

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepalese Government has brought the economic liberalized policy to develop the economic condition and financial situation in Nepal. Government has encouraged to establishment, growth and promote of Financial Institutions; likewise: Commercial Banks, Development Banks, Finance Companies and Co-operatives. In general, an institution established by law, which deals money and credit is called bank. Commonly, an institution involved in monetary transaction is known as bank. Section 2(a) of the Nepal Rastra Bank Act 2058 (2002) defines bank as the work of exchanging money, providing loan, accepting deposit and transferring the money. In the decade of 30, there were only two Commercial Banks in Nepal i.e. Nepal Bank Limited and Rastriya Banijya Bank. Nepal Bank Limited is the oldest bank in Nepal. It was established on 30<sup>th</sup> Kartik, 1994 (1938 AD) and Rastriya Banijya Bank was established in 2022 B.S. (1966AD). Those banks were not capable to fulfill the needs of the people with modern banking facilities. So as to require of demand on growth of public Commercial Banks, in recent year, there are twenty Commercial Banks.

Most of the indicators we have used that the performance of the new generation, private and public sector banks are better than that of all other banks. Can we conclude from this that new public Commercial Banks are more efficient than other Nepalese old banks? If we look certain special advantages that they are enjoying, it becomes difficult to consider them superior to other banks. In the first place, the new Commercial Banks have straight away adopted the new technology, which keeps the cost of manpower low. Their wages bill to total expenses, as shown above, is very low. There is no problem excess manpower as in the case of public sector banks. Second, the branches of new Commercial Banks are located mostly in urban and semi-urban areas and

their rural sector exposure is very limited and their priority sector lending is very limited and they are free from all the disadvantages associated with rural lending. However, the entry of new Commercial Banks has undoubtedly contributed to the strengthening of the Nepalese Banking system by creating a competitive atmosphere. Modern banks are more advanced than the ancient ones. This is because of the growth in population, changes occurred in the industrial field and trade.

In the short period Nepalese Commercial Banks has raised their profitability. The main objectives of the Commercial Banks are to financing the different project and provide loan to business purpose and industrial sector in terms of return on payment of principal and interest. But once the distributed loan, amount or interest is not timely returned by the customers and become overdue, is known as Non-Performing Assets (NPAs) for the Commercial Banks. Minimize of NPA has been significant problem for every Commercial Banks which has been main tasks to under top priority. Such as many barriers and obstacles on the recovery of NPA, all Commercial Banks has been losing their creditability, profitability and struggling for their existence. Then it couldn't attempt the shareholder's wealth.

Borrowers, who have taken loan from bank and couldn't pay interest and principal in time is known as NPA creators. Bank customers, means borrowers and depositors, also share bank costs through a relatively wide net interest margin, competitively determined market levels. Therefore, they contribute to bank operating profits that over time help rebuild Bank Balance Sheets. This is a flow approach to recapitalizing troubled banks and often requires regulatory forbearance and tax incentives.

The government considered, ultimately, the taxpayer contributes their share when public funds are injected into the banking sector. Three arguments put forwards to support the use of public funds to bail out troubles banks as

follows. First, if the troubled banks are state owned, the government has an obligation to repair their Balance Sheets or, at least, to fund their exit from the market. Second, if Bank losses are substantially related to past policy lending, the government is directly implicated and needs to take the responsibility for cleaning up the banking sector. Finally, with or without a deposit insurance scheme, imposing big losses on a large number of small depositors can lead to even more costly systemic risks and even to political crises (China & World Economy / 22).

## **1.2 Definition of Non-Performing Assets (NPAs)**

The specific definition of Non-Performing Assets “NPAs” is bad debt, if repayment of principal and interest is defaulted by more than three months. “Non Performing Assets (NPAs) could wreck bank’s profitability both through a loss of interest income and write off the principle loan amount. It tackles the subject of in entire starting from the stage of their identification till the recovery of dues in such amount”(Bidani, 2003:3).

The level of Non Performing Assets (NPAs) can also be taken as an indicator of the efficiency of banks. Specific indicators that can be used in this context are: the percentage of Total Assets, net advances, net and gross NPAs. If the indication is positive, which means this banks performance has good and significant such as its goodwill takes renowned reputation in the market. “Performing Assets are those loans that repay principal and interest to the bank from the cash flow it generates. Loan is risky assets, though a bank interest most of its resources in granting loan and advances. If an individual bank has around 10 (ten) percent Non-Performing Assets (NPAs) loan, it sounds the death knell of that bank catteries call other thing remaining constant. The objectives of bound loan policy is to maintain the financial health of the banks, which result in safety of depositor’s money and increase in the returns to the shareholders. Since the loan is risky assets. There is inherent risk in every loan.

However the bank should not take risk above the certain degree irrespective of return prospects” (Dahal & Dahal, 1999/2000:115).

If the problem is not addressed properly and timely it will have a long-term effect in the national economy. NPA as the current Directives of Nepal Rastra Bank (NRB) has been categorized as classified loans and advance NPA has severe impacts on the financial institutions. The main study of the loans go bad is; lack of credit philosophy and culture, risk management strategy, know your customer (KYC), lack of clear standards and proper financials, stiff competition and size of the market and undue influences. NPA management should consider the above going bad debt (Adhikary M.P.)

The suitable NPA is only 3-5 percent in the international standard, but in Nepal NPA is adhered 16 (sixteen) percent on average. Which is most sensitive. So every Commercial Bank has to be considering the study of the project appraisal and risk minimizing on providing loan to different institution is better than individual or family. The repayment of interest to the depositors is complicated due to cost of funds and excess of deposits. On other hands, an investment is talking the obligation instead of business.

The core business of the financial institution is not as they generally assume-taking deposits and making loans. Successful lending is based not on making loans but on minimizing the risk collecting back. Thus every financial institution’s core business is the profitable management of risk could be minimized to a larger extent. The loan loss provision is to be maintained by debiting profit account. Thus the quality of loan degrades the ratio of loan loss provision is increased affecting the profitability of the banks. The study will have effort to find out the relationship of Non-Performing Assets or loans have multiple benefits to the society while Non-Performing Assets or loan erodes even existing capital.

### **1.3 Statement of the Problems**

One important aspect of banking in Nepal that has received great attention in the recent years is the most intractable problem of Non-Performing Assets (NPAs). This has been considered to be the most challenging problem facing the Banking and financial sector and the recent years have witnessed great efforts to solve the problem. Nepalese Commercial Banks and financial institution are mobilizing the scatters deposits and utilizing it for lending to industrial sectors, lending business in corporate houses and other productive and manufacturing sector so as to achieve purpose which result in to economic growth.

Almost lending also carries credit risk, which creates problem from the failure of borrower to fulfill its contractual obligation during the course of transaction. In fact it is well known banks and financial institutions in Nepal face the problem of swelling Non-Performance Assets (NPA) and the issue is becoming more unmanageable. It is even worth condition in case of two largest Commercial Banks Rastriya Banijaya Bank and Nepal Bank Ltd. Nepalese banking sectors has been suffering a victim of large NPAs. To sum up, the study will deals with the following issues.

1. Whether or not Nepalese Commercial Banks are following NRB Regulations/Directives regarding their lending, especially to maintain the provision for NPA?
2. What are major internal factors, external factors and other main causes to growth of NPA?
3. What percentage of Total Assets and Total Lending is occupying by NPAs of Nepalese Commercial Banks?
4. How does Non-Performing Assets effect on return on return on Total Assets (ROA) and shareholders equity (ROE)?

## **1.4 Objectives of the Study**

The important factors of development of nation is investing and financing activities by the Commercial Banks and Financial Institutions through the various businesses. Which affects and influence the national economy. In current situation the economic liberalized policy has been followed by our country, government has been liberal on public and private sectors business for the entrepreneurship development and other purposes. The specific objectives of the research is to examine and study of level of Non Performing Assets (NPAs) in Total Assets, total deposition and Total Lending of Nepalese Commercial Banks. The main objectives are follows:

1. To examine the level of NPA to Total Assets, Total Lending and Total Deposit of Nepalese Commercial Banks.
2. To examine whether the Nepalese Commercial Banks are following the NRB Directives regarding loan loss provision for Non Performing Loan/Assets or not.
3. To identify the internal and external factors and other causes of NPA growth.
4. To identify the effects of Non-Performing Assets on ROA and ROE of Nepalese Commercial Banks.

## **1.5 Organization of the Study**

The main theme of the study is organized in the following chapters:

- Chapter-I: Introduction
- Chapter-II: Review of Literature
- Chapter-III: Research Methodology
- Chapter-IV: Data Presentation and Analysis
- Chapter-V: Summary, Conclusion and Recommendations

### **Chapter I: Introduction**

It deals with introduction of the main topic (Non-Performing Assets of Commercial Bank in Nepal) of the study like general background, statement of

the problems, objectives of the study, limitation of the study, organization of the study and other introductory framework. Which associated the major problem and prospects of NPA and identify to recovery of the NPA.

## **Chapter II: Review of Literature**

Review of literature is the essential part of all studies. It deals with the review of available relevant studies. Studies on related problems are useful for indicating the type of difficulties that may be encountered in the present study as also the possible analytical shortcomings. At times such studies may also suggest useful and even new lines of approach to the present problem. It will include the conceptual review of the related books; journals, articles, newspaper, previous studies, reports, existing theories, encyclopedia, card catalogue, other information and data have been collected from Nepal Rastra Bank, Commercial Banks, SEBO Nepal, published and unpublished research works as well as thesis.

## **Chapter III: Research Methodology**

Research methodology has many dimensions and research methods do constitute a part of the research methodology. The scope of research methodology is wider than that of research methods.

The research study aims to evaluating, presenting and seeking different information and problem about the Non-Performing Assets. This includes research design, source of data, population and sample, data collecting procedure, data processing procedure, nature of survey research variable and statistical tools. And it concerns with methodology of the study i.e. research carried out in this size and shape. For the purpose, various financial and statistical tools are defined which will be used for analysis of the presented data, and also use the ratio analysis among the data of sample banks.

#### **Chapter IV: Data Presentation and Analysis**

The main purpose of this chapter is to help us to get data into shape, and to suggest how might go about analyzing and interpreting them. We would probably be best advised to look through this chapter before we finally decide how are going to focus our study, and what kinds of approaches and techniques will apply. This chapter is the major part of the whole study of NPA of Nepalese Commercial Banks in which all collected relevant data are analyzed interpreted by the help of different financial and statistical tools. In this chapter we will explain the major finding of the study.

#### **Chapter V: Summary, Conclusion and Recommendations**

It contains the summary of the study, cause and growth of NPAs, conclusion, recommendations on the basis of the 'Non-Performance Assets (NPAs) of Nepalese Commercial Banks' study. We will get the final output/ result from above different processes, so as summarize and maintain the entire conclusion then suggest and recommend on it.



## **CHAPTER-II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

The main purpose of reviewing the literature is to develop and find out some expertise in specific area, to see new contribution can be made, and to achieve certain knowledge and ideas for developing a research design. We cannot be ignored the previous study because they provide lot of information and these are the foundation to the present study. That means it called continuity of research.

“A literature review is a systematic, explicit, and reproducible method for identifying, evaluating, and interpreting the existing body of recorded work produced by researchers, scholars, and practitioners” (Fink, 1998:3).

Initially we can say that a review of the literature is important because without it will not acquire an understanding of our topic, of what has already been done on it, how it has been researched, and what the key issues are. In our written project we will be expected to show that we understand previous research on our topic. This amounts to showing that we have understood the main theories in the subject area and how they have been applied and developed, as well as the main criticisms that have been made of work on the topic. The review is therefore a part of our academic development of becoming an expert in the field (Kothari, 2005).

The ability to carry out a competent literature review is an important skill for the researcher. It helps to place our work in the context of what has already been done, allowing comparisons to be made and providing a framework for further research. While this is particularly important, and will be expected if we are carrying out research in an academic context, it is probably a helpful exercise in any circumstances. A key point to note that good literature reviews

go beyond the stage of simply listing sources to offer an analytical study of the area, through which we can develop our own position, analysis and argument. A literature review is a critical summary and assessment of the range of existing materials dealing with knowledge and undertaking in a given field (Blaxter, Christina Hughes, Malcolm Tight, 2002).

Review of literature, refers to a glance to past studies and progress on the similar field. All those studies are categorized in two parts. Firstly, it has reviewed literature for conceptual framework, which helps to researcher to determine the subject matter of the study. It covers concept of Non Performing Asset's research work and the theoretical concept, which are developed by various scholars and writers. Mostly, these include review from books. On the second part, which is important to construct the framework of this research works mainly about the various related studies, research studies and review of journals about Non Performing Assets (NPAs) of Nepalese Commercial Banks. At last, this chapter gives some information about the NPAs situation of some Asian countries.

## **2.2 Conceptual Framework**

Assets means the property of a person or a company which includes; current and fixed assets. Non-Performing Assets means those assets which are not performed. Non-Performing Loan means an outstanding loan that is not repaid, i.e. neither payments on interest or principal are made. In case of the banks the loans and advances that are the assets as the banks flow loans from the funds generated through shareholders equity, money deposited by the people and fund having through the borrowings. Hence the terms NPA means the loans and advances that are not Performing well. Thus all the irregular and advances can be termed as NPA.

“To start with performance in terms of profitability is a benchmark for any business enterprise including the banking industry. However, increasing Non

Performing Assets (NPAs) have a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets” (Manamohan, 2002).

As Narasimham Committee of India "The Non-Performing asset would be defined as an advance there, as on the Balance Sheet date-

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

“Loan and advances dominate the assets side of Balance Sheet of any bank. Similarly, earning from such loans and advances occupy major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world due to shrinkage in the value of the loan and advances. Hence loan is known as risky assets. Risk of non-payment of loan is as credit risk or default risk. Performing Loans have multiple benefits to the society while Non-Performing Loan erodes even existing capital” (Dahal & Dahal, 1999/2000:114).

“For the strength and stability of the banking system, the assets of banks should yield positive returns. The assets, which do not yield positive returns, become Non-Performing Assets. In narrow sense, Non-Performing Assets refer to loans and advance, which do not yield any positive returns or contribute to the profits of banks. In a broader sense, Non-Performing Assets include the unutilized cash balances, physical assets and the workforce”(B.S. Sreekantaradhya, 1990).

### **2.3 Evolution of Bank**

As early as 2000 B.C. Babylonians had developed a system banks. In ancient Greece and Rome the practice of granting credit was widely prevalent. “Traces of credit by compensation and by transfer orders are found in Assyria, Phoenicia and Egypt before the system attained full development in Greece and Rome. The books of the old Sanskrit lawgiver, Manu, are full of regulation governing credit. He speaks of judicial proceedings in which credit instrument were called for, interest of loans on Bankers, usurers and even of the renewal of Commercial Papers” (Banking theory & Practice: K.C. Shekhar, 1986).

In Rome the banks were called Tabernae Argentariae. Some of the banks carried business on their own account and other were appointed by the Government to receive the taxes. Loan banks were also common in Rome. From these loan banks, the poor citizens received loans without paying interest. They lent money for a period of three or four year on the security of land.

During the early periods, although private individuals mostly did the Banking business, many countries established public banks either for the purpose of facilitating commerce to serve the government. The Bank of Venice, established in 1157, is supposed to be most ancient bank. Originally it was not a bank in the modern sense, being simply an office for the transfer of the public debt.

