16867 million of 2006. Out of total loan pass, substandard, doubtful and loss loan comprises 74.89 percent, 0.21 percent, 1.33 percent and 23.57 percent respectively. In 2007, pass loan has increased but other loans like substandard, doubtful and loss loan have decreased. It implies that out of total loan performing loan has increased and NPL have decreased in 2007.

4.3.2 Loan classification of NABIL

Table No. 4.3.2: Loan Classification of NABIL

(In million Rs.)

Year (Mid-July)	2003		2004		2005		2006		2007	
	Loan O/S	**% of Total Loan**	**Loan O/S**	**% Total Loan**	**Loan O/S**	**% Total Loan**	**Loan O/S**	**% Total Loan**	**Loan O/S**	**% Total loan**
Performing Loan	7245	92.86	7664	94.45	8262	96.64	10802	98.68	13096	98.62
Pass	7245	92.86	7664	94.45	8262	96.64	10802	98.68	13096	98.62
Non-performing Loan	557	7.14	450	5.55	287	3.36	145	1.32	183	1.38
Substandard	260	3033	77	0.95	22	0.26	22	0.20	63	0.47
Doubtful	231	2.96	279	3.44	66	0.77	2	0.00	30	0.23
Loss	66	0.85	94	1.16	199	2.33	121	1.12	90	0.68
Total	7802	100	8114	100	8549	100	10947	100	13279	100

(Source: Annual Report of NABIL)

The above table no. 4.3.2 shows different categories of loan and advances of NABIL for the fiscal year 2002/03 to 2006/07. In 2003, the total loan outstanding of NABIL was Rs. 7802 million. Out of the total loan, pass, substandard, doubtful and loss loan comprises 92.86 percent, 3.33 percent, 2.96 percent and 0.85 percent respectively. Hence it is clear that 92.86 percent of total loan is performing and remaining 7.14 percent is non-performing. Besides this in 2003, NABIL has the highest degree of substandard loans followed by doubtful loan and then loss loan in total NBL.

In 2004, the total loan outstanding of NABIL has increased to Rs. 8114 million. Out of total loan pass, substandard, doubtful and loss loan comprises 94.45 percent, 0.95 percent, 3.44 percent and 1.16 percent respectively. In 2004, pass and loss loan has increased but substandard and doubtful has decreased.

In 2005, the total loan outstanding of NABIL has increased to Rs. 8549 million. Out of total loan pass, substandard, doubtful and loss loan comprises 96.64 percent, 0.26 percent, 0.77 percent and 2.33 percent respectively. In 2005, pass and loss loan has increased but substandard and doubtful loan has decreased.

In 2006, the total loan outstanding of NABIL has decreased to Rs. 10947 million. Out of total loan pass, substandard, doubtful and loss loan comprises 98.68 percent, 0.20 percent, 0.00 percent and 1.12 percent respectively. In 2006, pass loan has increased but other substandard, doubtful and loss loans are decreased. It implies that performing loan portion in total loan has increased and NPL portion in total has decreased.

In 2007, the total loan of outstanding of NABIL has increased to Rs. 13279 million from Rs. 10947 million of 2006. Out of total loan pass, substandard, doubtful and loss loan comprises 98.62 percent, 0.47 percent, 0.23 percent and 0.68 percent respectively. Comprises 98.62, 0.47, 0.23 and 0.68 respectively. Comparison with 2006, the performing loan has increased but non-performing loan has decreased. It implies that the management of NABIL towards loans is very effective.

4.3.3 Loan classification of SCBNL

Table No. 4.3.3: Loan Classification of SCBNL

(In million Rs.)

Year (Mid-July)	2003		2004		2005		2006		2007	
	Loan O/S	% of Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total loan
Performing Loan	5420	95.17	5752	95.87	6442	96.24	8195	97.32	9010	97.87
Pass	5420	95.17	5752	95.87	6442	96.24	8195	97.32	9010	97.87
Non-performing Loan	275	4.83	248	4.13	252	3.76	226	2.68	196	2.13
Substandard	3	0.05	7	0.12	-	-	10	0.11	17	0.18
Doubtful	140	2.46	130	2.16	131	1.96	105	1.25	66	0.72
Loss	132	2.32	111	1.85	121	1.80	111	1.32	113	1.23
Total	5695	100	6000	100	6694	100	8421	100	9206	100

(Source: Annual Report of SCBNL)

The above table no. 4.3.3 shows different categories of loans and advances of SCBNL for the fiscal year 2002/03 to 2006/07. In 2003, the total loan outstanding of SCBNL is Rs. 5695 million. Out of the total loan, pass, substandard, doubtful and loss loan comprises 95.17 percent, 0.05 percent, 2.46 percent and 2.32 percent respectively. Hence it is clear that 95.17 percent of total loan is performing and remaining 4.83 percent is non-performing. Besides this in

2003, SCBNL has the highest degree of doubtful loan followed by loss loan and as loan in the total NPL.

In 2004, the total loan outstanding of SCBNL has increased to Rs. 6,000 million. Out of total loan pass, substandard, doubtful and loss loan comprises 95.87 percent, 0.12 percent, 2.16 percent and 1.85 percent respectively. In 2004, pass and substandard loan has increased but doubtful and loss loan has decreased.

In 2005, the total loan outstanding of SCBNL has increased to Rs. 6694 million. Out of total loan pass, substandard, doubtful and loss loan comprises 96.24 percent, 0.00 percent, 1.96 percent and 1.80 percent respectively. In 2005, pass and loss loan are increased. But out of total loan NPL has decreased.

In 2006, the total loan outstanding of SCBNL has increased to Rs. 8421 million from Rs. 6694 million in 2005. Out of total loan pass, substandard, doubtful and loss loan comprises 97.32 percent, 0.11 percent, 1.25 percent and 1.32 percent respectively. In comparison with 2005, NPL has decreased. In 2006, pass and loans are increased but doubtful and loss loan are decreased.

In 2007, the total loan of outstanding of SCBNL has increased to Rs. 9206 million from Rs. 8421 million in 2006. Out of total loan pass, substandard, doubtful and loss loan comprises 97.87 percent, 0.18 percent, 0.72 percent and 1.23 percent respectively. In 2007, pass, substandard and loss loan have increased but doubtful loan have decreased. It shows that percentage of performing loan has increased and percentage of NPL has decreased out of total loan in 2007.

4.3.4 Loan classification of EBL

Table No. 4.3.4: Loan Classification of EBL

(In million Rs.)

Year (Mid-	2003	2004	2005	2006	2007

July)	Loan O/S	% of Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total Loan	Loan O/S	% Total loan
Performing Loan	4002	98.96	49.38	97.78	5991	98.28	7771	98.37	10007	98.73
Pass	4002	98.96	49.38	97.78	5991	98.28	7771	98.37	10007	98.73
Non-performing Loan	42	1.04	111	2.22	105	1.72	129	1.63	129	127
Substandard	16	0.40	42	0.83	11	0.18	4	0.05	10	0.10
Doubtful	13	0.32	38	0.75	40	0.66	2	0.05	13	0.13
Loss	13	0.32	31	0.64	54	0.88	123	1056	115	1.04
Total	4044	100	5050	100	6096	100	7900	100	10136	100

(Source: Annual Report of EBL)

The above table no. 4.3.4 shows different categories of loans and advances and the provision provided to each category of loans of EBL for the fiscal year 2002/03 to 2006/07. In 2003, the total loan outstanding of EBL was Rs. 4044 million. Out of the total loan, pass, substandard, doubtful and loss loan comprises 98.96 percent, 0.40 percent, 0.32 percent and 0.32 percent respectively. Hence it is clear that 98.96 percent of total loan is performing and remaining 1.04 percent is non-performing. Besides this in 2003, EBL has the highest degree of substandard loans followed by doubtful and loss loan in the total NPL.

In 2004, the total loan outstanding of EBL has increased to Rs. 5050 million from 4044 million in 2003. Out of total loan pass, substandard, doubtful and loss loan comprises 97.78 percent, 0.83 percent, 0.75 percent and 0.64 percent respectively. In 2004, all performing and non-performing loan has increased.

In 2005, the total loan outstanding of EBL has increased to Rs. 6096 million from Rs. 5050 million in 2004. Out of total loan pass, substandard, doubtful and loss loan comprises 98.28 percent, 0.18 percent, 0.66 percent and 0.88 percent respectively. In 2005, pass, doubtful loan and loss loan has decreased but substandard loan has increased.

In 2006, the total loan outstanding of EBL has increased to Rs. 7900 million. Out of total loan pass, substandard, doubtful and loss loan comprises 98.37 percent, 0.02 percent, 0.05 percent and 1.56 percent respectively. In 2006, pass and loss loan has increased but substandard and doubtful loan has decreased.