As early as 1349, the business of banking was carried on by the drapers of Barcelona. The drapers were not allowed to commence this business until they had given sufficient security. During 1401, a public bank was established in Barcelona. It used to exchange money, received deposits and discount bills of exchange, both for the citizens and for the foreigners. During 1407, the Bank of Genoa was established. The Bank of Amsterdam was established in 1609. It is interesting to note that most of the European Banks now in existence were formed on the model of the Bank of Amsterdam. The turning point in the

history of English Banking which led to the growth of private banking and the establishment of the “Bank of England” in 1694 (K.C. Shekhar, 1986).

The origin of bank in Nepal and its beginning of growth is controversial. Banking custom and tradition begun before 8<sup>th</sup> century in Nepal. Before 12<sup>th</sup> century, the goldsmiths and other similar types of bankers used to collect the money and provide loan to needee. The growth of banking in Nepal is not so long, Nepal had to wait for a long time to come to this present banking position.

#### **2.4 Introduction of Commercial Bank**

Commercial Bank act 2031 B.S. defines that “ A Commercial Bank means the bank which deals in exchange currency, accepting deposit, providing loans and doing other different commercial transactions.” The main objectives of the Commercial Banks are collect deposits from different sectors and paying the interest through the depositors such as lending to the various areas and charge the interest to them. The Commercial Banks are providing loan especially in industrial sector and individuals. Recently they are interested to investing in real estate. Commercial Banks have always been the major investors in government securities. This investment is both involuntary and voluntary- the former because of the need to maintain the required Statutory Liquidity Ratio and the latter because of safety or risk aversion.

Commercial Banks are organized on a joint stock company system, primarily for the purpose of earning a profit. They can be either of the unit banking type, as we see in the United States, where as bank’s operation are confined to a single office or to a few branches within a strictly limited area. Although the common banks attract deposits of all kinds current, saving and fixed their resources are chiefly drawn from current deposit, which are repayable on demand. So they attach much importance to the liquidity of their investments and as such they specialize in satisfying the short-term credit needs of business rather than long term (K.C. Shekhar, 1986).

The main essential functions of Commercial Bank may best be summarized as the borrowing and lending of money, truly inspired to gaining profit, to accelerate common people's welfare and facility to make available loan to the agriculture, industry, commerce and to provide the Banking services to the public and the state. They borrow money by taking all kind of deposits. Deposits may be received on current account whereby the bankers incurs the obligation of paying legal tender on demand, on fixed period, or on deposit account whereby the bankers undertakes to pay the customer an agreed period of notice for withdrawals. Thus a Commercial Banker, whether it be through current account or fixed deposit account, mobilize the savings of the society. Then he provides this money to those who are in need of it by granting overdrafts or fixed loans or by discounting bills of exchange or promissory notes.

The basic aim of banking reform is to establish a sound and viable banking system, which would help the development of the real economy. The objective of promoting efficiency in the real economy cannot be fulfilled unless there is reform of the financial sector as well. As pointed out by the Narasimham Committee on Financial System in India, "Economic Reforms in the real sectors of the economy will, fail to realize their potential without a parallel reform of the financial sector, in order, broadly speaking, to enhance the efficiency of financial intermediation. Financial sector reform is, therefore, a necessary concomitant of trade and industrial policy liberalization so that the competitive spirit and efficiency that we are seeking to bring about in the real economy would cover the critically important financial sector and be further sustained by it".

After the economic liberalization in Nepal, the Nepalese Commercial Banking undoubtedly made rapid progress in terms of geographic spread and functional reach. Deposit mobilization and credit deployment registered phenomenal growth. While the primary objective of a Commercial Bank is the

maximization of profit, the Central Bank is primarily concerned with the effects of its operations on the functioning of the economy. Moreover, there may certainly be many competing Commercial Banks, their exits only one Central Bank in a country. While the Commercial Banks compete against each other, the Central Bank comes out if any, ordinary banking business for the general public, incomplete it confines itself mainly to controlling the operations of the banking system in a country.

### **2.5 Meaning of Non-Performing Assets (NPAs)**

There was no clear definition of non-Performing Assets in Nepal. Different Banks were following different practices and overdue of Banks were generally considered as non-Performing Assets. Recently (NPAs) means delaying to payment of interest and principle by the borrower.

The definition of non-Performing Assets (NPAs), according to Indian Narasimham Committee “A credit facility is classified as non-Performing if interest and/or installment of principal have remained unpaid for two quarters after it has become due.” Government guaranteed advances that are sticky for more than two quarters are also treated as non-Performing Assets. Banks had discretion in making this classification and also the approach was not objective and this kind of classification was also not helpful for identification of non-Performing Assets. In international system of classification has been followed according to which all advances are classified into four broad groups, namely Pass, sub standard, Doubtful and loss and the last three categories constitute non-Performing Assets. An assets becomes sub standard when interest is past due for two quarters. An assets will be treated as Doubtful when it has remained in sub-standard category for eighteen months and an assets becomes a loss asset when it is irrecoverable, but not written off.

An asset is classified as Non-Performing Assets (NPAs) if the borrower does not pay due in the form of principal and interest for a period of 180 days.

However with effect from March 2004, default status would be given to borrower if dues were paid for 90 days. If any advances or credit facilities granted by the bank to a borrower becomes Non-Performing, then the bank will have to treat all advances/credit facilities granted to that there may still exist certain advances/credit facilities having performing status (Sources: <http://www.indianinfo.com/lega/feat/thle.html>).

Non-Performing Assets (NPAs) could wreck bank's profitability both through a loss of interest income and write of the principal loan amount. It tackles the subject of in entire starting from the stage of their identification till the recovery of dues in such account (Bidani, 2003:1).

## **2.6 Immediate Parent Discipline and Classification Model in Nepal**

After the economic liberalization in Nepal, numerous banks and other Financial Institutions were established. In order to regulate such Banks and institutions, separate regulations were issued to banks and financial institutions. They are enumerated as follows:

To be effective from fiscal year 2058/59, NRB issued new Directives in 2058 regarding the loan classification and loan loss provisioning including Development Banks, Finance Companies and Cooperatives. As per these Directives, on the basis of their overdue aging, loan and advances of Commercial Banks were classified in to four categories, namely Pass or Good, Substandard, Doubtful and Bad Loan. The loan and advances other than good category were defined as NPA in these Directives. Similarly, such loan and advances of Development Banks, Finance Companies and Cooperatives carrying out limited banking transactions were also classified in to the same four categories with the same definition of NPA. The categories of loan and their provisioning are given as follows:



<b>Loan Categories</b>	<b>Criteria of Classification</b>	<b>Provisioning</b>
Pass Loan	Not past due and past due for period up to 3 months (Performing Loan)	1%
Substandard Loan	Past due for a period of 3 months to 6 months	25%
Doubtful Loan	Past due for a period of 6 months to 1 year	50%
Loss Loan	Past due for a period of more than 1 year or	100%

*(Source: NRB Directives, 2006)*

As defined in the directive no.2 (1) of Unified Directives, 2063, Performing Loan are the Pass or Good loans while Non-Performing Loan are Substandard, Doubtful and Bad Loan.

### **2.6.1 Loan Loss Provision for Special Category of Loan**

The loan against gold and silver, fixed deposits, credit cards and NG Bonds and NRB Bonds are included in good loan.

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

### **2.6.2 Additional Provision for Bad Loan**

Over due or non-overdue loans are classified in Bad Loan category if:

- i. Security is not enough.
- ii. Borrower is declared Bankrupt/insolvent.
- iii. Loanee is out of contact.
- iv. Reimbursement is not received within the ninety days of the maturity period of purchased or discounted bills and convergence of non-fund based facility like letter of credit and guarantee amount to fund based loan.
- v. Loan is misused.
- vi. Six months period of auction process after the default of loan repayment is exceeded or the case is filed in the court in the course of loan recovery .

- vii. Loan is given to a blacklist person.
- viii. Project/business firm is not operationally viable, project or business is not being operated or.
- ix. Credit card loan is not written off within 90 days of over due date.

Loan loss provision made for Performing Loan is called “General loan loss provision” and loan loss provision made for Non-Performing Assets (NPA) is called “Specific loan loss provision.”

### **2.7 Balance Sheet of Commercial Banks**

The Balance Sheet of Commercial Bank is a statement showing its assets and liabilities as on a particular date. It is usually prepared at the end of each year .the Balance Sheet of bank has greater importance than that of an ordinary trading company. The bank deals in other people’s money and hence the entire community is interested in its Balance Sheet. The business of the bank is reflected in the Balance Sheet. The financial position of the bank is made known to the public through the Balance Sheet .it proof rays the result of the bank operation during the year .it may also regard as indicating the ways in which bank raises its fund and the way in which it uses them. Every bank inhabits a copy of its Balance Sheet in its premises (Radhaswamy & Vasudevan, 1979) .

There is no common or standard form for presenting the Balance Sheet .the form differ from country to country according to law practices and custom prevailing there .the following is the typical form of a bank Balance Sheet as in NRB’s Directives 2063.

.....Bank Limited  
 .....Year  
 .....Dated Balance Sheet

(Rs.000)

Capital & Liabilities			Assets		
Previous Year	Particulars	This Year	Previous Year	Particulars	This Year
***	Share Capital	***	***	Cash balance	***
***	Reserve funds	***	***	Bank balance	***
***	Loan payable	***	***	Money at call & short notice	***
***	Deposits	***	***	Investments	***
***	Other liabilities	***	***	Loan advances & bills purchased	***
				Fixed assets	***
				Other assets	***
****	Total	****	****	Total	****

(Sources: NRB's Directives for Commercial Bank 2063)

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

### 2.7.1 Bank's Assets

The assets are given on the right hand side of the Balance Sheet. The assets side indicates the manner, which the funds entrusted to the bank, are employed. The successful working of the investments known assets .let us now discuss briefly the various items found on the assets side of the Balance Sheet

#### Cash Balance

Cash balance is the first asset in the portfolio of a Commercial Bank. It is perfectly liquid form of assets. It refers to the cash in the hand or kept in its vault and cash held to meet the demands of the customer. Cash balance is also known as cash reserve ratio and this reserve ratio is determined as per the

direction of central bank in the country in accordance to the fiscal as well as monetary policy of the country.

### **Bank Balance**

Bank balance includes all the money at Central Bank, Commercial Banks and other Financial Institutions. According to the Central Bank Directives, Commercial Bank has to maintain required reserve ratio at Central Bank in certain percent of its Total Deposit, which is called Central Bank reserve/balance. As per Directives by the Central Bank or for other purposes, certain cash may be kept in other bank, which are known as balance at Commercial Banks. Similarly, banks may deposit their money to other Financial Institutions as well. Present regulation has made provision for minimum 5% mandatory reserve at NRB to its Total Deposit.

### **Money at Calls and Short Notice**

This asset includes loans to the bill market consisting of discount houses and bills broker, loan to stockbrokers and loan between Banks themselves. Money lent at call and short notice is repayable either on demand or at a very short notice, generally less than 24 hours notice. Cash is an idle asset and the bank must not keep cash beyond the amount considered absolutely necessary. To meet seasonal demand and other contingencies the bank maintains these highly liquid but earning assets, which can be converted into cash quickly and without loss of value. Bank regard this is secondary reserve as against cash which is its primary reserve. Unlike cash this asset brings some revenue income to the bank.

### **Bills Discounted and Purchased**

Bills discounted may be promissory notes, bills of exchange or treasury bills. Commercial Banks prefer to have assets, which mature within short period, say 90 days. They are easily marked and they also bring some revenue income to the bank. A bill of exchange is one such asset. It is a sound banking asset

and it is described as a self-liquidating paper. A bill become liquid as it a mature for payment. It is backed by a genuine trade transaction at the end of which necessary finance is raised to pay the bill. The acceptor of the bill – the buyer of goods – arranges for the sale of the goods before the due date and makes the payment on the date of maturity. In time of need the bill can be rediscounted rate with the central bank of the country. The rediscounting rate will generally be higher than the borrowing rate of the bank. Hence, the bank incurs a loss, if the bills are rediscounted. The loss is minimized in the case of short-dated bills.

### **Investment**

Investment constitutes a bankers fourth line of defense, after cash, money at call and short notice and bill discounted. They yield a higher return than that obtained from liquid assets. But the return is not as high as the return loan and advance. Bank invests a large proportion of their funds in government securities and other gilt-edged securities. When the demand for loans and advance increase the bank probably sells the securities. These securities can be converted into cash easily and without loss of value. Some securities mature after a long time, say, 5 or 10 years. If they are sold before maturity, the bank incurs a capital loss. The Bank also stands to lose, if the interest rate rises. If the banker can wait till the due date, the investment yields a fairly high rate return.

### **Loan and Advance**

This is the most important item on the assets side. It is this asset that fetches income for bank. The profitability of the bank depends upon the extent to which it grants loan and advances to customers. Loans are granted in the form of overdraft, cash credits and direct loans. Loans are granted against adequate securities.

### **Fixed Assets**

They represent the fixed investment or the least liquid assets of the bank. They cannot be easily realized in times of an emergency. They cannot also be realized without much loss of value. The Bank usually provides depreciation on these assets annually. So the values of the assets shown in the Balance Sheet will be much less than their real value.

### **Other Assets**

This item includes sliver and other items such as preliminary expenses, development expenses accrued interest on investment etc. these items are shown separately under suitable heading.

### **2.7.2 Bank's Liabilities**

Banks' liabilities include different heads viz. share capital, the deposits of people, borrowings from other Bank and Financial Institutions, reserve funds, provision and other contingent liabilities.

### **Share Capital**

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

### **Deposits**

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

### **Borrowings**

Banks borrow from other Commercial Banks, C Banks and other Financial Institutions to carry out their business in the state of lack of business funds.

### **Reserve Funds**

Reserve funds constitute general reserve funds; share premium, capital reserve fund, assets revaluation fund, dividend equalization fund, retained earnings (profit/loss) and other reserve fund. The portion of undistributed profit establishes general reserve fund.

### **Other Contingent Liabilities**

They include dividend to be distributed and unclaimed dividends, pension and gratuity funds, provident fund, sundry creditors, interest payable, income tax provision, loan loss provision against Non-Performing Asset (NPA), interest suspense account and rebates etc. ( Radhaswamy & Basudevan, 1979).

### **Importance of Loan and Advances to Bank**

Commercial Banks grants certain part of its assets as loan and advances. Such loan and advances are granted against enough securities and interest received against them is normally higher than they pay interest to deposits. Loan and advances are less liquid but are more profitable. These are known as fourth line of defense to bank regarding the chance of being converted to current cash. More than 70 percent of bank income is earned by the interest income received against such loan and advances. Without the transaction of loan and advances,

bank neither can maintain its operating expense nor can pay interest to depositors and dividend to shareholders. In the bank of developing economy granting loan and advances are major transaction and interest received against such loan and advances are the major portions of income to total income. The loan and advances in our countries' Commercial Bank occupy more than 45 % of total assets.

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

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

## **2.8 Review From Other Books, Journals and Reports**

The reviews are constructed by different kind of related books, reports, different writers' article and various websites journals. These are as follows.

### **2.8.1 NPAs in Nepalese Banking Sector**



As studied in the “Banking and Financial Statistics” as of mid-July-2005, Vol. 45; published by Nepal Rastra Bank, the successful restructuring of two large banks resulted in better performance of whole Commercial system and with marginal improvement in the level of NPA and advances, still stood at a significantly high level. The aggregate NPA to total loan ratio was 29.3% in mid-July 2001 and it reduced to 18.85% (Rs.28103.7 million) in mid-July 2005. The governor of Nepal Rastra Bank, Mr. B.N. Bhattarai has expressed his serious concern regarding the Non-Performing Asset (NPA) in Nepalese Banking sector.