In 2007, the total loan of outstanding of EBL has increased to Rs. 10136 million from Rs. 7900 million in 2006. Out of total loan pass, substandard, doubtful and loss loan comprises 98.73 percent, 0.10 percent, 0.13 percent and 1.04 percent respectively. In 2007, pass, substandard and doubtful loan has increased but loss loan have decreased. This implies that the performing loan out of total loan has increased and non-performing loan has decreased. So, the management towards the loan is successful to manage it the NPL of EBL.

4.3.5 Loan classification of BOKL

Table No. 4.3.5: Loan classification of BOKL

(In million Rs.)

Year (Mid-July)	2003		2004		2005		2006		2007	
	Loan O/S	**% of Total Loan**	**Loan O/S**	**% Total Loan**	**Loan O/S**	**% Total Loan**	**Loan O/S**	**% Total Loan**	**Loan O/S**	**% Total loan**
Performing Loan	4493	91.88	4435	91.33	56.08	93.34	5874	95.02	7285	97.28
Pass	4493	91.88	4435	91.33	56.08	93.34	5874	95.02	7285	97.28
Non-performing Loan	397	8.12	421	8.67	400	6.66	309	4.98	204	2.72
Substandard	64	1.31	180	3.71	109	1.81	88	1.40	72	0.96
Doubtful	258	5.28	14	0.29	69	1.15	90	1.46	9	0.12
Loss	75	1.3	227	4.67	222	3.70	131	2.12	123	1.64
Total	4890	100	4856	100	6008	100	6182	100	7489	100

(Source: Annual Report of BOKL)

The above table no. 4.3.5 shows different categories of loans and advances and the provision provided to each category of loans of BOKL for the fiscal year 2002/03 to 2006/07. In 2003, the total loan outstanding of BOKL was Rs. 4890 million. Out of the total loan, pass, substandard, doubtful and loss loan comprises 91.88 percent, 1.31 percent, 5.28 percent and 1.30 percent respectively. Hence it is clear that 91.88 percent of total loan is performing and remaining 8.12 percent is non-performing. Besides this in 2003, BOKL has the highest degree of doubtful loan followed by loss loan and substandard loan in the total NPL.

In 2004, the total loan outstanding of BOKL has decreased to Rs. 4856 million from Rs. 4890 million in 2003. Out of total loan pass, substandard, doubtful and loss loan comprises 91.33 percent, 3.71 percent, 0.29 percent and 4.67 percent respectively. In 2004, pass and doubtful loan has decreased but substandard and loss loan has increased.

In 2005, the total loan outstanding of BOKL has increased to Rs. 6008 million from Rs. 4856 million in 2004. Out of total loan pass, substandard, doubtful and loss loan comprises 93.34 percent, 1.81 percent, 1.15 percent and 3.70 percent respectively. In 2005, pass and doubtful loan has increased but substandard and loss loan has decreased. Hence it is clear that 93.34 percent of total loan is performing and remaining 6.66 percent is non-performing.

In 2006, the total loan outstanding of BOKL has increased to Rs. 6182 million. Out of total loan pass, substandard, doubtful and loss loan comprises 95.02 percent, 1.40 percent, 1.46 percent and 2.12 percent respectively. In 2006, pass loan, doubtful loan and loss loan has increased but substandard loan has decreased.

In 2007, the total loan of outstanding of BOKL has increased to Rs. 7489 million from Rs. 6182 million in 2006. Out of total loan pass, substandard, doubtful and loss loan comprises 97.28 percent, 0.96 percent, 0.12 percent and 1.64 percent respectively. Hence it is clear that 98.28 percent of total loan is performing and remaining 2.72 percent is non-performing. Besides this in 2007, BOKL has the highest degree of loss loan followed by substandard and doubtful loan in the total NPL. It implies that the loan management of BOKL is very good.

4.4 Non-Performing Loans and Net Profit of the Banks

It is well known fact that the net profit of any organization is affected by different factors. In this content, Non-performing loans is a major factor which is directly effect the net profit of commercial banks.

4.4.1 Non-Performing loans and Net Profit of the NBL

There are many factors, which directly or indirectly affect the net profit of the organization. NPL is one of them, which directly affect the profitability of the bank. Therefore, the NPL and Net Profit of five successive years, starting from mid July 2003 to 2007 is presented in the following table and figure.

Table No. 4.4.1: Non-Performing loan and Net Profit of NBL

(In million Rs.)

Years (Mid-July)	NPL	Net Profit	% Change in NPL	% Change in Net Profit
2003	10834	-3071	-	-
2004	10965	-252	1.21	91.79
2005	9640	710	-12.08	381.75
2006	8372	1730	-13.15	143.66
2007	3234	1207	-61.37	-30.23

(Source: Annual Reports and Websites of NBL)

In the above table 4.4.1, we can find that NPL of the NBL is decreasing except 2004 and Net Profit is increasing except 2007. The NPL of NBL in 2003, 2004, 2005, 2006 and 2007 comprises Rs. 10834, Rs. 10965, Rs. 9640, Rs. 8372 and Rs. 3234 million respectively. NPL has increased in 2004 by 1.21 percent but NPL has decreased in 2005, 2006 and 2007 years respectively. The percentage change in NPL in respective years 2004, 2005, 2006 and 2007 comprises 1.21 percent, -12.08 percent, -13.15 percent and -61.37 percent respectively.

The Net Profit of NBL in 2003, 2004, 2005, 2006 and 2007 comprises Rs. -3071, Rs. -252, Rs. 710, Rs. 1730 and Rs. 1207 million respectively. Net Profit of NBL is increased in all the period except 2007 of the study. The percentage change in Net Profit in 2004, 2005, 2006 and 2007 are 91.79 percent, 381.75 percent, 143.66 percent, -30.23 percent respectively.

There is no doubt that the net profit of the bank affected by NPLs. But NPL is not any cause for increment and decrement of the Net Profit. These are many factors other than NPLs, which affect the profit of the bank. But NPL would be a major cause of decreasing of the organization. So the bank has the control its NPLs as efficiently as possible.

4.4.2 Non-Performing Loans and Net Profit of NABIL

Table No. 4.4.2: Non-Performing Loans and Net Profit of NABIL

Years (Mid-July)	NPL	Net Profit	% Change in NPL	% Change in Net Profit
2003	557	272	-	-
2004	450	416	-19.21	52.94
2005	287	455	-36.22	9.38
2006	145	520	-49.48	14.29
2007	166	635	14.48	22.12

(Source: Annual Reports of NABIL)

In the above table no. 4.4.2 shows that NPL of NABIL is decreasing except 2007 and Net Profit of NABIL is increasing trend in all the study period. The NPL of NABIL in 2003, 2004, 2005, 2006 and 2007 comprises Rs. 557, Rs. 450, Rs. 287, Rs. 145 and Rs. 166 million respectively. NPL has increased in 2007 but decreased in 2004, 2005 and 2006 respectively. The percentage change in NPL in 2004, 2005, 2006 and 2007 are -19.21 percent, -36.22 percent, -49.48 percent and 14.48 percent respectively.

The Net Profit of NABIL in 2003, 2004, 2005, 2006 and 2007 are Rs. 272, Rs. 416, Rs. 455, Rs. 520 and Rs. 635 million respectively. Net Profit of NABIL increased in all the period of the study. The percentage change in Net Profit in 2004, 2005, 2006 and 2007 are 52.94 percent, 9.38 percent, 14.29 percent and 22.12 percent respectively.

There are many factors, which affect the Net Profit of the bank, NPL is one of such factor. Therefore, the bank should keep the level of NPL at minimum to earn more profit. NPLs play a key role to increase and decrease profitability of the banks. Therefore, the bank’s effort should be directed towards minimize the level of NPL as possible as the bank can do.

4.4.3 Non Performing Loans and Net Profit of SCBNL

Table No. 4.4.3: Non-Performing loans and Net Profit of SCBNL

(In million Rs.)

Years (Mid-July)	NPL	Net Profit	% Change in NPL	% Change in Net Profit
2003	276	479	-	-
2004	248	507	-10.15	8.85
2005	252	538	1.61	6.11
2006	226	536	-10.32	-0.37
2007	195	659	-13.72	22.95

(Source: Annual Reports of SCBNL)

In the above table no. 4.4.3, we can see the NPL of SCBNL is decreasing except 2005 and Net Profit is increasing except 2006 in the study period. NPL of SCBNL in 2003, 2004, 2005, 2006, and 2007 are Rs. 276, Rs. 248, Rs. 252, Rs. 226 and Rs. 195 million respectively. The percentage change in NPL in 2004, 2005, 2006 and 2007 are -10.15 percent, 1.61 percent, -10.32 percent and -13.72 percent respectively.

Net Profit of SCBNL in 2003, 2004, 2005, 2006 and 2007 are Rs. 479, Rs. 507, Rs. 538, Rs. 536 and Rs. 659 million respectively. Net Profit has increased all the period except 2006. Percentage change in Net Profit in 2004, 2005, 2006 and 2007 are 8.85 percent, 6.11 percent, -0.37 percent and 22.95 percent respectively.

There are many factors, which affect the net profit of the bank. NPL is one of such factor. Therefore, the bank should keep the level of NPL at minimum to earn profit. NPLs play a key role to increase and decrease profitability of the banks. Therefore, the bank's effort should be directed towards minimize the level of NPL as possible as the bank can do.

4.4.4 Non-Performing Loans and Net Profit of EBL

Table No. 4.4.4: Non-Performing Loan and Net Profit of EBL

(In million Rs.)

Years (Mid-July)	NPL	Net Profit	% Change in NPL	% Change in Net Profit
2003	42	85	-	-
2004	111	94	1.64	10.59
2005	105	144	-5.41	53.19
2006	129	171	22.86	18.75
2007	122	237	-5.43	38.60

(Source: Annual Reports of EBL)

In the above table no. 4.4.4, we can see the NPL of EBL increasing in 2003, 2004 and 2006 years but decreasing in 2005 and 2007 years respectively. Net Profit of all period is increasing NP of EBL in 2003, 2004, 2005, 2006 and 2007 are Rs. 42, Rs. 111, Rs. 105, Rs. 129 and Rs. 122 respectively. Percentage change in NPL in respective years 2004, 2005, 2006 and 2007 are 1.64 percent, -5.41 percent, 22.86 percent and -5.43 percent respectively.

The net profit of EBL in 2003, 2004, 2005, 2006 and 2007 are Rs. 85, Rs. 94, Rs. 144, Rs. 171 and Rs. 237 million respectively. Net profit of EBL is increasing in all the study period. The percentage change in net profit in 2004, 2005, 2006 and 2007 are 10.59 percent, 53.19 percent, 18.75 percent and 38.60 percent respectively.

There is no doubt that the net profit of the bank affected by NPLs. But NPL is not any cause for increment and decrement of the net profit. There are many factors other than NPLs, which affect the profit of the bank. But NPL would be a major cause of decreasing of the organization. So the bank has to control its NPLs as efficiently as possible.

4.4.5 Non-Performing Loan and Net Profit of BOKL

Table No. 4.4.5: Non-Performing Loan and Net Profit of BOKL

(In million Rs.)

Years (Mid-	NPL	Net Profit	% Change in	% Change in

July)			NPL	Net Profit
2003	397	29	-	-
2004	421	82	6.05	182.76
2005	400	128	-4.99	56.10
2006	309	140	-22.75	9.38
2007	190	202	-38.51	44.29

(Source: Annual Reports of BOKL)

In the above table no. 4.4.5, we can see the NPL of BOKL is decreasing except in 2003 and Net profit is increasing all the study period. NPL of BOKL in 2003, 2004, 2005, 2006 and 2007 are Rs. 397, Rs. 421, Rs. 400, Rs. 309 and Rs. 190 million respectively. NPL has increased in 2004 but decreased in 2005, 2006 and 2007 respectively. Percentage change in NPL in 2004, 2005, 2006 and 2007 are 6.05 percent, -4.99 percent, -22.75 percent and -38.51 percent respectively.

Net profit of BOKL has increased in all the study period in 2004, 2005, 2006 and 2007. Net profit has increased by 182.76 percent, 56.10 percent, 9.38 percent and 44.29 percent respectively. Net profit of BOKL in 2003, 2004, 2005, 2006 and 2007 are Rs. 29, Rs. 82, Rs. 128, Rs. 140 and Rs. 202 million respectively.

There are many factors, which affect the net profit of the bank. NPL is one of such factor. Therefore, the bank should keep the level of NPL at minimum to earn more profit. NPLs play a key role to increase and decrease profitability of the banks. Therefore, the bank’s effort should be directed towards minimize the level of NPL as possible as the bank can do.

4.5 Trend Analysis

It is a statistical tool, which helps to forecast the future value of the different variables on the basis of past tendencies of variable. Trend analysis in forms about the expected future values of various variables. Among the various method to determine the trend, the least square method is widely used in practices. Hence in this study also least square method has been adopted to measure the trend behavior of these selected banks. However, trend analysis is based on the assumption that pats tendencies continues in the future.

4.5.1 Trend Analysis of Loans and Advances

The calculated value of average loans and advances is denoted by ‘a’ and rate of change of loans and advances denoted by ‘b’. Trend value of loans and advances of five banks for 10 years from mid-July 2003 to mid July 2012 are as follows: (Appendix -)

Table No. 4.5.1: Trend Values of Loans and Advances of NBL, NABIL, SCBNL, EBL and BOKL

(In Million Rs.)

Banks	NBL	NABIL	SCBNL	EBL	BOKL
Year (Mid July)	**A=17013.8 B=-1401.3**	**a=9738.2 b=1378.7**	**a=7203.4 b=944.1**	**a=6649 b=1507.2**	**a=5888 b=663.2**
2003	19816	6981	5315	3635	4562
2004	18415	8360	6259	5142	5225
2005	17014	9738	7203	6649	5888
2006	15613	11117	8148	8156	6551
2007	14211	12496	9092	9663	7214
2008	12810	13874	10036	11171	7878
2009	11409	15259	10980	12678	5841
2010	10007	16632	11924	14185	9204
2011	8606	18010	12868	15692	9867
2012	7205	19389	13812	17200	10530

The above table no. 4.5.1 shows that NBL has decreasing trend but NABIL, SCBNL, EBL and BOKL have increasing trend of loans and advances. The average loans and advances of NBL is Rs. 17013.80 million, which is decreasing at the rate of Rs. 1401.3 million every year. Loans and advances are expected to decrease from Rs. 12810 in 2008 to Rs. 7205 million in 2012. The average loans and advances of NABIL is Rs. 9738.2 million, which is increasing at the rate of Rs. 1378.7 million every year. Loans and advances are expected to increase from Rs. 13874 in 2008 to Rs. 19389 million in 2012.

The advance loans and advances of SCBNL is Rs. 7203.4 million, which is increasing at the rate of Rs. 944.1 million every year. Loans and advances are expected to increase from Rs. 10036 in 2008 to Rs. 13812 million in 2012.

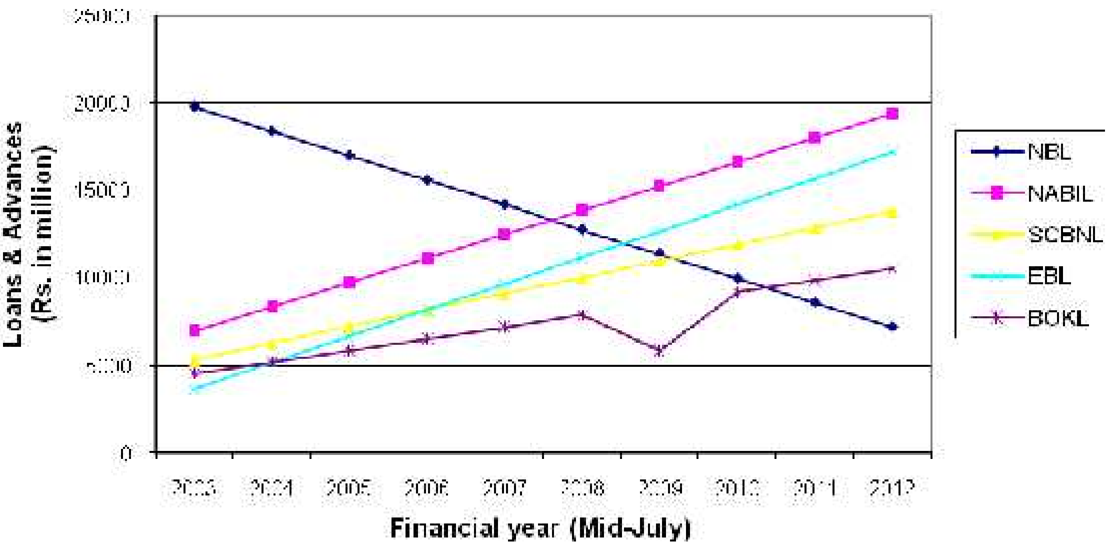
EBL's average loans and advances is Rs. 6649 and increasing every year at the rate of Rs. 1507.2 million and that of BOKL at the rate of Rs. 663.2 million each year. Hence the expected loans and advances of EBL are supposed to increase from Rs. 11171 in 2008 to Rs. 17200 million in 2012. The average loans and advances of BOKL is Rs. 5888 million, which is increasing every year at the rate of Rs. 663.2 million. Accordingly loans and advances from Rs. 7878 million in 2008 to Rs. 10530 million in 2012.

As NBL is suffering from the problems of NPL, they are concentrating more on recovering bad debts and there was no further investment in the form of loans and advances. Hence its loans and advances show decreasing trend. Even though NABIL, SCBNL, EBL and BOK shows increasing trend, rate of investment of BOKL is lower than other three banks. Like the proportion of loans and advances in total assets structure, its increment rate if also low. From this it can be interpreted that BOKL has policy of low investment in loans and advances.

Following figure no. 6 represents the trend line of loans and advances of five banks for 10 respective years.