As he has expressed in NRB Samachar 2063, the Performing Assets of NBL and RBB are found to 49.64% and 50.70% respectively as on the end of Asadh 2062. “The governing organs of the state should advance with hands to hands together to force the willful defaulters for the repayment to the Banks’ loan, who borrowed from the deposits of the general public in the bank. (Governor B.N. Bhattarai, NRB, in the symposium entitled “The Role of Judiciary in the Financial Sector Reform” jointly organized by NRB and the Supreme Court of Nepal.) As expressed by him in the same program, the recovering of the huge Non-Performing Asset (NPA) of two large banks is challenging and there are no alternatives of rescuing them to protect from the risk of financial system degradation of the country.

Dr. Tilak Rawal, former governor of Nepal Rastra Bank (NRB), has expressed his concerns over the outstanding level of Non-Performing Assets in the Banking sector that currently stands at 30%.

“The total NPA in Banking system is about 35 billion, while it is even worse in case of the two largest Commercial Bank-Rastria Banijya and Nepal Bank limited”, said Dr. Rawal, during the inauguration of a workshop on ‘managing Non Performing Assets’ organized by NRB in collaboration with the Bank of Korea and Bank Negara Malaysia ([www.himalayantimes.com](http://www.himalayantimes.com), 14 Nov 2003).

The NPA levels at the state run RBB stands at 52%, while the figure at the NBL read 62 percent, which together accounts for 37% of the total deposit of some Rs 200 billion of the Banking system.

“In order to address this deplorable situation and to make domestic financial players competent enough to utilize the opportunities of the globalization, various financial reform measures are underway”, he added.

“The financial sectors reforms measure undertaken can be broadly grouped under three heads-re-engineering of NRB, restructuring of RBB and NBL, and capacity building of the financial sector. Management of the two ailing banks has been handed over to two teams, consisting of exports from within and outside Nepal.

“NRB as a central Bank will now concentrate only on care function and initiate different measures to improve corporate governance in the financial sector. “Willful default will not be let off at any cost and NRB will initiate stringent measures to stop depletion of common man’s deposits and erosion of Common Stockholder’s Capital,” Dr. Rawal Warned ([www.thehimalayantimes.com](http://www.thehimalayantimes.com), 14 Nov 2003).

### **2.8.2 Glimpse of Performance of Commercial Banks in Nepal**

1. The number of Commercial Bank branches operating in the country in mid July 2005 totaled 422, of which 275 belonged to 17 Commercial Banks and the remaining 47 belonged to ADB/N, Performing Commercial Banking activities. The regional distribution of these Bank branches seemed to be very skewed. Of the total bank branches, 202 branches are being operated in the central development region, followed by eastern development region (88) and western development region (83). Only 27 and 22 branches are

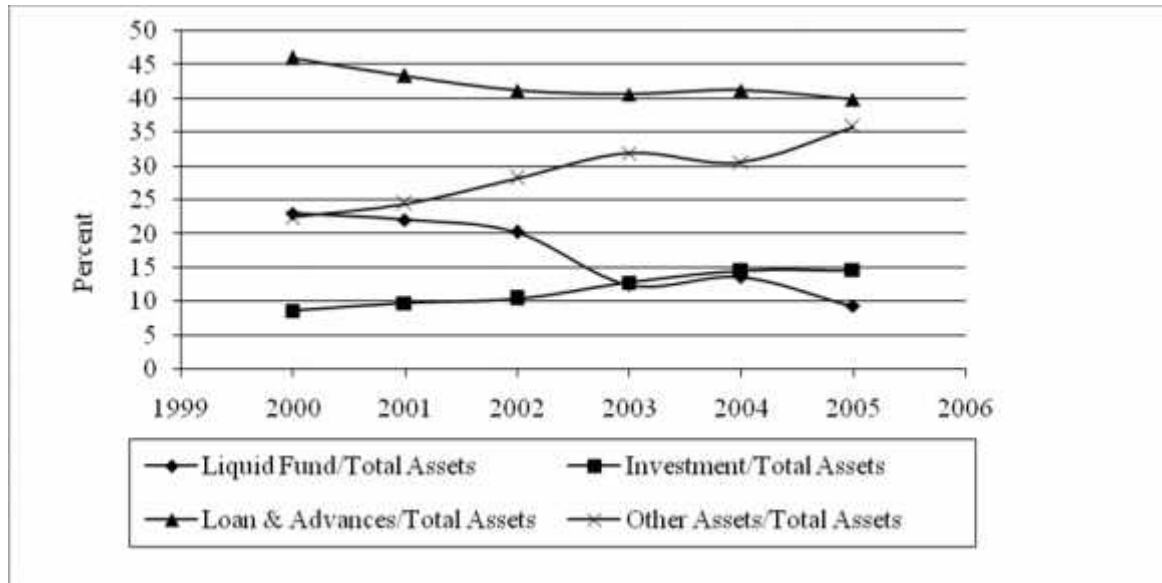
being operated in the mid-western and far western development region respectively.

2. The size of total assets of Commercial Banks increased continuously over the last few years. The total asset, which was Rs. 209471.5 million in mid-July 2000, expanded to Rs. 339816.7 million in mid-July 2004 and to Rs. 411033.7 million in mid-July 2005. It expanded on an average 14.43 percent per annum during 2000-05 and increased by 20.96 percent in mid-July 2005 compared to that of mid-July 2004.

Loans and advances remained major component in total assets of the Commercial Banks during 2000-05. However, the share of loans and advances in total assets declined in the recent years. The total loans and advances as percent of total assets was 46.0 percent in mid-July 2000. It decreased to 41.2 percent in mid-July 2004 and 39.8 percent in mid-July 2005. Similarly, the share of liquid funds in Total Assets declined in the period 2000-05. Unlike the loans and advances and liquid funds, the share of investments in Total Assets increased in the same period. It increased to 14.6 percent in mid-July 2004 from 8.6 percent in mid-July 2000 and remained more or less at constant level in mid-July 2005.

### **Figure 2.1**

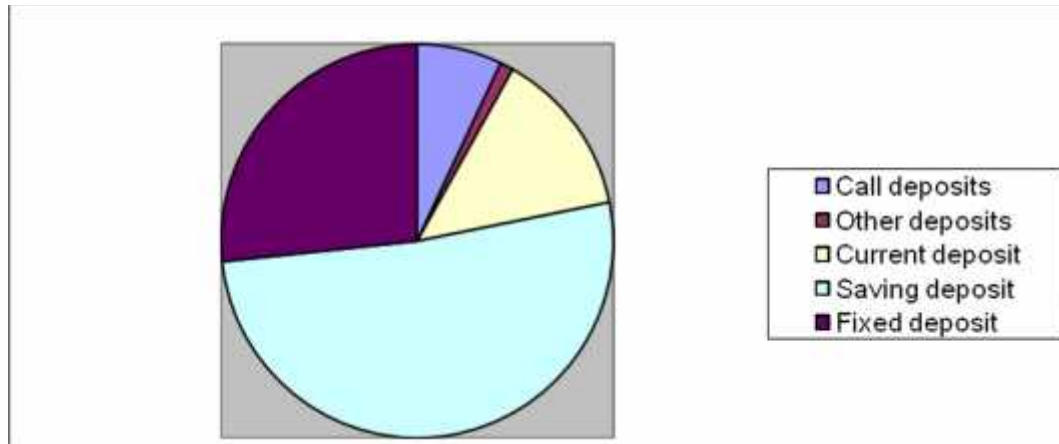
#### **Trend of Commercial Banking Assets Components /Total Assets**



3. Deposit liabilities held almost two third of total liabilities over the period 2000-05. Deposits reached to Rs. 252409.8 million in mid-July 2005 from Rs. 233811.2 million in mid July 2004, with an increased of 8 percent. However, deposits as a percent of total liabilities declined in recent years. It has comedown 61.4 percent in mid-July 2005 whereas these figures stood at 68.8 percent in mid-July 2004 and 74.0 percent in mid- July 2000. Exhibiting declining trend, total deposit of the banking system grew at a moderate rate of 10.25 percent per annum during 2000-05. It increased by 8.0 percent in mid-July 2005. The growth rate was 14.7 percent in the last year. Saving deposits, with increasing trend, held major share in total deposit. In mid-July 2005, saving deposits gripped 51.50 percent on total deposit followed by current deposits 13.73 percent, fixed deposits 26.67 percent; call deposits 7.01 percent and other deposits 1.10 percent. All components of deposits experienced healthy growth rate during 2000-05. Call deposits grew with the highest average rate of 36.6 percent followed by saving deposits 14.62 percent, current deposits 11.62 percent and fixed deposits 1.6 percent during last 5 years. As compared to the figures of mid-July 2004, current deposits and fixed deposits increased by 2.72 percent,

13.89 percent and 3.36 percent in mid-July 2005. In 2004, these growth rates were 16.86 percent, 17.38 percent, and 2.91 percent respectively. But call deposits decreased in mid-July 2005 by 2.10 percent as compared to the figure of mid-July 2004, whereas it had increased by 50.16 percent in 2004.

**Figure 2.2**  
**Deposit Ratio of Commercial Banks**



Other deposits increased by 55.02 percent in 2005 against the growth rate of 1.65 percent of 2004.

4. Non-deposits resources, which include capital and reserves, and borrowings, accounted only 5.4 percent of total liabilities in mid-July 2005. With an increase of 23.1 percent, it reached to Rs. 22006.2 million in mid-July 2005 from Rs. 17878 million that of mid-July 2004. It expanded with an annual growth rate of 16.9 percent over the past five-year's period. This growth rate is higher than the average growth rates of deposit and total liabilities of the same periods.
5. Liquid funds decreased by 17 percent and reached to Rs. 38369.4 million in mid-July 2005 from Rs. 46252.8 million in mid-July 2004. Liquid funds were Rs. 48240 million in mid-July 2000. On an average it declined at the rate of 4.48 percent per annum during 2000-05. On the other hand, investments increased by 27.35 percent per annum during 2000-05 and reached to Rs. 6081 million in mid-July 2005 from Rs. 17967.3 million that of mid-July 2000. Investments in mid-July 2005 were 27.35 percent higher than that of previous year, i.e. mid-July 2004.

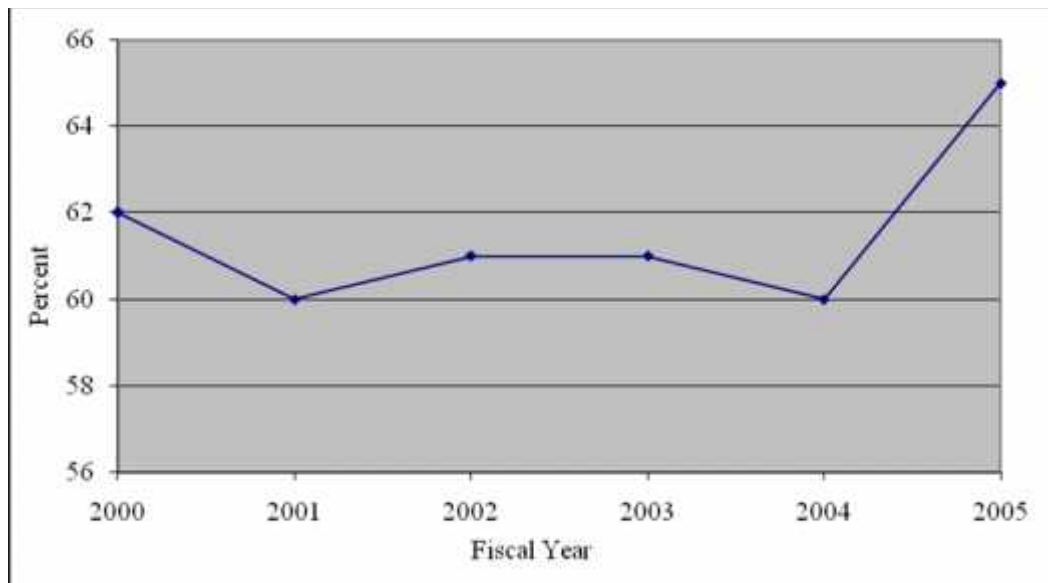
6. Growth of total loans and advances remained moderate in the five years. Total loans and advances registered an average growth rate of 11.19 percent per annum during 2000-05 and reached to Rs. 163718.8 million in mid-July 2005. The outstanding amount of loan and advances was Rs. 140031.4 million in mid-July 2004 and Rs. 96324.9 million in mid July 2000. Loans to private sector always dominated on the overall outstanding figure of loans and advances. Of the total outstanding loans and advances of Rs. 163718.9 million, 96.02 percent was allocated to private sector, 1.5 percent to Government enterprises, 2.39 percent to bills purchased and discount, and 0.10 percent against bills in mid-July 2005.

Major portion of the loan portfolio of the Banking system was distributed to productive sector, and wholesale and retail business sector. Credit to productive sector alone stood at Rs. 53743.5 million (33.93 percent of total loans and advances) and credit to wholesale and retail business was Rs. 34412.3 million (21.60 percent) in mid-July 2005. Agriculture sector was able to tap only 2.77 percent of total credit in this period. Other major credit distributed sectors included service industries (9.42 percent), construction (5.47 percent), and transportation, communication and public services (5.65 percent).

7. With 49.79 percent increase, priority sector credit reached to Rs. 13499.24 million in mid-July 2005 from Rs. 9012.3 million in mid July 2004. Priority sector credit as percent of total credit stood at 8.25 percent in mid-July 2005 and 6.44 percent in mid-July 2004. Similarly, deprived sector credit increased by 55.62 percent and reached to Rs. 4367.91 million in mid-July 2005 as compared to Rs. 2806.8 million in mid-July 2004. It had grown by 21.74 percent in mid-July 2004 as compared to mid-July 2003. Deprived sector credit amounted to 2 percent of total credit in mid-July 2005.

8. Credit-deposit ratio of the Commercial Banking system did not undergo a noteworthy change during 2000-05. It remained around 60 percent during 2004 and increased to 65 percent in mid-July 2005.

**Figure 2.3**  
**Credit- Deposit Ratio of Commercial Banking System**



Post a net profit of Rs. 3707.48 million in mid-July 2004. The net profit of the Banking system further improved and reached to 5263.5 million in mid-July 2005.

9. Despite some improvement, the aggregate capital funds to total risk weighted assets ratio of the Banking system remained negative even in mid-July 2005. The huge negative capital funds of two big Banks namely RBB and NBL converted the total capital adequacy ratio at  $-4.46$  percent in mid-July 2005 and  $-8.92$  percent in mid-July 2004.



**Table 2.1**  
**Soundness Indicators of Commercial Banking System**

Indicators	Mid - July				
	2001	2002	2003	2004	2005
Profitability (Rs. In Million)	-7843	-9428	-3317.25	3707.48	5205.31
NPL as Percentage of Total Loan	29.3	30.4	28.7	22.8	18.85
Total Capital Fund as Percentage	-5.49	-9.88	-11.74	-8.92	-4.46

10. With marginal improvement, the level Non-Performing Loans and advances still stood at a significantly high level. The aggregate Non Performing Loan ratio to total ratio 29.3 percent in mid-July 2001 and it reduced to 18.85 (Rs. 28103.7 million) in mid-July 2005 (NRB's Banking and Financial Statistics, Mid-July 2005).

### **2.9 Global Development of NPAs**

The core banking business is of mobilizing the deposit and utilizing it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purpose. Which result into economics growth. However lending also carries credit risk, which arises from the failure of borrower to fulfill its contractual obligation either during the course of transaction or a future obligation.

A question that is how risk cans a bank affords to take? Recent happening in the business world Enron, World Com, Xerox, Global crossing do not give much confidence to bank. In case after case, these giant corporate became bankrupt and failed to provide investor with clearer and more complete information there by introducing a degree of risk that many investors could neither anticipate nor welcome. The history of financial institution also reveals the fact that the biggest banking failures were due to credit risk.

Due to this, banks are restricting their lending operation to secured avenues only with adequate collateral on which to fall back upon in a situation of default (Sources: [http:// www.indianinfo.com/lega/feat/thle.html](http://www.indianinfo.com/lega/feat/thle.html)).

## **2.10 Why Loans Go Bad?**

We assured that when loans are overdue to repay their specific period then it goes to Bad Loan as known by NPAs is defined above reviewed various kinds of books, reports, articles, journals, newspaper and other different websites. So we know that how and why do loan go bad. The following terms are the major reasons that convert the loans into Bad Loans:

### **a. Lack of Credit Philosophy and Culture**

In order to set management's priorities with respect to the matter situation a clear written credit philosophy is a must in every financial institution. Philosophy generally guides the institution to diversification on its own priorities and its portfolios with emphasis on highest quality. Credit culture decides behaviors of credit team. If behavior of credit team is not aligned with institution's priorities, then the credit culture of the institution is worthless. Credit culture reflects institution's system and procedures. A good credit culture will definitely help in attainment of management priorities with minimum errors.

However, in our case, only few Financial Institutions have a clear-cut credit philosophy. Further having clear-cut policy is not enough if it strictly adhered to.

### **b. Risk Management Strategy**

Varieties of risks are associated with a lending. A comprehensive list of risk is given below. Most of the time and most of the bankers of our society tend to compromise in analyzing all the risk can be measured with the help of formulae, but some risks like regulatory risk, defalcation risk is quite to measure and, therefore, need in-depth examination before finalizing a loan.

**c. KYC- Know Your Customer**

If we don't know our customer- in terms of his capacity, managerial ability , past tract record, market reputation, business he is involved and lend him, then the loan extended to such a customer may be booked as a “Bad Loan” co- instant, it is disbursed.

**d. Generous Terms and Lack of Clear Standards**

When the term of loan are beyond the market practice or the institution-making loan has a very flexible credit standards, it is least likely the loan will be served timely or even ever.

**e. Lack of Proper Financials**

One of the chronic problems of our market is that most of the borrowers do not furnish the financials or even if furnish genuineness or authenticity of the information is questionable. This results difficulty in analyzing various risk associated. Due to this bankers of our market are forced to make name/security based lending, whereas financial based lending system is the only tested and proved system of lending.

**f. Stiff Competition and Size of the Market**

The growing numbers of financial institution have given birth to stiff as well as unhealthy competition amongst the institution on the one hand and the size of the market in proportion to the number of institution has not increased. Rather, in recent years some international and national events have shrieked the Nepalese market. No sign of improvement is observed and instead problem seems aggravating. Urge of the time is to be more careful on making loans and review of lending system for further strengthening it.

Competition is indispensable in an open economy and it cannot be avoided. But atmosphere of healthy competition can be created by dissemination information amongst the financial institution. Presently only banks, through Credit

Information Bureau or directly are sharing some information. Finance companies should also be brought into the purview of CIB.

**g. Un-due Influence**

One of the major factors contributing for Bad Loans is undue influence exerted by politicians, bureaucratic and sometime even by the member of the board and Senior Executives of the bank itself.

The lists of factors contributing bad loans are many more apart from enumerate above. It is not possible to address all of them in short time.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research Methodology describes the entire methodological approaches employed in the study. It is the procedure by which researchers go about their work of describing, explaining and predicting phenomena. Mostly, in the case of the empirical studies, the consistencies of findings are solely based on empirical methodologies it has employed. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them.

Research methodology refers to the various sequential steps to be adopted by the researcher while the studying a problem with certain object in view. Its focus is made on the application of the technique and procedure to analysis the relevant variables to see the basic relationship between relevant topics. To achieve the basic objectives of the study, this chapter has been divided into 5 sections. Section-1 represents the research design of the study, while section-2 describes the nature and source of data from the related organizations or institutions. Section-3 indicates the sample and population size of the Nepalese Commercial banks. Section-4 explains the method of analysis employed in interpretation of data. Similarly, conclusion and results verification defines on key terms are indicated, in 5 sections.

#### **3.2 Research Design**

The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Decisions regarding what, where, when, how much, by what

means concerning an inquiry or a research study constitute a research design. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. Preparation of the research design should be done with great care as any error in it may upset the entire project. Research design, in fact, has a great bearing on the reliability of the results arrived at and as such constitutes the firm foundation of the entire edifice of the research work.

In detail, the research design has two main purposes. The first purpose is to answer the research question or test relationship; then the other second purpose of a research design is to control variance. Thus research design is a plan of action to be carried out in connection with a research project. This study is based on both secondary and primary data. The required primary data and secondary data have been collected from various sources covering a period of 5 (five) years for Nepalese Commercial Banks.

The study seeks to analyze the impact of NPA on profitability, NPA effects on externally and internally. The research design of the study is therefore a combination of two major research designs i.e. descriptive design for secondary data and survey research for primary data.

### **3.3 Nature and Sources of Data**

This constitutes the most important factor affecting the choice of a particular method. The method selected should be such that it suits the type of inquiry that is to be conducted by the researcher. This factor is also important in deciding whether the primary data are to be used and the data already available (secondary data) are to be collected.

Generally this study aims to assess the NPA level and its influence on the profitability of the banking system, so as to obtain the necessary data and information. The primary data have been collected from both primary and secondary sources. The primary

sources are: data has been collected to visit and ask the questionnaire through the individuals of banking staffs as well as most of the data are collected from the secondary sources. Those data are collected and contributed directly from concern Commercial Banks, research department and Banks & Financial Institutions Regulation Department of Nepal Rastra Bank.

### **3.4 Population and Samples**

From a statistical point of view, the term 'Universe' refers to the total of the items or units in any field of inquiry, whereas the term 'population' refers to the entire group of people, events or things of interest that the researcher wishes to investigate, or total of items about which information is desired. All units in any field of inquiry constitute universe and all elementary units constitute population.

A sample is a collection of items or elements from population or universe. Hence, a sample is only a portion or subset of the universe or population. It comprises some observations selected from the population. Sampling may be defined as the selection of some part of an aggregate or totality on the basis of which judgement or inference about the aggregate or totality is made.

There are 20 Commercial Banks were licensed under Nepal Rasrta Bank. Global Bank Ltd. and Citizen Investment Bank Ltd. has established in this year 2007. All licensed Nepalese Commercial Banks were considered as the total population. Out of them, those banks, which were in existence and central office located in Kathmandu valley, were considered as the target population for the purpose of the study. There are 10 Commercial Banks were considered under target population. Commercial Banks with their central office in Kathmandu valley were only 8 in number and others 2 have their central office is outside of Kathmandu valley.

The final step in the sampling process is the actual selection of the sample elements. Sample size has drawn from the elements of the target population. We drew only five Commercial Banks in the sample number one has their central office is outside in Kathmandu; then remaining has in the Kathmandu Valley and especially pure Nepalese Management Bank, Foreign Management hand over to Nepalese Management bank and other is continuously Foreign and Nepalese Management (Joint Venture) Bank.

The following table, below clearly describes about total population, target population and sample drawn.

**Table 3.1**

**Total Population, Target Population and Sample Drawn of Banks**

S.N.	Total Population	Target Population	Sample Drawn
1	Nepal Bank Ltd.	Nepal Bank Ltd.	
2	Rastriya Banijya Bank Ltd.		
3	Nabil Bank Ltd.	Nabil Bank Ltd.	Nabil Bank Ltd.
4	NIC Bank Ltd.	NIC Bank Ltd.	
5	Standard Chartered Bank Nepal Ltd.	Standard Chartered Bank Nepal Ltd.	
6	Himalayan Bank Ltd.		
7	Nepal Investment Bank Ltd.	Nepal Investment Bank Ltd.	Nepal Investment Bank Ltd.
8	Everest Bank Ltd.	Everest Bank Ltd	Everest Bank Ltd
9	Nepal Bangladesh Bank Ltd.		
10	Bank of Kathmandu Ltd.	Bank of Kathmandu Ltd.	Bank of Kathmandu Ltd.
11	NCC Bank Ltd.		
12	Nepal SBI Bank Ltd.	Nepal SBI Bank Ltd.	
13	Laxmi Bank Ltd.		
14	Lumbini Bank Ltd.		
15	Kumari Bank Ltd	Kumari Bank Ltd	
16	Siddhartha Bank Ltd.		
17	Machhapuchchhre Bank Ltd.	Machhapuchchhre Bank Ltd.	Machhapuchchhre Bank Ltd.
18	Agriculture Development Bank Ltd.		
19	Global Bank Ltd		



20	Citizen Investment Bank Ltd.		
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*(Source: Nepal Rastra Bank, Banking and Financial Statistics, Mid July: 2006)*

### **3.5 Data Collecting Procedure**

Whenever the sources and nature of data have been identified, the required data (primary and secondary) of this study have been gathered or collected from the respondents of concerned banks and annual reports through the head office of the concerned sample banks, research departments of Nepal Rastra Bank, different books, papers, reports, journals and visiting different websites have been taken for the period of five years i.e. during fiscal year 2058/2059 to 2062/2063.

### **3.6 Data Processing Procedure**

Data are collected from various sources were in raw form, which are included the annual financial report of concerned banks, the related publications of NRB and relevant websites of concerned banks. They were classified and tabulated as per the nature of the study and in accordance of the data. The tabulation is specially made on the basis of their consequent five fiscal year's data available and need base headings; such as Performing Loan, total NPA, Substandard Loan, Doubtful Loan and Bad Loan. The tabulation mainly contains the calculation of the percentage of required variables, as it is needed. The tabulation also comprises the Total Assets, Total Deposit, Total Lending, calculation of the return on Total Assets and the return on Shareholder's Equity. Simple percentage tool was used as arithmetical tool and Karl Pearson Coefficient of Correlation was also used as a statistical tool.

### **3.7 Nature of Survey**

The primary data are collected from the concerned sample five banks. It has basically designed for the assessment of internal factors having growth of NPA level, whether or not to be followed of NRB Directives and overall impact of NPA to ROA and ROE. Those data has been gathered and enumerated by the

direct questionnaire through the respondents/staff of sample Commercial Banks. Theirs details are arranged and analyzed in the fourth chapter.

The researcher has been directly approached to the related department of Banks staff and asked the questions them and they had answered, which are maintained in last annex-1 chapter of this thesis.

### **3.8 Research Variables**

As being the research was mainly based on NPA, the level of NPA in different parameters was the major research variable. This study also focused on the level of Performing Assets, affect of Non Performing Assets on ROA and ROE of concerned banks.

Other research variables used in this study are Total Deposit, Total Lending, Total Assets and Loan Loss Provision.

- Total Deposit: The amount of Total Deposit in the sample selected banks.
- Total Lending: Total loan and advances and amount of bill purchased and discounted of the sample selected banks are studied as Total Lending.
- Total Assets: Total Assets of the banks comprise all the assets of Balance Sheet item excluding preliminary expenses, profit & loss A/C and other fictitious assets (goodwill etc.).
- Net profits: Profit earned during the normal course of Bank's operation (which includes profit or loss from bank's extra-ordinary items) after tax and other mandatory provisions required as per bank's policy. It is profit finally remained for appropriation purpose (dividend and other general reserve)
- Loan Loss Provision: Loan loss provision is the amount charged to profit and loss account against the revenue due to credit risk involved in loan and advances disbursed by banks.

- Performing Assets/loan: Performing Assets/Loan are those loan and advances where interest and principal are regularly served as per the repayment commitment of the loanee.
- Non Performing Assets (NPA): Performing Assets/Loan are those loan and advances where interest and principal are not regularly served and defaulted as per the repayment commitment of the loanee.
- Returns on Shareholder's Equity (ROE): The shareholder's equity comprises share capital, general reserves, profit & loss a/c and other reserves. In other words it is total assets - outside liabilities. Return on Shareholder's Equity is calculated as follows.

$$\text{ROE} = \text{Net Profit Before Tax/Shareholder's Equity} \times 100$$

- Returns on Total Assets (ROA): Return on Total Assets measures the utilization level of assets. In other words it shows how well a Bank is utilizing its assets in business. Returns on Total Assets is calculated as follows,

$$\text{ROA} = \text{Net profit Before Tax/Total Assets} \times 100$$

### **3.9 Statistical Procedures**

Calculation of simple Coefficient of Correlation is used to find out the correlation between Return on Total Assets (ROA) and Non-Performing Assets (NPAs) and correlation between NPAs and Return on Shareholder's Equity (ROE) as statistical tools whereas percentage calculation is used as arithmetic tool.

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

The main theme of the study of this chapter concerned with the efforts has been made to analysis the collected data. Data collected from various sources were classified and tabulated as objectives and requirement of the study and in accordance to the nature of collected data. Different arithmetical and statistical tools are used to analyze the collected data. In order to make easier, convenience and clearer to understand, data are presented in the required as well.

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

Recently, NPA is the issue of hot discussion if the contemporary in banking and financial sectors. The large Banks even in the world got collapsed due to their NPA. In Nepalese banking sector, NPA have been occupying major space to Bank's Total Assets and to Total Lending. The latest figure of NPA in banking sector stands around 19 percent. The total NPA in the banking system is around Rs. 29 billion, while the portion of NPA in the two large and oldest banks i.e. RBB and NBL are significantly high and it is found worse. The level of NPA at state run Commercial Bank, RBB stands at 50.70 percent and NBL stands at 49.64 percent as Ashad end 2062. This figure shows that the Commercial Banks have been suffering from the high level of NPA.

Knowing that fact, the huge volume of NPA can create problem in the national economy and financial sector's activities, Nepal Rastra Bank has set provision since F/Y 2057/58 to control the level of increasing level of NPA in the Commercial Banks. As provided there in, every Commercial Bank has to

classify its total advances (including the purchased and discounted bills) as Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan on the basis of their overdue aging schedule. Commercial Bank also has to maintain loan loss provision on the basis of the loan category they fall, as stated in the Directives no.2 (8.1) of the unified Directives, 2062 issued to Bank and Financial Institutions licensed by NRB. Main purpose of this regulation is to find the level of NPA in Nepalese Commercial Banks and to take steps to control the level of increasing level of NPA in the future.

As defined in the Directives issued by NRB, Pass Loans are called the Performing Loans while other category loans; sub-standard, Doubtful and Bad Loans are called Non-Performing Assets (NPA).

In this thesis, data of five fiscal years viz: 2058/59, 2059/60, 2060/61, 2061/62 and 2062/63 are presented to study and analyze the level of NPA in Total Assets, Total Lending and Total Deposit of the concerned banks. Data are collected from secondary sources e.g. bank's annual report of given fiscal year and also presented to examine or analyze the effect of NPA on bank's Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE).