Figure No. 6

Trend Line of Loans and Advances of NBL, NABIL, SCBNL, EBL and BOKL



4.5.2 Trend Analysis of Non-Performing Loan

The calculated values of average non performing loan is denoted by ‘a’ and rate of change of NPL denoted by ‘b’. Trend value of NPL for 10 years from mid July 2003 to mid July 2012are as follows: (Appendix -)

Table No. 4.5.2: Trend Values of Non-performing loan of NBL, NABIL, SCBNL, EBL and BOKL

(In Million Rs.)

Banks	NBL	NABIL	SCBNL	EBL	BOKL
Year (Mid July)	**a=8609 b=-1779.3**	**a=321 b=-108.7**	**A=239.4 B=-18.4**	**a=101.8 b=17.8**	**a=343.4 b=-51.6**
2003	12168	538	276	66	447
2004	10388	430	258	84	395
2005	8609	321	239	102	343
2006	6830	212	221	120	292
2007	5050	104	203	137	240
2008	3271	-5	184	155	189
2009	1492	-114	166	173	137
2010	-288	-223	147	191	85
2011	-2067	-331	129	209	34
2012	3846	-440	111	226	-18

The above table no. 4.5.2 shows that NP of NBL, NABIL, SCBNL and BOKL has decreasing trend but NPL of EBL is in increasing trend. The average

NPL of NBL is Rs. 8609 million, which is decreasing at the rate of Rs. 1779.3 million every year. NPL is expected to decrease from Rs. 3271 million in 2008 to Rs. -3846 million in 2012. NABIL's average NPL is Rs. 321, which is decreasing every year at the rate of Rs. 1779.3 million. Hence, the expected NPL of NABIL is supposed to decrease from Rs. -5 million in 2008 to Rs. -440 million in 2012.

The average NPL of SCBNL is Rs. 239.4 million, which is decreasing every year at the rate of Rs. 18.4 million. Hence NPL of SCBN is expected to decrease from Rs. 184 million in 2008 to Rs. 111 million in 2012.

The average NPL of EBL is Rs. 101.8 million which is increasing every year at the rate of Rs. 17.8 million. Hence, NPL of EBL is expected to increase from Rs. 155 million in 2008 to Rs. 226 million in 2012.

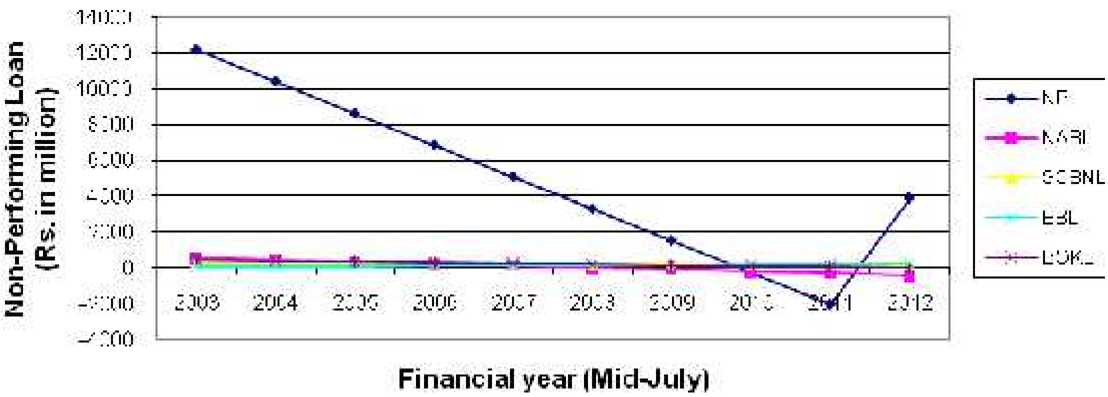
The average NPL of BOKL is Rs. 343.4 million which is decreasing trend in every year at the rate of Rs. 15.6 million. Accordingly NPL of BOKL is expected to decrease from Rs. 189 million in 2008 to Rs. -18 million in 2012.

The NPL of NBL, NABIL, SCBNL and BOKL has decreasing trend but NPL of EBL has increasing trend. The management of EBL must be careful about the NPL.

Following figure no. 7 represents the trend line of Non-performing loan of five banks for 10 consecutive years.

Figure No. 7

Trend Line of NPL of NBL, NABIL, SCBNL, EBL and BOKL



4.5.3 Trend Analysis of Net Profit

The calculated values of average Net profit is denoted by ‘a’ and rate of change of Net Profit denoted by ‘b’. Trend values of Net Profit for 10 years from mid July 2003 to mid July 2012 of the five banks are as follows: (Appendix -)

Table No. 4.5.3: Trend Values of Net-Profit of NBL, NABIL, SCBNL, EBL and BOKL

(In Million Rs.)

Banks	**NBL**	**NABIL**	**SCBNL**	**EBL**	**BOKL**
Year (Mid July)	**a=64.8 b=1053.8**	**a=459.6 b=83**	**A=543.8 B=170.7**	**a=146.2 b=38.1**	**a=116.2 b=40.4**
2003	-2043	294	202	70	35
2004	-989	377	373	108	76
2005	65	460	544	146	116
2006	1119	543	715	184	157
2007	2172	626	885	222	197
2008	3226	709	1056	261	237
2009	4280	792	1227	299	278
2010	5334	875	1397	337	318
2011	6388	985	1568	375	359
2012	7441	1041	1739	413	-399

The above table no. 4.5.3 shows that all the five banks have increasing trend of Net Profit. NBL’s trend shows increment of net profit at the rate of Rs. 1053.8 million each year. The average Net Profit of NBL is Rs. 64.8 million. Net Profit is expected to increase from Rs. 3226 million in 2008 to Rs. 7441 million in 2012.

The average Net Profit of NABIL is Rs. 459.6 million, which is increasing at the rate of Rs. 83 million every year. Net Profit of NABIL is expected to increase from Rs. 709 in 2008 to Rs. 1041 million in 2012.

The average net profit of SCBNL is Rs. 543.8 million, which is increasing at the rate of Rs. 170.7 million every year. Net profit of SCBNL is expected to increase from Rs. 1056 million in year 2008 to Rs. 1739 million in year 2012.

The average net profit of EBL is Rs. 146.2 million, which is increasing every year at the rate of Rs. 38.1 million. Hence the expected NP of EBL is supposed to increase from Rs. 261 million in 2008 to Rs. 413 million in 2012.

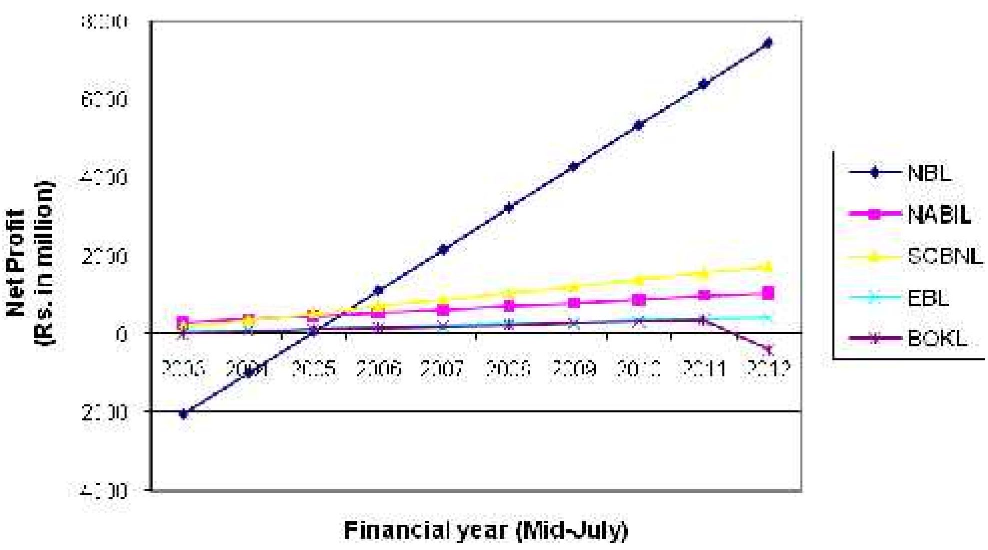
The average NP of BOKL is Rs. 116.2 million, which is increasing every year at the rate of Rs. 40.4 million. Accordingly NP of BOKL is expected to increase from Rs. 237 million in 2008 to Rs. 399 million in 2012.

The above figures depicts that NBL is ahead in generating net profit and its rate of increment of net profit is higher than other banks. Net profit trend of all banks are positive and increasing trend. The rate of change of EBL is lower than that of other banks.

Following figure no. 8 represents the trend line of Net Profit of five banks for 10 consecutive years.