#### **4.2 Data Presentation and Analysis of "Nabil Bank Limited"**

NABIL Bank Limited is one of the renowned Commercial Bank in the banking industry of Nepal. It has completed successful 23 years of continuous service of its operation in the country. Because of its excellent operation and tremendous success the International awarded as a "Bank of the year 2004". In this chapter, data from the various sources of the bank are presented and analyzed. Data collected from various sources are presented in the following table in accordance to the nature of data and as per the requirement of the study as follows:

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

**Table 4.1**

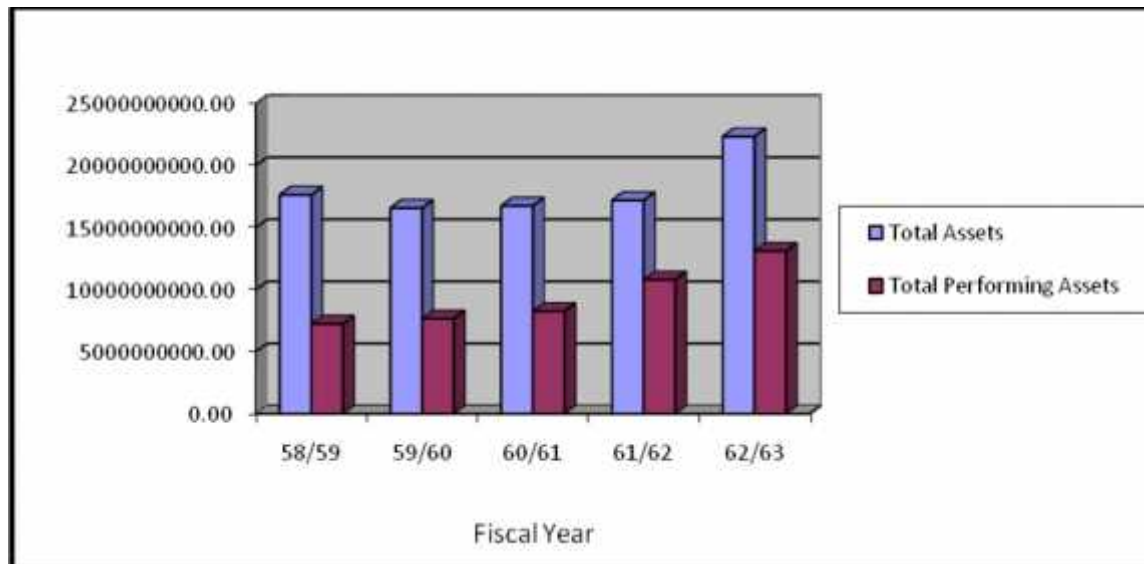
**Total Assets and Performing Loan of Nabil Bank Limited (Rs.)**

S.N.	Particulars	2058/59	2059/60	2060/61	2061/62	2062/63
1	Total Assets	17629252392	16562624922	16745486638	17186330816	22329971078
2	Total Performing Assets	7244970881	7664053458	8261978118	10802229684	13096157779

*(Source Annual Report of Nabil Bank Limited.)*

**Figure 4.1**

**Diagram of Total Assets and Total Performing Assets of NABIL**



Total Assets include sum of all the items at the assets side of Balance Sheet as it is mentioned in the introduction of balance-sheet items in the course of literature review. The figure of Total Assets was Rs. 17,629,252,392 at the end of fiscal year 2058/59. It was decreased to Rs. 16,562,624,922 at the end of fiscal year 2059/60 which increased to Rs. 16,745,486,638 at the end of fiscal year 2060/61, it reached Rs. 17,186,330,816 at the end of fiscal year 2061/62 consequently it is gradually raised to Rs. 22,329,971,078 at the end of year fiscal year 2062/63.

The Performing Loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2058/59, the Total Performing Loan of Nabil Bank Limited was Rs. 7,244,970,881 which was increased to Rs. 7,664,053,458 in fiscal year 2059/60, which increased to Rs. 8,261,978,118 in fiscal year 2060/61, it reached Rs. 10,802,229,684 at the end of fiscal year 2061/62 and it increased to Rs. 13,096,157,779 at the end of fiscal year 2062/63.

**Table 4.2**

**Percentage of Performing Loan to Total Assets of Nabil Bank (Rs.)**

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Performing Loan</b>	<b>% of Performing Loan to Total Assets</b>
2058/59	17,629,252,392	7,244,970,881	41.09 %
2059/60	16,562,624,922	7,664,053,458	46.27 %
2060/61	16,745,486,638	8,261,978,118	49.34 %
2061/62	17,186,330,816	10,802,229,684	62.85 %
2062/63	22,329,971,078	13,096,157,779	58.65 %

*(Source: Annual Report of Nabil Bank Limited.)*

The percentage of Performing Loan to Total Assets was 41.09% at the end of fiscal year 2058/59 and increased to 46.27% at the end of fiscal year 2059/60. It increased to 49.34% at the end of fiscal year 2060/61 reached 62.85% at the end of fiscal year 2061/62 and declined to 58.65% at the end of fiscal year 2062/63.

## 4.2.2 Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of Nabil Bank (Rs.)

**Table 4.3**

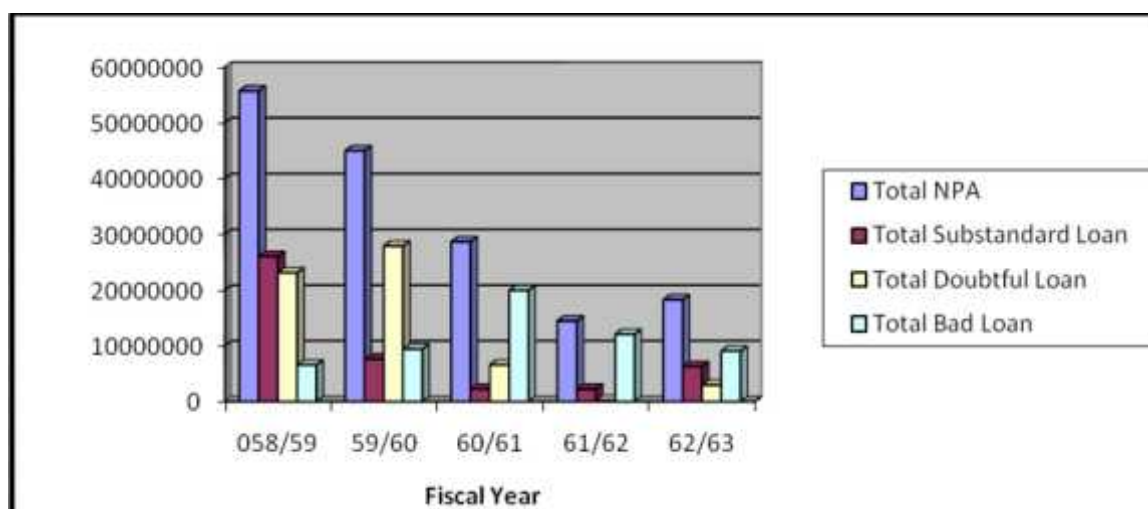
### Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of Nabil Bank (Rs.)

S.N.	Particulars	2058/59	2059/60	2060/61	2061/62	2062/63
1.	Total Non-Performing Assets	556,877,682	449,630,763	286,678,920	144,506,893	182,624,480
2.	Total Substandard Loan	260,277,239	76,311,974	22,139,923	22,072,562	62,665,914
3.	Total Doubtful Loan	230,936,540	279,117,410	65,552,224	1,934,092	29,565,952
4.	Total Bad Loan	65,663,903	94,201,379	198,986,773	120,500,239	90,392,614

(Source: Annual Report of Nabil Bank Limited.)

**Figure 4.2**

### Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of Nabil Bank



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and Bad Loan as well. The total figure of Total Non-Performing Assets was Rs. 556,877,682 at the end of fiscal year 2058/59. Which was decreased to Rs. 449,630,763 at the end of fiscal year 2059/60. The decreasing total NPA figure was Rs. 286,678,920 at the end of fiscal year 2060/61 and to Rs. 144,506,893



at the end of fiscal year 2061/62 but increased to Rs. 182,624,480 at the end of fiscal year 2062/63.

The entire loan, which is overdue for more than 3 months to 6 months, falls in this category, is known as Substandard Loan. The amount of such loan was Rs. 260,277,239 at the end of year 2058/59. It decreasing trend Rs. 76,311,974 at the end of fiscal year 2059/60 and to Rs. 22,139,923 at the end of fiscal year 2060/61, it slightly decreased to Rs. 22,072,562 at the end of fiscal year 2061/62 but it increased to Rs. 62,665,914 at the end of fiscal year 2062/63.

The loan, which is overdue for more than 6 months to one year, falls in this category is called Doubtful Loan. The amount of such loan was Rs. 230,936,540 in the fiscal year 2058/59, it was increased to Rs. 279,117,410 at the end of fiscal year 2059/60. It decreased to Rs. 65,552,224 at the end of fiscal year 2060/61 and heavily decreased to Rs. 1,934,092 at the end of fiscal year 2061/62 but extremely rose to Rs. 29,565,952 at the end of fiscal year 2062/63.

The entire loan overdue for more than one-year falls in the category is Bad Loan. The figure of such loan was Rs. 65,663,903 in the fiscal year 2058/59 is increased to Rs. 94,201,379 in the fiscal year 2059/60. It was double increased to Rs. 198,986,773 at the end of fiscal year 2060/61, but continuously declined to Rs. 120,500,239 at the end of fiscal year 2061/62 and remained at Rs. 90,392,614 in fiscal year 2062/63.

**Table 4.4**  
**The percentage of Substandard Loan, Doubtful and**  
**Bad Loan to Total NPA**

S.N.	Fiscal Year	% of Substandard Loan to NPA	% of Doubtful Loan to NPA	% of Bad Loan to Total NPA
1.	2058/59	46.74	41.47	11.79
2.	2059/60	16.97	62.08	20.95
3.	2060/61	7.72	22.87	69.41
4.	2061/62	15.27	1.34	83.39

5.	2062/63	34.31	16.19	49.50
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(Source: Annual Report of Nabil Bank Limited.)

The percentage of Substandard Loan to Total NPA was 46.74% at the end of fiscal year 2058/59, it declined 16.97% at the end of fiscal year 2059/60. It reduced to 7.72% at the end of fiscal year 2060/61 but it increased to 15.27% at the end of fiscal year 2061/62 and 34.31% at the of fiscal year 2062/63.

The percentage of Doubtful Loan to Total NPA at the end fiscal year 2058/59 was 41.47%; it increased in fiscal 2059/60 was 62.08%. It reduced to 22.87% at the end of fiscal year 2060/61, and to 1.34% at the end of fiscal year 2061/62, but highly increased 16.19% at the end of fiscal year 2062/63. The increasing trend of portion of the Doubtful Loan of the Nabil Bank in the latest year shows the unsatisfactory recovery position of Doubtful Loan.

The percentage of Bad Loan to Total NPA was 11.79% in fiscal year 2058/59. It continuously increased to 20.95% at the end of fiscal year 2059/60 and 69.41% at the end of fiscal year 2060/61 and to 83.39% at the end of fiscal year 2061/62, it remained to 49.50% at the end of fiscal year 2062/63. The trend of increasing trend of Bad Loan to Total NPAs alarms that there may raise credit risk of the bank. So the bank has to be conscious of getting steps towards the timely recovery of loan.

#### **4.2.3 The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of Nabil (Rs.)**

**Table 4.5**

##### **The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of Nabil (Rs.)**

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Total Lending</b>	<b>Total Deposit</b>	<b>Performing Loan</b>	<b>Total NPA</b>
2058/59	17,629,252,392	7,801,848,563	15,506,428,215	7,244,970,881	556,877,682
2059/60	16,562,624,922	8,113,684,221	13,447,661,064	7,664,053,458	449,630,763
2060/61	16,745,486,638	8,548,657,038	14,119,032,115	8,261,978,118	286,678,920
2061/62	17,186,330,816	10,946,736,577	14,586,608,707	10,802,229,684	144,506,893

2062/63	22,329,971,078	13,278,782,259	19,347,399,440	13,096,157,779	182,624,480
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(Source: Annual Report of Nabil Bank Limited.)

The Total Lending includes the entire loan and advances and bills purchased and discounted by the Bank. The figure of Total Lending was Rs. 7,801,848,563 in fiscal year 2058/59, it rose to Rs. 8,113,684,221 at the end of fiscal year 2059/60; it increased to Rs. 8,548,657,038 at the end of fiscal year 2060/61, there was continuously raised Rs. 10,946,736,577 at the end of fiscal year 2061/62 and Rs.13,278,782,259 at the end of fiscal year 2062/63.

The Total Deposit in the Bank comprise the deposits by government, government organizations, banks, business houses, foreign institutions and agencies, other financial institutions, individuals and other organizations. Similarly such deposits can be divided into interest bearing deposits and non-interest bearing deposits. The figure of Total Deposit at the end of fiscal year 2058/59 was Rs. 15,506,428,215 it decreased in fiscal year 2059/60 to Rs. 13,447,661,064, which increased to Rs. 14,119,032,115 at the end of fiscal year 2060/61 raised to Rs. 14,586,608,707 at the end of fiscal year 2061/62 and increased upto Rs. 19,347,399,440 at the end of fiscal year 2062/63.

The description of Total Assets, Total Performing Loan and Non-Performing Assets in different fiscal years is mentioned above.

**Table 4.6**  
**Percentage of Performing Assets, NPA, Substandard, Doubtful and Bad Loan to Total Assets, Total Lending, Total Deposit and Total NPA of NABIL Bank**

S.N.	Particulars	058/59	59/60	60/61	61/62	62/63
1.	% of Performing Loan/Total Assets	41.09	46.27	49.34	62.85	58.65
2.	% of Performing Loan/Total Lending	92.86	94.46	96.66	98.68	98.62
3.	% of Performing Loan/Total Deposit	46.72	56.99	58.52	74.05	67.69
4.	% of NPA to Total Assets	3.16	2.71	1.71	0.84	0.82
5.	% of NPA to Total Lending	7.14	5.54	3.35	1.32	1.37
6.	% of NPA to Total Deposit	3.59	3.34	2.03	0.99	0.94
7.	% of Substandard Loan to Total NPA	46.94	16.97	7.72	15.27	34.31
8.	% of Doubtful Loan to Total NPA	41.47	41.08	22.87	1.34	16.19

9.	% of Bad Loan to Total NPA	11.79	20.95	69.41	83.39	49.50
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*(Source: Annual Report of Nabil Bank Limited.)*

The percentage of Performing Loan to Total Lending at the end of fiscal year 2058/59 was 92.86%; in fiscal year 2059/60 was 94.46%. It continuously increased to 96.66% at the end of fiscal year 2060/61 and 98.68% at the end of fiscal year 2061/62 and slightly declined 98.62% at the end of fiscal year 2062/63.

The percentage of Performing Loan to Total Deposit at the end of fiscal year 2058/59 was 46.72%. It rose to 2059/60 was 56.99%, but continuous rose to 58.529% at the end of fiscal year 2060/61 and 74.05% at the end of fiscal year 2061/62, remained at 67.69% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Assets was 3.16% in fiscal year 2058/59; it decreased at 2.71% at the end fiscal year 2059/60. It continuously reduced to 1.71% at the end of fiscal year 2060/61 and declined at 0.84% at the end of fiscal year 2061/62 and 0.82% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Lending was 7.14% in fiscal year 2058/59, it declined to 5.54% at the end of fiscal year 2059/60. It continuously declined to 3.35% at the end of fiscal year 2060/61; to 1.32% at the end of fiscal year 2061/62 but slightly rose to 1.37% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Deposit at the end of fiscal year 2058/59 was 3.59%, slightly decreased in fiscal year 2059/60 was 3.34%. It continuously declined 2.03% at the end of fiscal year 2060/61 and 0.99% at the end of fiscal year 2061/62 and remained at 0.94% at the end of fiscal year 2062/63.

The description of percentage of Performing Loan to Total Assets and percentage of Substandard Loan, Doubtful Loan and Bad Loan to Total NPA in different fiscal years are mentioned above.

#### 4.2.4 Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Nabil Bank Ltd.

**Table 4.7**

#### Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Nabil Bank Ltd.

Fiscal Year	Total Assets (Rs.)	Shareholder's Equity (Rs.) #	Net Profit (Rs.)	% of ROA <sup>+</sup>	% of ROE <sup>+</sup>
2058/59	17,629,252,392	1,146,428,294	71,638,612	1.54	23.69
2059/60	16,562,624,992	1,314,187,456	16,235,811	2.51	31.67
2060/61	16,745,486,638	1,481,682,303	55,311,222	2.72	30.73
2061/62	17,186,330,816	1,657,638,308	18,635,749	3.02	31.29
2062/63	22,329,971,078	1,874,994,417	635,262,349	2.85	33.81

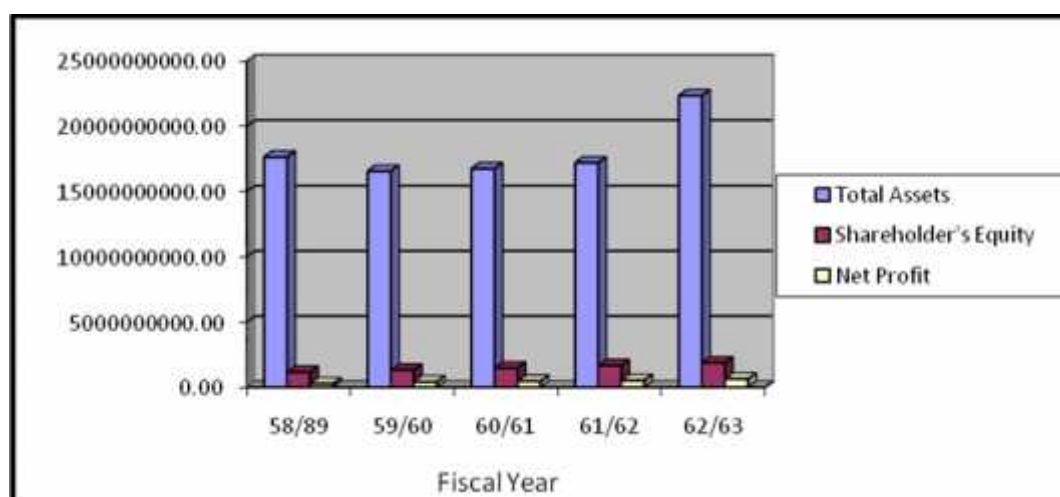
(Source: Annual Report of Nabil Bank Limited.)

# Shareholder' equity include share capital and Reserves and other funds

<sup>+</sup>Note: The calculation is made on Annex -2 of this report

**Figure 4.7**

#### Diagram of Total Assets, Shareholder's Equity and net Profit of Nabil Bank



Total Assets are the sum of the all particulars on the assets side of Balance Sheet. The amount of Total Assets was Rs. 17,629,252,392 at the end of fiscal year 2058/59; it continuously raised Rs. 16,562,624,992 at the end of fiscal

year 2059/60. This amount increased to Rs. 16,745,486,638 at the end of fiscal year 2060/61 similarly at Rs. 17,186,330,816 in fiscal year 2061/62 and Rs. 22,329,971,078 at the end of year 2062/63.

The net profit after tax was Rs. 271,638,612 in fiscal year 2058/59. There was increment to Rs. 416,235,811 at the end of fiscal year 2059/60. This amount is Rs. 455,311,222 end of fiscal year 2060/61, continually grown up Rs. 518,635,749 in fiscal year 2061/62 and remained at Rs. 635,262,349 in fiscal year 2062/63.

The Total Assets was Rs. 17,629,252,392 and net profit was Rs. 271,638,612 and in fiscal year 2058/59; its Return on Total Assets (ROA) is 1.54%. The net profit after tax remained Rs. 416,235,811 at the end of fiscal year 2059/60 and total asset is Rs. 16,562,624,992 and ROA is 2.51%. The Total Assets in fiscal year 2060/61 was Rs. 16,745,486,638 and net profit was Rs. 455,311,222 and ROA was 2.72%. In the next consecutive fiscal years: 2061/62 and 2062/63, the Total Assets of the Nabil Bank were Rs. 17,186,330,816 and Rs. 22,329,971,078. The net profit after tax of the bank remained Rs. 518,635,749 and Rs. 635,262,349 and the percentage of ROA remained 3.02% and 2.85% respectively.

The ROE, concerned to equity share capital, which comprises of share capital and general reserves in Nabil Bank is remained same, Rs. 1,146,428,294 at the end of fiscal year 2058/59; it raised Rs. 1,314,187,456 in the fiscal year 2059/60. This figure increased to Rs. 1,481,682,303 at the end of fiscal year 2060/61 similarly Rs.1,657,638,308 at the end of fiscal year 2061/62 and Rs. 1,874,994,417 in fiscal year 2062/63.

The percentage of ROE or ratio of net profit to shareholders' equity in fiscal year 2058/59 was 23.69%. In fiscal year 2059/60 was 31.67%, continually slightly decreasing to 30.73% and 31.29% at the fiscal year 2060/61 and 2061/62 respectively but increased in fiscal year 2062/63 at 33.81%. The

slightly increasing and decreasing trend of return on shareholder's equity in the recent years shows that the bank's profitability is not so bad.

#### **4.2.5 Loan Classification and Provisioning of Nabil Bank Ltd.**

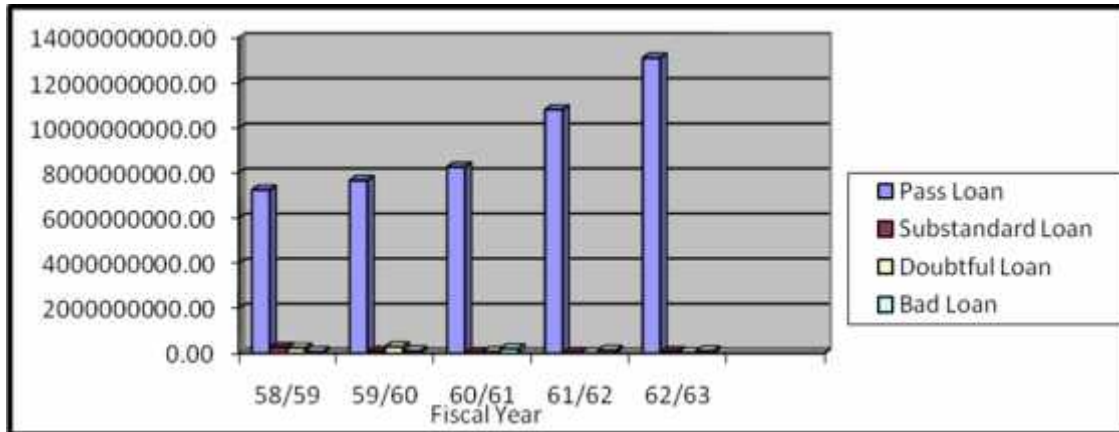
The higher level of the NPA causes the larger amount of provisioning of loan loss. As per the Directives issued by NRB to Commercial Banks and Financial Institutions, certain percent of provisioned amount has to be maintained against each category of loan. The loan loss-provisioning amount has to be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

**Table 4.8**  
**Loan Classification of Nabil Bank Limited**  
**Outstanding Loan Amount (Rs.)**

<b>Types of Loan</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
Pass Loan	7,244,970,881	7,664,053,458	8,261,978,118	10,802,229,684	13,096,157,779
Substandard Loan	260,277,239	76,311,974	22,139,923	22,072,562	62,665,914
Doubtful Loan	230,936,540	279,117,410	65,552,224	1,934,092	29,565,952
Bad Loan	65,663,903	94,201,379	198,986,773	120,500,239	90,392,614

*(Source: Annual Report of Nabil Bank Limited.)*

**Figure 4.8**  
**Diagram of Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan**



The Pass Loan or the loan non-overdue and/or overdue for three months falls in this class. Such loan amount was Rs. 7,244,970,881 in fiscal year 2058/59. It reached to Rs. 7,664,053,458 at the end of fiscal year 2059/60. The loan in this category increased to Rs. 8,261,978,118 at the end of fiscal year 2060/61 similarly Rs. 10,802,229,684 at the end of fiscal year 2061/62 and remained Rs. 13,096,157,779 in fiscal year 2062/63.

The loan overdue for three months to six months falls in this class is known as Substandard Loan. Such loan in Nabil Bank at the end of fiscal year 2058/59 was Rs. 260,277,239; it continually decreased at the end of fiscal year 2059/60 was Rs. 76,311,974, similarly Rs. 22,139,923 in fiscal year 2060/61 and Rs. 22,072,562 at the end of fiscal year 2061/62 but increased upto Rs. 62,665,914 at the end of fiscal year 2062/63.

The loan overdue for 6 months to 1 year falls in this class is called Doubtful Loan. The amount of such loan in Nabil Bank at the end of fiscal year 2058/59 was Rs. 230,936,540; it raised in fiscal year 2059/60 was Rs. 279,117,410. This figure decreased to Rs. 65,552,224 at the end of fiscal year 2060/61, similarly Rs. 1,934,092 at the end of fiscal year 2061/62 and raised Rs. 29,565,952 in fiscal year 2062/63.



The loan overdue for more than 1 year falls in this class is Bad Loan. The amount of such loan in Nabil Bank at the end of fiscal year 2058/59 was Rs. 65,663,903. In fiscal year 2059/60 the Bad Loan went upto Rs. 94,201,379. This figure increased to Rs. 198,986,773 at the end of fiscal year 2060/61 but declined to Rs. 120,500,239 at the end of fiscal year 2061/62 and Rs. 90,392,614 in the fiscal year 2062/63. The decrement of Bad Loan on to total loan latest fiscal year as well as NPA signify good repayment of disbursed loan, which has been indicated serious to gain more profit and shows the positive path for the bank.



**Table 4.9**

**Loan Loss Provisioning of Nabil Bank Limited**

Loan Types	F.Y. 2058/59			F.Y. 2059/60			F.Y. 2060/61		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
<b>Pass</b>	7244970881	140918813	1.94	7664053458	122587932	1.60	8261978118	127733990	1.55
<b>Sub. Std</b>	260277239	62681307	24.08	76311974	18320228	24.40	22139923	5140970	23.22
<b>Doubtful</b>	230936540	114424624	49.5	279117410	136619817	48.96	65552224	32384357	49.40
<b>Bad</b>	65663903	45929143	69.9	94201379	80204259	85.14	198986773	193404870	97.19
<b>Total</b>	<b>7801848563</b>	<b>36395388</b>	<b>4.66</b>	<b>8113684221</b>	<b>357732236</b>	<b>4.41</b>	<b>8548657038</b>	<b>35866418</b>	<b>4.19</b>

F.Y. 2061/62			F.Y. 2062/63		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%
10802229684	23534557	2.18	13096157779	214301301	1.64
22072562	6865463	31.10	62665914	42573904	67.93
1934092	1415926	73.21	29565952	13896064	47.00
120500239	116939615	97.04	90392614	85467837	94.55
<b>10946736577</b>	<b>3605665</b>	<b>3.29</b>	<b>13278782259</b>	<b>356239106</b>	<b>2.68</b>

*(Source: Annual Report of Nabil Bank Limited.)*

The amount of provisioning for Pass Loan or overdue up to three months loan falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 140,918,813 in fiscal year 2058/59, which showed 1.94% Pass Loan of total loan amount. It had allocated Rs. 122,587,932 at the end of fiscal year 2059/60. This covers 1.60% of total Pass Loan, which has maintained the slightly excess of required percentage. Similarly, the amount of provisioning for Pass Loan at the end of fiscal year 2060/61 was Rs. 127,733,990 which covers the 1.55% of total loans in this class and Rs. 235345571 at the end of fiscal year 2061/62, which also covers the 2.18% of total loan in this class. It was Rs. 21,301,301 in fiscal year 2062/63, which covered 1.64% of total loan. It shows that there is provisioned in all fiscal years excess of loan by the regulation issued by NRB.

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

The Total Loan in this class was Rs. 62,681,307 in fiscal year 2058/59 is covered 24.08%. It declined to Rs. 18,320,228 at the end of fiscal year 2059/60 is maintained 24.40% of total loan in the class. This figure decreased to Rs. 5,140,970 is provisioned 23.22% at the end fiscal year 2060/61. There was slightly raised at Rs. 6,865,463 at the end of fiscal year 2061/62 is covered 31.10% and in fiscal year 2062/63 remained at Rs. 42,573,904 is maintained as high value at 67.93% of total in this class. It shows that the bank has compliance with the directive issued by NRB.

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

The amount of provisioning for Doubtful Loan at the end of fiscal year 2058/59 had Rs. 114,424,624 is covered 49.55%. In fiscal year 2059/60 was Rs. 136,619,817, which is 48.96% of the total loan in this class. Similarly, the amount of provisioning at the end of fiscal year 2060/61 was Rs. 32,384,357 is maintained 49.40% of total loan in the class. It declined to Rs. 1,415,926 at the end of fiscal year 2061/62 is provisioned high percentage as 73021% and increased at Rs. 13,896,064 in fiscal year 2062/63 is 47% of the total loan in the class. The provisioning in all fiscal years covers periphery of 50% of total loan in this class. Therefore, there is enough provisioning as per the Directives issued by NRB.

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

The amount of provisioning at the end of fiscal year 2058/59 in this class loan was Rs. 45,929,143 is 69.94% of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2059/60 was Rs. 80,204,259 is allocated 85.14%, in fiscal year 2060/61 was Rs. 193,404,870, which has provisioned 97.19% of loan in the class. There was Rs. 116,939,615 at the end of fiscal year 2061/62 which covered 97.04% of total loan in this class and Rs. 85,467,837 in fiscal year 2062/63; it has maintained 94.55% of total loan in this class. The provisioning figure of Bad Loan is not perfect than other class, so that NRB has warned the Nabil Bank to follow their Directives.