Figure No. 8

Trend Line of Net Profit of NBL, NABIL, SCBNL, EBL and BOKL



4.6 Regression Analysis

Simple Regression Analysis of Net Profit on Non-Performing Loans,

Regression Equation Net Profit = a + b Non-Performing Loans

Table No. 4.6: Simple Regression Analysis of Net Profit on Non-Performing Loans

Banks	Intercept	Reg. Coeff.	R^2	SEE	F-value	t-value
NBL	2953.296	-0.336	0.316	1813.55	1.387	1.143
NABIL	678.337	-0.681	0.834	62.88	15.687	10.776
SCBNL	1043.51	-2.087	0.857	29.98	18.646	8.814
EBL	26.181	1.179	0.437	53.65	2.327	0.318
BOKL	308.73	-0.561	0.687	41.90	6.59	3.99

(Source: SPSS Program)

The above table describes the output of simple regression analysis between net profit and non-performing loans.

The regression coefficient of NBL, NABIL, SCBNL, and BOKL is negative (-0.336, -0.681, -2.087 and -0.561) respectively which indicates that negative correlation exists between NPL and Net Profit of concerned bank i.e. one point increase in NPL leads to an average of about is 0.336, 0.681, 2.087 and 0.561 point decrease in case of NBL, NABIL, SCBNL and BOKL respectively. In case of EBL, 1 point increase in NPL 1.179 point increase in Net Profit holding other variable constant. Similarly the coefficient of determination (R^2) of NBL and EBL is low and NABIL, SCBNL and BOKL is high, it shows that high and low variables. The F-values and t-values are insignificant indicating the regression equation unsatisfied explanation of variation.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A commercial bank means the bank, which deals with exchanging currency, accepting deposit, giving loan and doing other commercial transactions. Therefore, one of the major functions of commercial bank is giving loan. There is not so long history of commercial bank in Nepal. Nepal bank Ltd. (NBL) was established on 60th Kartik 1994 B.S. as a first commercial bank of the country. But now there are 25 commercial banks have been extending their service in different part of the country.

Bank and financial institutions play an important role in the economic development of the country as the issue of development always rests up on the mobilization of resources. Banks deals in the process of channeling the available resources to the needy sector causing overall economic development. This research is aimed at studying the financial performance of commercial banks. For this purpose, descriptive and analytical research design has adopted. Out of the total population of 25 commercial banks, five banks were taken as sample using judgmental sampling method. Nepal Bank Limited was selected from public sector banks and four major joint venture bank NABIL, SCBNL, EBL and BOKL were selected from private sector banks. Specially, secondary data have been used in the study. Data has been collected through questionnaire, direct interviews, telephone interviews, annual reports and other publications. The data collected from various sources are recorded systematically and presented in appropriate forms of tables and charts and appropriate mathematical, statistical, financial, graphical tools have been applied to analyze the data.

BOKL, EBL and NABIL have the highest proportion of the loans and advances in the total assets structure but SCBNL and NBL has relatively lower loans and advances in the total asset structure. The credit deposit ratio also shows the same thing. It indicates the risk averse attitude of the management of

SCBNL. This is higher proportion of NPL in the total loans and advances of NBL. Higher provision of NBL has to be apportioned for NPL, its loan loss provision is also significantly higher than the other banks. EBL has lower NPL and LLP in the total loans and advances ratio. Even the private sector bank like BOKL has higher proportion of NPL and LLP the ratio of provision held to NPL of EBL is the highest followed by NABIL, SCBNL, BOKL and then NBL. Here EBL is fully secured by LLP against NPL but NBL's provision is not enough incase if the entire NPL goes in default. Averse

NBL has the highest proportion of their investment in the most income generating assets. Most of the loans of NBL have become non-performing and hence it is not generating any income instead of demanded high provision for probable loss. SCBNL has higher return on loans and advances with comparison to other banks. Return on total assets of NBL is negative. NABIL has higher return on total assets in comparison with SCBNL, EBL and BOKL.

NBL has negative correlation between loans and advances and deposit. It means these two variables are not correlated the main reason behind this is, NBL's deposit is increasing but it's loan and advances are decreasing, as NBL has no further investment in loan and advances. Correlation of NABIL, SCBNL, EBL and BOKL between loans and advances and total deposit is positively correlated.

NBL and EBL have positive correlation between LLP and loans and advances but these two variables shows negative correlation in case of NABIL, SCBNL and BOKL. This is due to decrease in NPL and increase in loans and advances. Amount to be provisioned depends upon the NPL and its quality. The correlation between LLP and NPL of all the banks have positively correlated it shows that the increase in NPL, LLP also increases.

As per the latest loan classification and provisioning directives, loans and advances have to be categorized into four types namely pass, substandard, doubtful and loss with respective provisioning 1 percent, 25 percent, 50 percent and 100 percent. The loan falling under pass category is regarded as performing loan and that which falls under remaining three categories is regarded as NPL.

NBL has the highest proportion of loss graded loan followed by doubtful and substandard loan in the total NPL which is an indication of bad quality of assets of NBL in the forms of loans and advances. NABIL have higher proportion of loss loan out of total NPL most of the year. SCBNL has doubtful loan higher proportion out of total NPL in most of the year. EBL has higher proportion of loss loan in recent three years. BOKL has higher proportion of loss loan in the total NPL followed by substandard and doubtful loan in recent four years.

NPL of the NBL has been decreased and net profit has been increased in starting years but decreased in 2007 by 30.23 percent. NPL of NABIL decrease in the beginning four years but increased in mid July 2007. Net profit of NABIL has been increased in all the study period. NPL of SCBNL has been decreased in most of the study period. NPL of EBL has been increased in mid July 2004 and 2006 but deceased in 2005 and 2007. Net profit of EBL has been increased in all the study period. Similarly, NPL of BOKL has been increased in Mid July 2004 but it decreased in recent years. Net profit of the BOKL has been increased in all the study period. NPL effects to the net profit inversely.

The trend analysis of loans and advances shows increasing trend in case of NABIL, SCBNL, EBL and BOKL but it is decreasing trend of NBL. Because NBL has not further investment in loans and advances in recent years instead they are concentrating more on recovering bad debt. The trend analysis of NPL shows increasing trend of EBL by Rs. 17.8 million every year but NPL of NBL, NABIL, SCBNL and BOKL shows decreasing trend in coming years. This is due to NBL, NABIL, SCBNL's recovery efforts towards reducing NPL through establishment of recovery cell. The trend of not profit shows increasing trend in all the banks.

There are many problems in today's banking industries. NPL is one of the such major problem, which has been affected severely to the banking industry.

Improper credit appraisal system, ineffective credit monitoring and supervision system, economic slowdown, borrower's misconduct, and overvaluation of collateral, political pressures to lend to not credit worthy parties etc are the major factors leading to NPL. Setting up recovery cell, hiring assets Management Company etc. are some to the measures to resolve the problems of NPL.

Loan classification and loan loss provision also helps to confront the problem thus created due to non-performing loans. The latest directive regarding loan classification and loan loss provisioning is very important for maintaining sound financial health of the banks. The new provisioning directives leads to increment in provision amount of the banks leading to decreasing trend in profitability of the bank but this is only for a short run.

Summary of major findings are as follows:

Summary of Major Findings

- The analysis of loans and advances to total assets and CD ratio of SCBNL is lower than other banks. The relatively low ratio of SCBNL is the indication of risk averse attitude of the management or they have the policy of investing low in the risky assets i.e. loans and advances. Here this ratio is the highest of BOKL. NABIL shows the highest degree of deviation and variability but EBL has the lowest degree of deviation and variability.
- NBL has significantly higher proportion of the NPL in the total loans portfolio. Average ratio of EBL is lower than other banks with less deviation. NBL has highest deviation and lowest variability. NPL of EBL is relatively low but NPL is increasing trend. Other banks except EBL has shown significant decrement in NPL, which is the result of bank's effective credit management an its efforts of recovering bad debts through establishment of recovery cell.

- Average ratio of LLP and loans and advances of NBL is high but average ratio of EBL is low. EBL has low deviation and variability.
- The average ratio of provision held to NPL of EBL has the significantly higher ratio in comparison to other four banks, which portrays that the bank has adequate provision against NPL but this ratio of NBL is comparatively lower. Even though NBL has provided required provision on each category of NPL as per NRB directive, it has not enough provision against NPL if all the NPL goes in default. SCBNL has lower deviation and variability.
- The average ratio of return on loans and advances of SCBLNL is higher with lower deviation than other four banks. So, SCBNL is ahead in generating profit. BOKL has the highest variability.
- The average ratio of return on total assets of NBL has lowest ratio and NABIL has relatively higher ratio with highest deviation and variability. SCBNL has lower deviation and variability.
- While analyzing correlating between loans and advances to total deposit, NABIL, EBL and BOKL have high degree of positive correlation between two these variables which is significant and reliable but NBL has negative correlation coefficient and it is also insignificant. Correlation of SCBNL is positively correlated but it is less than 6 times of P.E. so it is insignificant. NBL is concentrating on loan recovery and there was no further investment of the bank in the form of loans and advances but deposits are increasing.
- Correlation coefficient between LLP and loans and advances of NBL is more than the value of 6 times of P.E, it is significant and there is evidence of correlation between LLP and loans and advances. NABIL, SCBNL, and BOKL has negative correlation. This implies that correlation between these two variables is insignificant. However, LLP of SCBNL is highly correlated with loans and advances and its correlation coefficient is significant and reliable.