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

### **4.3 Data Presentation and Analysis of "Nepal Investment Bank Limited" (NIBL)**

Nepal Investment Bank Limited (NIBL) is one of the renowned Commercial Bank in the Banking industry of Nepal. It has completed successful 20 years of continuous service of its operation in the country. Because of its excellent operation and tremendous success the awarded as a "Bank of the year 2003" and "Bank of the year 2005". NIBL was once run by French management of Credit Agricole Indosuez has 50% share. This management was taken over by Nepalese management on April 2002. In this chapter, data from the various sources of the bank are presented and analyzed. Data collected from various sources are presented in the following table in accordance to the nature of data and as per the requirement of the study as follows:

#### **4.3.1 Total Assets and Performing Loan of Nepal Investment Bank Limited (Amount Rs.)**

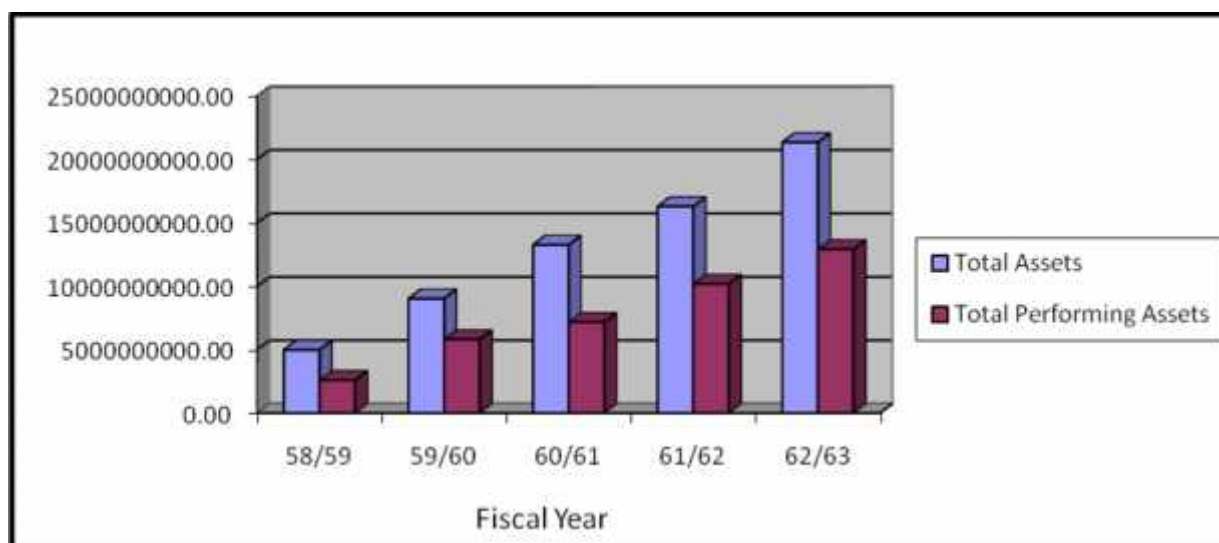
**Table 4.10**  
**Total Assets and Performing Loan of Nepal Investment Bank Limited**  
**(Amount Rs.)**

<b>S.N.</b>	<b>Particulars</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
1	Total Assets	4973890169	9014249584	13255496016	16274063706	21330137542
2	Total Performing Assets	2583230154	5804696280	7167131478	10172289866	12905658783

*(Source: Annual Report of Nepal Investment Bank Limited.)*

**Figure 4.9**

**Total Assets and Total Performing Assets of NIBL**



Total Assets include sum of all the items at the assets side of Balance Sheet as it is mentioned in the introduction of balance-sheet items in the course of literature review. The figure of Total Assets was Rs. 4,973,890,169 at the end of fiscal year 2058/59. It was increased to Rs. 9,014,249,584 at the end of fiscal year 2059/60 which increased to Rs. 13,255,496,016 at the end of fiscal year 2060/61, it reached Rs. 16,274,063,706 at the end of fiscal year 2061/62 consequently it is gradually raised to Rs. 21,330,137,542 at the end of year fiscal year 2062/63.

The Performing Loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2058/59, the Total Performing Loan of Nepal Investment Bank Limited was Rs. 2,583,230,154 which was increased to Rs. 5,804,696,280 in fiscal year 2059/60, which increased to Rs. 7,167,131,478 in fiscal year 2060/61, it reached Rs. 10,172,289,866 at the end of fiscal year 2061/62 and it increased to Rs. 12,905,658,783 at the end of fiscal year 2062/63.

**Table 4.11****Percentage of Performing Loan to Total Assets (Rs.)**

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Performing Loan</b>	<b>% of Performing Loan to Total Assets</b>
2058/59	4,973,890,169	2,583,230,154	51.94 %
2059/60	9,014,249,584	5,804,696,280	64.40 %
2060/61	13,255,496,016	7,167,131,478	54.07 %
2061/62	16,274,063,706	10,172,289,866	62.51 %
2062/63	21,330,137,542	12,905,658,783	60.50 %

*(Source: Annual Report of Nepal Investment Bank Limited.)*

The percentage of Performing Loan to Total Assets was 51.94% at the end of fiscal year 2058/59 and increased to 64.40% at the end of fiscal year 2059/60. It decreased to 54.07% at the end of fiscal year 2060/61 reached 62.51% at the end of fiscal year 2061/62 and declined to 60.50 % at the end of fiscal year 2062/63.

#### **4.3.2 Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of Nepal Investment Bank Ltd. (Rs.)**

**Table 4.12**

#### **Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of Nepal Investment Bank Ltd. (Rs.)**

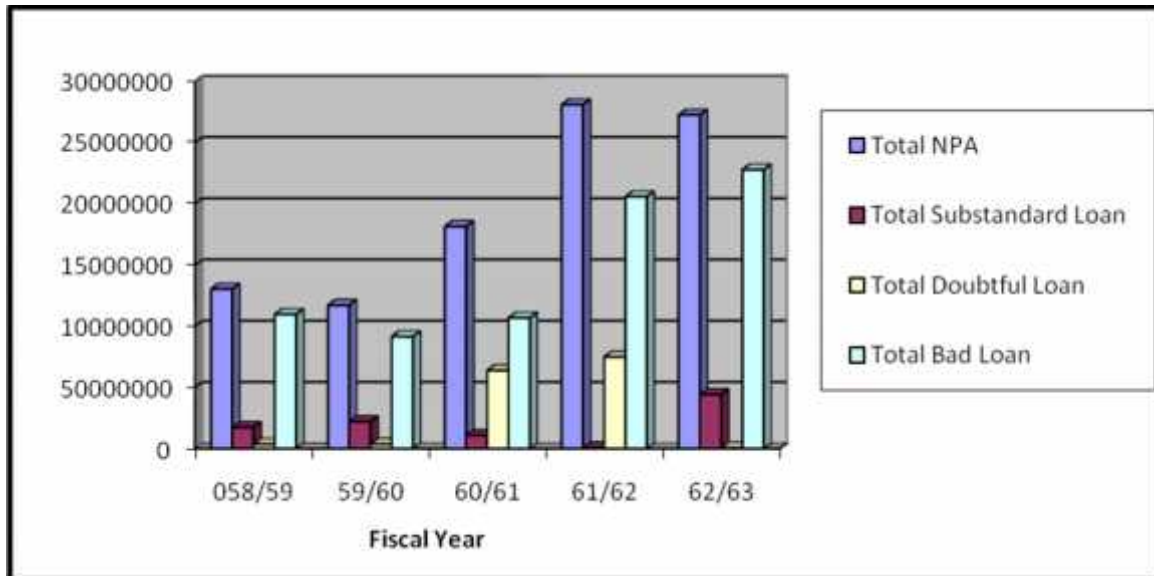
<b>S.N.</b>	<b>Particulars</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
1.	Total Non-Performing Assets	130294717	117091823	181435009	280874131	272493041
2.	Total Substandard Loan	17231516	22030528	10838,263	821624	44238859
3.	Total Doubtful Loan	3481767	3594004	63878948	74941884	497100
4.	Total Bad Loan	109581434	91467291	106716798	205110623	227757082

*(Source: Annual Report of Nepal Investment Bank Limited.)*



**Figure 4.10**

**Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of NIBL**



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and bad as well. The total figure of Total Non-Performing Assets was Rs. 130,294,717 at the end of fiscal year 2058/59. Which was decreased to Rs. 117,091,823 at the end of fiscal year 2059/60. The total NPA figure was Rs. 181,435,009 at the end of fiscal year 2060/61 raised to Rs. 280,874,131 at the end of fiscal year 2061/62 and become to Rs. 272,493,041 at the end of fiscal year 2062/63.

The entire loan, which is overdue for more than 3 months to 6 months, falls in this category, is known as Substandard Loan. The amount of such loan was Rs. 17,231,516 at the end of year 2058/59. It increased Rs. 22,030,528 at the end of fiscal year 2059/60. But it declined to Rs. 10,838,263 at the end of fiscal year 2060/61 decreased to Rs. 821,624 at the end of fiscal year 2061/62 but it increased to Rs. 44,238,859 at the end of fiscal year 2062/63.

The loan, which is overdue for more than 6 months to one year, falls in this category is called Doubtful Loan. The amount of such loan was Rs. 3,481,767 in the fiscal year 2058/59, it was increased to Rs. 3,594,004 at the end of fiscal year 2059/60. It increased to Rs. 63,878,948 at the end of fiscal year 2060/61 and increased to Rs. 74,941,884 at the end of fiscal year 2061/62 and decreased to Rs. 497,100 at the end of fiscal year 2062/63.

The entire loan overdue for more than one-year falls in the category is Bad Loan. The figure of such loan was Rs. 109,581,434 in the fiscal year 2058/59 is decreased to Rs. 91,467,291 in the fiscal year 2059/60. But increased to Rs. 106,716,798 at the end of fiscal year 2060/61, continuously raised Rs. 205,110,623 at the end of fiscal year 2061/62 and upto Rs. 227,757,082 at the of fiscal year 2062/63.

**Table 4.13**  
**The Percentage of Substandard Loan, Doubtful and**  
**Bad Loan to Total NPA**

S.N.	Fiscal Year	% of Substandard Loan to NPA	% of Doubtful Loan to NPA	% of Bad Loan to Total NPA
1.	2058/59	13.22	2.67	84.11
2.	2059/60	18.82	3.07	78.11
3.	2060/61	5.98	35.21	58.81
4.	2061/62	0.30	26.68	73.02
5.	2062/63	16.23	0.19	83.58

*(Source: Annual Report of Nepal Investment Bank Limited.)*

The percentage of Substandard Loan to Total NPA was 13.22% at the end of fiscal year 2058/59, it gone up 18.82% at the end of fiscal year 2059/60. It reduced to 5.98% at the end of fiscal year 2060/61 and 0.30% at the end of fiscal year 2061/62 but it increased to 16.23% at the of fiscal year 2062/63.

The percentage of Doubtful Loan to Total NPA at the end fiscal year 2058/59 was 2.67%; it increased in fiscal 2059/60 was 3.07%. It rose to 35.21% at the

end of fiscal year 2060/61, but decreased to 26.68% at the end of fiscal year 2061/62 and highly declined 0.19% at the end of fiscal year 2062/63. The decreasing trend of portion of the Doubtful Loan of the Bank in the latest year shows the satisfactory recovery position of Doubtful Loan.

The percentage of Bad Loan to Total NPA was 84.11% in fiscal year 2058/59. It decreased to 78.11% at the end of fiscal year 2059/60 and 58.81% at the end of fiscal year 2060/61 but gradually increased to 73.02% at the end of fiscal year 2061/62 and 83.58% at the end of fiscal year 2062/63. The trend of increasing trend of Bad Loan to total NPAs alarms that there may raise credit risk of the Bank. So the bank has to be conscious of getting steps towards the timely recovery of loan.

#### **4.3.3 The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of NIBL (Rs.)**

**Table 4.14**

#### **The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of NIBL (Rs.)**

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Total Lending</b>	<b>Total Deposit</b>	<b>Performing Loan</b>	<b>Total NPA</b>
2058/59	4,973,890,169	2,713,524,871	4,174,762,439	4,973,890,169	130,294,717
2059/60	9,014,249,584	5,921,788,103	7,922,766,420	5,804,696,280	117,091,823
2060/61	13,255,496,016	7,338,566,487	11,524,679,645	7,167,131,478	181,435,009
2061/62	16,274,063,706	10,453,163,997	14,254,573,663	10,172,289,866	280,874,131
2062/63	21,330,137,542	13,178,151,824	18,927,305,974	12,905,658,783	272,493,041

*(Source: Annual Report of Nepal Investment Bank Limited.)*

The Total Lending includes the entire loan and advances and bills purchased and discounted by the bank. The figure of Total Lending was Rs. 2,713,524,871 in fiscal year 2058/59, it rose to Rs. 5,921,788,103 at the end of

fiscal year 2059/60; it increased to Rs. 7,338,566,487 at the end of fiscal year 2060/61 continuously raised Rs. 10,453,163,997 at the end of fiscal year 2061/62 and Rs. 13,178,151,824 at the end of fiscal year 2062/63.

The Total Deposit in the bank comprise the deposits by government, government organizations, banks, business houses, foreign institutions and agencies, other financial institutions, individuals and other organizations. Similarly such deposits can be divided into interest bearing deposits and non-interest bearing deposits. The figure of Total Deposit at the end of fiscal year 2058/59 was Rs. 4,174,762,439 it gradually increased in fiscal year 2059/60 was Rs. 7,922,766,420, which increased to Rs.11,524,679,645 at the end of fiscal year 2060/61 raised to Rs.14,254,573,663 at the end of fiscal year 2061/62 and increased upto Rs. 18,927,305,974 at the end of fiscal year 2062/63.

The description of Total Assets, Total Performing Loan and Non-Performing Assets in different fiscal years is mentioned above.

**Table 4.15**  
**Percentage of Performing Loan, NPA, Substandard, Doubtful and**  
**Bad Loan to Total Assets, Total Lending, Total Deposit and Total**  
**NPA of NIBL**

<b>S.N.</b>	<b>Particulars</b>	<b>058/59</b>	<b>59/60</b>	<b>60/61</b>	<b>61/62</b>	<b>62/63</b>
1.	% of Performing Loan/Total Assets	51.94	64.40	54.07	62.51	60.50
2.	% of Performing Loan/Total Lending	95.20	98.02	97.66	97.31	97.93
3.	% of Performing Loan/Total Deposit	61.88	73.27	62.19	71.36	68.18
4.	% of NPA to Total Assets	2.62	1.30	1.37	1.72	1.28
5.	% of NPA to Total Lending	4.80	1.98	2.47	2.68	2.07
6.	% of NPA to Total Deposit	3.12	1.48	1.57	1.97	1.44
7.	% of Substandard Loan to Total NPA	13.22	18.82	5.98	0.30	16.23
8.	% of Doubtful Loan to Total NPA	2.67	3.07	35.21	26.68	0.19
9.	% of Bad Loan to Total NPA	84.11	78.11	58.81	73.02	83.58

*(Source: Annual Report of Nepal Investment Bank Limited.)*

The percentage of Performing Loan to Total Lending at the end of fiscal year 2058/59 was 95.20%; in the fiscal year 2059/60 was 98.02%. It increased to 97.66% at the end of fiscal year 2060/61 and 97.31% at the end of fiscal year 2061/62 and 97.93% at the end of fiscal year 2062/63.

The percentage of Performing Loan to Total Deposit at the end of fiscal year 2058/59 was 61.88%. It declined to 2059/60 was 73.27%, continuously declined to 62.19% at the end of fiscal year 2060/61. It increased 71.36% at the end of fiscal year 2061/62 and to 68.18% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Assets was 2.62% in fiscal year 2058/59; it decreased at 1.30% at the end fiscal year 2059/60. It reduced to 1.37% at the end of fiscal year 2060/61 and continuously declined at 1.72% at the end of fiscal year 2061/62 and 1.28% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Lending was 4.80% in fiscal year 2058/59, slightly increased to 1.98% at the end of fiscal year 2059/60. It declined to 2.47% at the end of fiscal year 2060/61; continuously to 2.68% at the end of fiscal year 2061/62 and 2.07% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Deposit at the end of fiscal year 2058/59 was 3.12%, slightly decreased in fiscal year 2059/60 was 1.48%. It remained 1.57% at the end of fiscal year 2060/61 decreased to 1.97% at the end of fiscal year 2061/62 and consequently at 1.44% at the end of fiscal year 2062/63.