- The correlation coefficient between LLP and NPL revealed that there is positive correlation between LLP and NPL in all the five banks. As earlier mentioned higher provision needs to be provided for NPL, higher the NPL higher would be the LLP. The correlation coefficient of NBL, SCBNL EBL and BOKL is significant and reliable but that of NABIL is insignificant. The reason behind this is relatively lower proportion of NPL in the total loan portfolio of NABIL.
- It has been found that NBL has the highest proportion of loss loans followed by doubtful and then substandard loan out of total NPL which is an indication of bad quality of assets of NBL.
- It has been found that performing loan (pass loan) of NABIL is increased in every year but other loan i.e. SS, DF and loss loan are decreased in recent years.
- It has been found that performing loan of SCBNL has increasing trend and NPL is in decreasing trend. In most of the years SCBNL has the highest proportion of doubtful loans followed by loss and then substandard loan in total non-performing loan.
- It has been found that loss loan is greater than substandard and doubtful loan in recent three years.
- It has been found that the performing loan out of total loans has been increased and NPL has been decreased in all the study period.
- Percentage change in NPL of NBL in most of the recent year is in decreasing trend and net profit is in increasing trend except 2007.
- Percentage change in NPL of NABIL in most of the year is in decreasing trend except in 2007 and Net profit of NABIL is in increasing trend in all the study period.
- Percentage change in NPL of SCBNL in recent year is decreasing trend but net profit is increasing in most of the study period.
- Percentage change in NPL of EBL is increased in higher rate and decreased in lower rate. Net profit of EBL is increasing every year.

- Percentage change in NPL of BOKL in recent three years has been decreased. Net profit of BOKL has been increased in all the study period.
- Calculating the trend analysis is based on the data of five years and forecast was made for next five years. The trend analysis of loans and advances shows decreasing trend in NBL and increasing trend in regards to other four banks. But rate of EBL is higher than other banks. The loan and advances of NBL is in decreasing at the rate of Rs. 1401.3 million every year.
- From the tend analysis of NPL, it is found that NPL is increasing in case of EBL but NPL is decreasing in case of other four banks. NPL of EBL is increasing at the rate of Rs. 17.8 million every year. The decreasing trend of NPL in NBL, NABIL, SCBNL and BOKL is due to its efforts towards recovering bad debts.
- From the trend analysis of net profit, it is found that net profit is expected to increase in coming years of all the five banks. Net profit of the NBL, NABIL, SCBNL, EBL and BOKL is increasing every year by Rs. 1053.8, Rs 83, Rs 170.7, Rs. 38.1 and Rs 40.4 million respectively. Among them, NBL has high rate of increment.

5.2 Conclusions

Nepal bank Ltd. (NBL) was established on 30th Kartik, 1994 B.S. as a first commercial bank of the country. There was no satisfactory development in banking and financial sector up to 1980s A.D. After liberalization in 1980s of financial sector, banks and financial institutions are established like mushroom. According to NRB's record in 8th Chaitra, 2065, there are 25 commercial banks, 58 development banks, 78 finance companies, 12 micro finance institutions, 17 co-operatives with limited banking transaction, and 47 non-government institutions with micro-credit transactions.

Bank came into existence mainly with the objectives of collecting idle funds, mobilizing them in the productive sector and causing an overall economic development. The banker's have the responsibility of safe-guarding the interest of the depositors, shareholders and the society they are serving. Lending is the major function of any commercial bank and it is the most income-generating assets of any commercial bank but there is risk inherent in bank's lending portfolio. In order to cover the risk inherent in the lending portfolio, banks have to make loan loss provision by categorizing the loans into different category as per the NRB directives. Increasing NPL is the serious problem of the banking sector in Nepal. NPL debar the income flow of the bank while claiming additional resources in the form of provisioning and hinder further gainful investments.

NBL has very high portion of NPL resulting to higher provision than other banks. The investment in loans and advances of NBL has gradually decreasing but the investment of other bank i.e. NABIL, SCBNL, EBL and BOKL have been increasing, NPL of EBL is lower than NBL, NABIL, SCBNL and BOKL. NPL has decreased of NBL, NABIL, SCBNL, and BOKL but it increased by Rs. 17.8 million every year of EBL. Even the private sector bank like BOKL higher NPL and accordingly higher provision. Although NPL of BOKL is in acceptable standard of 10 percent. In recent four years, NPL of all the banks has shown significant decrement and accordingly provision has also decreased. Among the five banks EBL has the least NPL and LLP. It is also ahead in generating income net profit of all the banks has been increased. From these indicators it can be said that EBL is the best among the five banks. Loans are classified into four categories i.e. pass, substandard, Doubtful and loss loan according to NRB's new directives. However EBL seems less oriented towards lending. Hence the lower percentage as NPL and provisioning of EBL is not only due to proper lending function but also due to relatively lower investment in loans and advances.

In the conclusion it can be said that ineffective credit policy, political pressure to lend to un creditworthy borrowers, security problems, stiff competition, overvaluation of collateral are the major causes of mounting NPL in government owned bank like NBL. Other factors leading to accumulation of NPLS are weak loan sanctioning process, ineffective credit monitoring and supervision system, economic slowdown, borrower's misconduct etc. continue review and classification of loans enable banks to monitor quality of their loan portfolios and to take remedial action to counter deterioration in credit quality. In addition to establish recovery cell, hiring Assets Management Company are also measures to resolve the problem of NPL. The present loan classification and provisioning directives seems more stringent than the previous one. As a result more provision has to be apportioned leading to lesser profitability but this kind of negative impact is only for short period. Adequate provisioning strengthens the financial health of the banks and makes them able to face any kind of future contingencies.

5.3 Recommendations

High level of non-performing assets not only decreases the profitability of the bank but also affect the entire financial as well as operational health of the organization. If the NPL does not control immediately, it will be proved it as a curse for the banks in future. Therefore, following are some of the recommendation which will help to reduce the level of NPL of Nepalese commercial banks:

a) From the analysis it is found that no one bank has been maintaining loan loss provisioning as per the requirement of NRB's directives. It may create legal hassles to the banks. Therefore, all Nepalese commercial banks are recommended to maintain loan loss provision in accordance to the NRB's directives.

b) The high portion of non-performing loan accompanied by higher provision of NBL indicates that the bank's credit portfolio needs serious attention. Hence NBL is recommended to take immediate remedial actions for recovering bad debts. Hiring Assets Management Company is recommended for NBL to resolve the problem of mounting non-performing loan.

c) The ratio of prevision held to non- performing loan of NBL is relatively lower in comparison to other four banks. Even though NBL has made provision for each category of loan as per NRB directive; the total provision amount is not enough in case all the non-performing loans goes on default or the loan has to be written off. Hence NBL is recommended to increase this ratio by reducing non-performing loan.

d) It has been observed that the loans and advances of NBL are decreasing and there were no further investment of deposit in recent years. Hence it is recommended for NBL for exploring new areas of investment.

e) The main factors which lead to non-performing loan are improper credit appraisal system; ineffective credit monitoring and supervision system etc. besides that negligence in taking information form Credit Information Bureau may also lead to bad debts. Hence all the five banks are recommended to be more conscious and realistic while granting loans and advances. After advancing loans, there should be regular supervision and follow up proper utilization of loan.

f) Management inefficiency is one of the major causes behind high level of NPA of Nepalese commercial banks. Therefore, all banks should provide necessary training regarding loan management to the manager and staffs who are involving in managing their lending by experts within or outside the country whatever possible. Training and development makes to the employees efficient and professional in credit appraisal, monitoring and proper risk management.

g) Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks.

Therefore, proper financial analysis should be performed before giving loan to the borrower.

h) Following the directives of NRB and acting up on it also reduce many of the credit risk. Besides there are penalty implication on non-compliance of the directives. Hence all the five banks are recommended to adhere the directives and they are also suggested to come up with a stronger internal audit department to ensure that the directives are properly implemented.

i) The regulation regarding loan classification and provisioning is stringent and tighter than the previous. Hence NRB should not only impose directives but also create supportive environment for the commercial banks. NRB is recommended to strengthen Credit Information Bureau (CIB). So that banks can get required credit information about the borrowers on time. This would help in reducing NPL.

j) It is recommended for all the banks to take preventive measures before the loan goes to default. All the banks are recommended to have an information system to gather all the possible information and activities about its borrower's. So that necessary precaution can be taken in time.

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APPENDIX – I

FIGURES USED IN THE STUDY

Total Assets **(In million Rs.)**

Banks	2003	2004	2005	2006	2007
NBL	39,393	39,817	44,162	47,045	35,919
NABIL	17,629	16,653	16,746	17,064	22,330
SCBNL	18,443	21,000	23,642	21,782	25,776
EBL	6,607	8,052	9,609	11,733	15,960
BOKL	6,357	7,445	9,496	9,889	12,278

Total Deposit **(In million Rs.)**

Banks	2003	2004	2005	2006	2007
NBL	34,265	35,014	35,735	35,934	35,830
NABIL	15,506	13,448	14,119	14,587	19,347
SCBNL	15,836	18,756	21,161	19,364	23,061
EBL	5,467	6,693	8,064	10,098	13,803
BOKL	5,723	6,171	7,742	8,976	-10,486

Loans and Advances **(In million Rs.)**

Banks	2003	2004	2005	2006	2007
NBL	19,253	18,132	17,938	16,867	12,879
NABIL	7,802	8,114	8,549	10,947	13,279
SCBNL	5,696	6,000	6,694	8,421	9,206
EBL	4,044	5,050	6,096	7,900	10,155
BOKL	4,890	4,856	6,008	6,182	7,543

Non-Performing Loan **(In million Rs.)**

Banks	2003	2004	2005	2006	2007
NBL	10,834	10,965	9,640	8,372	3,234
NABIL	557	450	287	145	166
SCBNL	276	248	252	226	195
EBL	42	111	105	129	122
BOKL	397	421	400	309	190

Performing Loan **(In million Rs.)**

Banks	2003	2004	2005	2006	2007

NBL	8,419	7,167	8,298	8,494	9,645
NABIL	7,245	7,664	8,262	10,802	13,096
SCBNL	5,420	5,752	6,442	8,195	9,010
EBL	4,002	4,938	5,991	7,771	10,007
BOKL	4,493	4,435	5,608	5,874	7,285

Loan Loss Provision **(In million Rs.)**

Banks	2003	2004	2005	2006	2007
NBL	10,615	10,161	7,974	8127	2,202
NABIL	364	358	359	361	356
SCBNL	332	304	284	278	271
EBL	96	141	212	282	335
BOKL	276	313	362	270	230

Net Profit **(In million Rs.)**

Banks	2003	2004	2005	2006	2007
NBL	-3071	-252	710	1730	1207
NABIL	272	416	455	520	635
SCBNL	479	507	538	536	659
EBL	85	94	144	171	237
BOKL	29	82	128	140	202

Note:

– The entire figures presented above are rounded off to the nearest million Rs.
– Loans and Advances also include bills purchased and discounted.
– The data presented here in are pertained to mid-July of each year.

Appendix – II

Calculation of Mean, S.D. and C.V. of Loans and Advances to Total Assets Ratio of SCBNL (Sample Calculat

(Rs. In Million)

Years (Mid-July)	**Ratio % (X)**	$X - \bar{X}$	$(X - \bar{X})^2$
2003	30.88	- 1.55	2.40
2004	28.57	- 3.86	14.90
2005	28.31	- 4.12	16.97
2006	38.66	6.23	38.81
2007	35.72	3.29	10.82
N = 5	$\sum X = 162.14$		$\sum (X - \bar{X})^2 = 83.90$

We have,

Mean $(\bar{X}) = \frac{\sum X}{N} = \frac{162.14}{5} = 32.43\%$

Standard Deviation $(\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}} = \sqrt{\frac{83.90}{5}}$

Coefficient of Variation (C.V.) = $\frac{\sigma}{\bar{X}} \times 100 = \frac{4.10}{32.43} \times 100 = 12.64\%$

Similarly, the mean, S.D., and C.V. of Others ratios of five banks have been calculated.

APPENDIX – III

Loans and Advances to Total Assets Ratio (%)

Banks	NBL			NABIL			SCBNL			EBL			BOKL		
Year (Mid-July)	**Loans & Advances**	**Total Assets**	**Ratio (%)**	**Loans & Advances**	**Total Assets**	**Ratio (%)**	**Loans & Advances**	**Total Assets**	**Ratio (%)**	**Loans & Advances**	**Total Assets**	**Ratio (%)**	**Loans & Advances**	**Total Assets**	**Ratio (%)**
2003	19253	39393	48.87	7802	17629	44.26	5696	18443	30.88	4044	6607	61.21	4890	6357	76.92
2004	18132	39817	45.54	8114	16563	49.00	6000	21000	28.57	5050	8052	62.72	4856	7445	65.23
2005	17938	44162	40.62	8549	16746	51.05	6694	23642	28.31	6096	9609	63.44	6008	9496	63.27
2006	16867	47045	35.85	10947	17064	64.15	8421	21782	38.66	7900	11733	67.33	6182	9889	62.51
2007	12879	35919	35.86	13279	22330	59.47	9206	25776	35.72	10155	15960	63.63	7543	12278	61.44
Mean			41.35%	Mean		53.59%	Mean		32.43%	Mean		63.67%	Mean		65.87%
Standard Deviation (S.D.)			5.20	S.D.		7.22	S.D.		4.10	S.D.		2.02	S.D.		5.66
Coefficient of Variation (C.V.)			12.57%	C.V.		13.47%	C.V.		12.64%	C.V.		3.17%	C.V.		8.59%

(Source: Annual Reports and Websites of Concerned banks)

APPENDIX – IV

Loans and Advances to Total Deposit Ratio (%)

Banks	NBL			NABIL			SCBNL			EBL			BOKL		
Year (Mid-July)	Loans & Advances	Total Deposit	Ratio (%)	Loans & Advances	Total Deposit	Ratio (%)	Loans & Advances	Total Deposit	Ratio (%)	Loans & Advances	Total Deposit	Ratio (%)	Loans & Advances	Total Deposit	Ratio (%)
2003	19253	34265	56.19	7802	15506	50.32	5696	15836	35.97	4044	5467	73.97	4890	5723	85.44
2004	18132	35014	51.79	8114	13448	60.34	6000	18756	31.99	5050	6693	75.45	4856	6171	78.69
2005	17938	35735	50.20	8549	14119	60.55	6694	21161	31.63	6096	8064	75.60	6008	7742	77.60
2006	16867	35934	46.94	10947	14587	75.05	8421	19364	43.49	7900	10098	78.23	6182	8976	68.87
2007	12879	35830	35.95	13279	19347	68.64	9206	23061	39.92	10155	13803	73.57	7543	10486	71.93
Mean			48.21%	Mean		62.98%	Mean		36.6%	Mean		75.36%	Mean		76.51%
Standard Deviation (S.D.)			6.82	S.D.		8.38	S.D.		4.51	S.D.		1.67	S.D.		5.75
Coefficient of Variation (C.V.)			14.14%	C.V.		13.30%	C.V.		12.32%	C.V.		2.22%	C.V.		7.51%

(Source: Annual Reports and Websites of Concerned banks)

APPENDIX – V

Non-Performing Loans to Total Loans and Advances Ratio (%)

Banks	NBL			NABIL			SCBNL			EBL			BOKL		
Year (Mid-July)	**NPL**	**Loans & Advances**	**Ratio (%)**	**NPL**	**Loans & Advances**	**Ratio (%)**	**NPL**	**Loans & Advances**	**Ratio (%)**	**NPL**	**Loans & Advances**	**Ratio (%)**	**NPL**	**Loans & Advances**	**Ratio (%)**
2003	10834	19253	56.27	557	7802	7.14	276	5696	4.85	42	4044	1.04	397	4890	8.12
2004	10965	18132	60.47	450	8114	5.55	248	6000	4.13	111	5050	2.20	421	4856	8.67
2005	9640	17938	53.74	287	8549	3.36	252	6694	3.76	105	6096	1.72	400	6008	6.66
2006	8372	16867	49.64	145	10947	1.32	226	8421	2.68	129	7900	1.63	309	6182	5.00
2007	3234	12879	25.11	166	13279	1.25	195	9206	2.12	122	10155	1.20	190	7543	2.52
Mean			49.05%	Mean		3.72%	Mean		3.51%	Mean		1.56%	Mean		6.19%
Standard Deviation (S.D.)			12.47	S.D.		2.33	S.D.		0.99	S.D.		0.44	S.D.		2.24
Coefficient of Variation (C.V.)			25.43%	C.V.		62.63%	C.V.		28.06%	C.V.		28.37%	C.V.		36.13%

(Source: Annual Reports and Websites of Concerned banks)

APPENDIX – VI

Loan Loss Provision to Total Loans and Advances Ratio (%)

Banks	NBL			NABIL			SCBNL			EBL			BOKL		
Year (Mid-July)	**Loan Loss Provision**	**Loans & Advances**	**Ratio (%)**	**Loan Loss Provision**	**Loans & Advances**	**Ratio (%)**	**Loan Loss Provision**	**Loans & Advances**	**Ratio (%)**	**Loan Loss Provision**	**Loans & Advances**	**Ratio (%)**	**Loan Loss Provision**	**Loans & Advances**	**Ratio (%)**
2003	10615	19253	55.13	364	7802	4.67	332	5696	5.83	96	4044	2.37	276	4890	5.64
2004	10161	18132	56.04	358	8114	4.41	304	6000	5.07	141	5050	2.79	313	4856	6.45
2005	7974	17938	44.45	359	8549	4.20	284	6694	4.24	212	6096	3.48	362	6008	6.03
2006	8127	16867	48.18	361	10947	3.30	278	8421	3.30	282	7900	3.57	270	6182	4.37
2007	2202	12879	17.10	356	13279	2.68	271	9206	2.94	335	10155	3.30	230	7543	3.05
Mean			44.18%	Mean		3.85%	Mean		4.28%	Mean		3.10%	Mean		5.11%
Standard Deviation (S.D.)			14.21	S.D.		0.74	S.D.		1.08	S.D.		0.45	S.D.		1.24
Coefficient of Variation (C.V.)			32.17%	C.V.		19.33%	C.V.		25.12%	C.V.		14.64%	C.V.		24.32%

(Source: Annual Reports and Websites of Concerned banks)

APPENDIX – VII

Loan Loss Provision Held to Non-Performing Loan Ratio (%)

Banks	NBL			NABIL			SCBNL			EBL			BOKL		
Year (Mid-July)	LLP	NPL	Ratio (%)	LLP	NPL	Ratio (%)	LLP	NPL	Ratio (%)	LLP	NPL	Ratio (%)	LLP	NPL	Ratio (%)
2003	10615	10834	97.98	364	557	65.35	332	276	120.29	96	42	228.57	276	397	69.52
2004	10161	10965	92.67	358	450	79.56	304	248	122.58	141	111	127.03	313	421	74.35
2005	7974	9640	82.72	359	287	125.09	284	252	112.70	212	105	201.90	362	400	90.50
2006	8127	8372	97.07	361	145	248.97	278	226	123.01	282	129	218.60	270	309	87.38
2007	2202	3234	68.09	356	166	214.46	271	195	138.97	335	122	274.59	230	190	121.05
Mean			87.71%	Mean		146.69%	Mean		123.51%	Mean		210.14%	Mean		88.56%
Standard Deviation (S.D.)			11.20	S.D.		73.0	S.D.		8.43	S.D.		74.94	S.D.		18.03
Coefficient of Variation (C.V.)			12.77%	C.V.		49.76%	C.V.		6.82%	C.V.		22.81%	C.V.		20.56%

(Source: Annual Reports and Websites of Concerned banks)

APPENDIX – VIII

Return on Loans and Advances (%)

Banks	NBL			NABIL			SCBNL			EBL			BOKL		
Year (Mid-July)	**Net Profit**	**Loans and Advances**	**Ratio (%)**	**Net Profit**	**Loans and Advances**	**Ratio (%)**	**Net Profit**	**Loans and Advances**	**Ratio (%)**	**Net Profit**	**Loans and Advances**	**Ratio (%)**	**Net Profit**	**Loans and Advances**	**Ratio (%)**
2003	-3071	19253	-15.95	272	7802	3.49	479	5696	8.41	85	4044	2.10	29	4890	0.59
2004	-252	18132	-1.39	416	8114	5.13	507	6000	8.45	94	5050	1.86	82	4856	1.69
2005	710	17938	3.96	455	8549	5.32	538	6694	8.04	144	6096	2.36	128	6008	2.13
2006	1730	16867	10.26	520	10947	4.75	536	8421	6.37	171	7900	2.16	140	6182	2.26
2007	1207	12879	9.37	635	13279	4.78	659	9206	7.16	237	10155	2.33	202	7543	2.68
Mean			1.25%	Mean		4.69%	Mean		7.69%	Mean		2.16%	Mean		1.87%
Standard Deviation (S.D.)			9.56	S.D.		0.64	S.D.		0.81	S.D.		0.18	S.D.		0.72
Coefficient of Variation (C.V.)			7.65%	C.V.		13.62%	C.V.		10.47%	C.V.		8.28%	C.V.		38.26%

(Source: Annual Reports and Websites of Concerned banks)

APPENDIX – IX

(Sample Calculation)

Return on Total Assets (%)

Banks	NBL			NABIL			SCBNL			EBL			BOKL		
Year (Mid-July)	**Net Profit**	**Total Assets**	**Ratio (%)**	**Net Profit**	**Total Assets**	**Ratio (%)**	**Net Profit**	**Total Assets**	**Ratio (%)**	**Net Profit**	**Total Assets**	**Ratio (%)**	**Net Profit**	**Total Assets**	**Ratio (%)**
2003	-3071	39393	-7.80	272	17629	1.54	479	18443	2.60	85	6607	1.29	29	6357	0.46
2004	-252	39817	-0.63	416	16563	2.51	507	21000	2.41	94	8052	1.17	82	7445	1.10
2005	710	44162	1.61	455	16746	2.72	538	23642	2.28	144	9609	1.50	128	9496	1.35
2006	1730	47045	3.68	520	17064	3.05	536	21782	2.46	171	11733	1.46	140	9889	1.42
2007	1207	35919	3.36	635	22330	2.84	659	25776	2.56	237	15960	1.48	202	12278	1.65
Mean			-1.10%	Mean		2.53%	Mean		2.46%	Mean		1.38%	Mean		1.20%
Standard Deviation (S.D.)			5.41	S.D.		0.28	S.D.		0.012	S.D.		0.13	S.D.		0.17
Coefficient of Variation (C.V.)			49.18%	C.V.		10.99%	C.V.		4.88%	C.V.		9.17%	C.V.		13.83%

(Source: Annual Reports and Websites of Concerned banks)

APPENDIX – X

Calculation of Trend Values of Loans and Advances of SCBNL <u>(Sample Calculation)</u>

(Rs. In Million)

Year (X)	**Loans and Advances (y)**	**Deviation from mid-July 2004 (x)**	**x^2**	**xy**	**$y_c = a + bx$ $y_c = 7203.4 + 944.1 \times x$**
2003	5696	-2	4	-11392	5315
2004	6000	-1	1	-6000	6259
2005	6694	0	0	0	7203
2006	8421	1	1	8421	8148
2007	8206	2	4	18412	9092
N = 5	$y\ X 36017$	$x\ X 0$	$x^2\ X 10$	$xy\ X 9441$	

Here,

When, $x\ X 0$ from two normal equations

$$a\ X \frac{y}{N}\ X \frac{36017}{5}\ X 7203.4$$

$$b\ X \frac{y}{x^2}\ X \frac{9441}{10}\ X 944.1$$

Thus,

Average loans and Advances (a) = Rs. 7203.4

Rate of change of Loans and Advances (b) = Rs. 944.1

Hence, the equation of straight-line trend is $y_c\ X a\ \Gamma bx$

or, $y_c\ X 7203.4\ \Gamma 944.1 \mid x$

Expected Trend Values of Loans and Advances (2008 – 2012)

Years (Mid-July)	**Deviation from Mid-July 2005 (x)**	**$y_c = a + bx$ $y_c = 7203.4 + 944.1 \times x$**
2008	3	10036
2009	4	10980
2010	5	11924

2011	6	12868
2012	7	13812

APPENDIX – XII

List of Class A Licensed Financial ion (Commercial Banks)

Names	Head Office	Operation A.D.
1. Nepal Bank Limited	Kathmandu	1937/11/15
2. Rastriya Banijya Bank	Kathmandu	1966/01/23
3. NABIL Bank Limited	Kathmandu	1984/07/16
4. Nepal Investment Bank Limited	Kathmandu	1986/02/27
5. Standard Chartered Bank Nepal Limited	Kathmandu	1987/01/30
6. Himalayan Bank Limited	Kathmandu	1993/01/18
7. Nepal SBI Bank Limited	Kathmandu	1993/07/07
8. Nepal Bangladesh Bank Limited	Kathmandu	1993/06/05
9. Everest Bank Limited	Kathmandu	1994/10/18
10. Bank of Kathmandu Limited	Kathmandu	1995/03/12
11. Nepal Credit and Commerce Bank Limited	Rupandehi	1996/10/14
12. Lumbini Bank Limited	Chitwan	1998/07/17
13. Nepal Industrial and Commercial Bank Limited	Biratnagar	1998/07/21
14. Machhapuchhre Bank Limited	Pokhara	2000/10/03
15. Kumari Bank Limited	Kathmandu	2001/04/03
16. Laxmi Bank Limited	Birgunj	2002/04/03
17. Siddhartha Bank Limited	Kathmandu	2002/12/24
18. Agriculture Development Bank Limited	Kathmandu	2006/03/16
19. Global Bank Ltd.	Birgunj	2007/01/02
20. Citizens Bank International Ltd.	Kathmandu	2007/04/30
21. Prime Bank Ltd.	Kathmandu	2007/09/24
22. Sunrise Bank Ltd.	Kathmandu	2007/10/12

23. Bank of Asia Nepal Ltd.	Kathmandu	2007/10/12
24.Development Credit Bank Ltd.	Kathmandu	2008/05/25
25.Nepal Merchant Bank Ltd.	Kathmandu	2008/06/02