The description of percentage of Performing Loan to Total Assets and percentage of Substandard Loan, Doubtful Loan and Bad Loan to total NPA in different fiscal years are mentioned above.

#### 4.3.4 Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Nepal Investment Bank Limited

Table 4.16

#### Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Nepal Investment Bank Limited

Fiscal Year	Total Assets (Rs.)	Shareholder's Equity (Rs.) #	Net Profit (Rs.)	% of ROA <sup>+</sup>	% of ROE <sup>+</sup>
2058/59	4,973,890,169	523,468,948	57,105,284	1.15	10.91
2059/60	9,014,249,584	638,542,707	16,817,659	1.29	18.29
2060/61	13,255,496,016	729,047,717	152,670,976	1.15	20.94
2061/62	16,274,063,706	1,180,173,002	232,147,098	1.43	19.67
2062/63	21,330,137,542	1,415,439,715	350,536,413	1.64	24.76

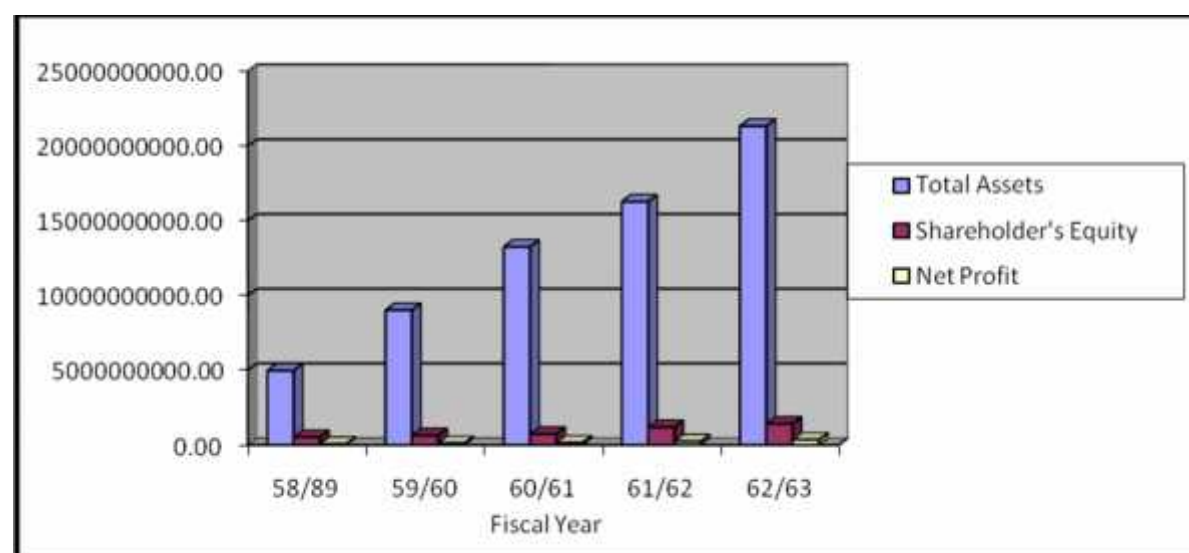
(Source: Annual Report of Nepal Investment Bank Limited.)

# Shareholder' equity include share capital and Reserves and other funds

<sup>+</sup>Note: The calculation is made on Annex -3 of this report

Figure 4.11

#### Total Assets, Shareholder's Equity and net Profit of NIBL



Total Assets are the sum of the all particulars on the assets side of Balance Sheet. The amount of Total Assets NIBL was Rs. 4,973,890,169 at the end of

fiscal year 2058/59; it continuously raised Rs. 9,014,249,584 at the end of fiscal year 2059/60. This amount increased to Rs. 13,255,496,016 at the end of fiscal year 2060/61 similarly increment at Rs. 16,274,063,706 in fiscal year 2061/62 and Rs. 21,330,137,542 at the end of year 2062/63.

In fiscal year 2058/59 the net profit after tax was Rs. 57,105,284 continually increased to Rs. 116,817,659 at the end of fiscal year 2059/60. This amount raised to Rs. 152,670,976 end of fiscal year 2060/61, it grown up Rs. 232,147,098 in fiscal year 2061/62 and Rs. 350,536,413 at the end of fiscal year 2062/63.

The net profit was Rs. 57,105,284 and total asset was Rs. 4,973,890,169 that effects to ROA, which was 1.15% in fiscal year 2058/59. The net profit after tax remained Rs. 116,817,659 at the end of fiscal year 2059/60 and total asset is Rs. 9,014,249,584 and ROA is 1.29%. The Total Assets in fiscal year 2060/61 were Rs. 13,255,496,016 and net profit was Rs. 152,670,976 and ROA was 1.15%. In the next consecutive fiscal years: 2061/62 and 2062/63: the Total Assets of the NIBL are Rs. 16,274,063,706 and Rs. 21,330,137,542. The net profit of the NIBL remained Rs. 232,147,098 and Rs. 350,536,413 and the percentage of ROA remained 1.43% and 1.64% respectively.

The ROE, concerned to equity share capital, which comprises of share capital and general reserves in NIBL, remained the same, Rs. 523,468,948 at the end of fiscal year 2058/59; it raised Rs. 638,542,707 in the fiscal year 2059/60. This figure increased to Rs. 729,047,717 at the end of fiscal year 2060/61 similarly Rs. 1,180,173,002 at the end of fiscal year 2061/62 and Rs. 1,415,439,715 in fiscal year 2062/63.

The percentage of ROE or ratio of net profit to shareholders' equity at the end of fiscal year 2058/59 was 10.91%. In fiscal year 2059/60 was 18.29%, it increased to 20.94% at the fiscal year 2060/61. It slightly declined to 19.67% at

the end of fiscal year 2061/62 and rose at 24.76% in fiscal year 2062/63. The increasing trend of return on shareholder's equity in the recent years shows that the Bank's profitability is improving to best track.

#### **4.3.5 Loan Classification and Provisioning of NIBL**

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

**Table 4.17**  
**Loan Classification of Nepal Investment Bank Limited**  
**Outstanding Loan Amount (Rs.)**

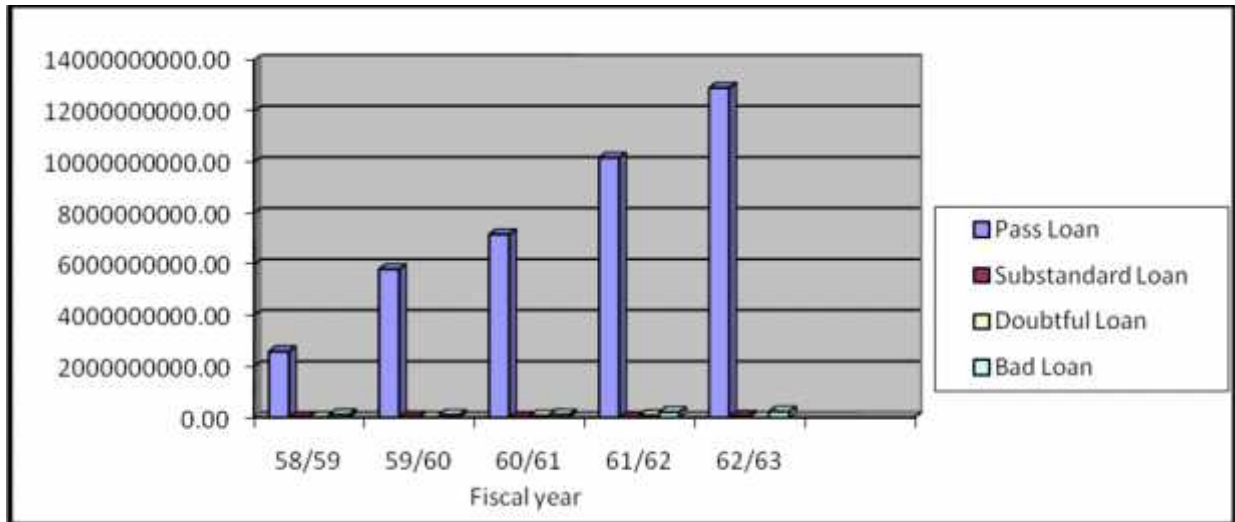
<b>Types of Loan</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
Pass Loan	2583230154	5804696280	7167131478	10172289866	12905658783
Substandard Loan	17,231,516	22,030,528	10,839,263	821,624	44,238,859
Doubtful Loan	3,481,767	3,594,004	63,878,948	74,941,884	497,100
Bad Loan	109,581,434	91,467,291	106,716,798	205,110,623	227,757,082

*(Source: Annual Report of Nepal Investment Bank Limited.)*



**Figure 4.12**

**Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan**



The Pass Loan or the loan non-overdue and/or overdue for three months falls in this class. Such loan amount was Rs. 2,583,230,154 in fiscal year 2058/59. It reached to Rs. 5,804,696,280 at the end of fiscal year 2059/60. The loan in this category increased to Rs. 7,167,131,478 at the end of fiscal year 2060/61 similarly Rs. 10,172,289,866 at the end of fiscal year 2061/62 and Rs. 12,905,658,783 in fiscal year 2062/63.

The loan overdue for three months to six months falls in this class is known as Substandard Loan. Such loan in NIBL at the end of fiscal year 2058/59 was Rs. 17,231,516, in the fiscal year 2059/60 were Rs. 22,030,528. This figure decreased to Rs. 10,839,263 at the end of fiscal year 2060/61, but increased Rs. 821,624 at the end of fiscal year 2061/62 and it declined to Rs. 44,238,859 at the end of fiscal year 2062/63.

The loan overdue for 6 months to 1 year falls in this class is called Doubtful Loan. The amount of such loan in NIBL at the end of fiscal year 2058/59 was Rs. 3,481,767; in fiscal year 2059/60 was Rs. 3,594,004. This figure increased to Rs. 63,878,948 at the end of fiscal year 2060/61, it decreased to Rs.

74,941,884 at the end of fiscal year 2061/62 and raised Rs. 497,100 in fiscal year 2062/63.

The loan overdue for more than 1 year falls in this class is Bad Loan. The amount of such loan in NIBL at the end of fiscal year 2058/59 was Rs. 109,581,434. In fiscal year 2059/60 the Bad Loan was Rs. 91,467,291. This figure increased to Rs. 106,716,798 at the end of fiscal year 2060/61 but declined to Rs. 205,110,623 at the end of fiscal year 2061/62 and Rs. 227,757,082 in the fiscal year 2062/63. The decrement of Bad Loan to total loan as well as NPA doesn't signify good repayment of disbursed loan, which has burden of more loss in cash for the Bank.



**Table 4.18**

**Loan Loss Provisioning of Nepal Investment Bank Limited**

Loan Types	F.Y. 2058/59			F.Y. 2059/60			F.Y. 2060/61		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
<b>Pass</b>	2583230154	36381648	1.40	5804696280	57207172	0.98	7167131478	70830632	0.99
<b>Sub. Std</b>	17231516	2089468	12.13	22030528	2491094	11.31	10839263	2727587	25.16
<b>Doubtful</b>	3481767	1648839	47.36	3594004	457354	12.72	63878948	29896016	46.80
<b>Bad</b>	109581434	108981434	99.45	91467291	89492232	97.84	106716798	104986750	98.38
<b>Total</b>	<b>5296755025</b>	<b>149101389</b>	<b>2.81</b>	<b>5921788103</b>	<b>149647852</b>	<b>2.53</b>	<b>7348566487</b>	<b>208440985</b>	<b>2.84</b>

F.Y. 2061/62			F.Y. 2062/63		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%
10172289866	101059649	0.99	12905658783	165141439	1.28
821624	211972	25.80	44238859	11059715	25
74941884	37557734	50.12	497100	248550	50
205110623	188279019	91.80	227757082	225494083	99
<b>10453163997</b>	<b>327108374</b>	<b>3.13</b>	<b>13178151824</b>	<b>401943787</b>	<b>3.05</b>

*(Source: Annual Report of Nepal Investment Bank Limited.)*

The amount of provisioning for Pass Loan or overdue up to three months loan falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class. The amount of provisioning for such loan was Rs. 36,381,648 in fiscal year 2058/59, which showed 1.40% Pass Loan of total loan amount. It has allocated Rs. 57,207,172 at the end of fiscal year 2059/60. This covers 0.98 % of total Pass Loan, which has maintained the required percentage. Similarly, the amount of provisioning for Pass Loan at the end of fiscal year 2060/61 was Rs. 70,830,632 which covered the 0.99% of total loan in this class and Rs. 101,059,649 at the end of fiscal year 2061/62, which also covers the 1.28% of total loan in this class. It was Rs. 165,141,439 in fiscal year 2062/63, which covered nearly around 1% of total loan. It shows that there is compliance with the regulation issued by NRB.

The amount of provisioning for substandard or overdue loan for more than three months up to six months falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for this class loan is 25% of the total loan in the same class. The total loan in this class was Rs. 2,089,468 in fiscal year 2058/59, which covered only 12.13% of total loan in the class. It was Rs. 2,491,094 at the end of fiscal year 2059/60; it covered only 11.31% of total loan in this class. It is not satisfy through NRB Directives. This figure increased to Rs. 2,727,587 at the end fiscal year 2060/61 is 25.16% of loan in the class; it was Rs. 211,972 at the end of fiscal year 2061/62 25.80% and Rs. 11,059,715 in fiscal year 2062/63 was covered 25% of total loan in the class. The figure of fiscal year 2058- 60 shows that there was not serious with the directive issued by NRB.

The amount of provisioning for Doubtful or overdue loan for more than six months up to 1 year falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of

provisioning required for this class loan is 50% of the total loan in the same class. The amount if provisioning for Doubtful Loan at the end of fiscal year 2058/59 had Rs. 1,648,839 is covered 47.36%, in fiscal year 2059/60 was Rs. 457,354 is covered only 12.72% of total loan of total loan in the class. Which is very worse as NRB Directives. Similarly, the amount of provisioning at the end of fiscal year 2060/61 was Rs. 2,9896,016 is allocated 46.80%; it was Rs. 37,557,734 at in fiscal year 2061/62 is covered 50.12% and Rs. 248,550 in fiscal year 2062/63 is maintained 50% of total loan in the class. The provisioning in those fiscal years 2058-61 was not so good as per the Directives issued by NRB.

The amount of provisioning for bad or overdue loan for more than 1 year falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for this class loan is 100% of the total loan in the same class. The amount of provisioning at the end of fiscal year 2058/59 was Rs. 108,981,434 or 99.45% of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2059/60 was Rs. 89,492,232 is covered 97.84%. There was Rs. 104,986,750 at the end of fiscal year 2060/61 is covered 98.38% of total loan in this class, the figure showed Rs. 188,279,019 is allocated 91.80% and Rs.15637870 in fiscal year 2062/63 is covered 99% of total loan in the class. It shows that the bank has not allocated exactly 100%, such as it did not follow the Directives issued by NRB. The overall provisioning for NPA of NIBL shows that there need to consideration the prudential regulation issued by NRB. Which figure indicated the roughly as per NRB Directives.

#### **4.4 Data Presentation and Analysis of Everest Bank Limited (EBL)**

Everest Bank Limited, a joint venture bank with Punjab National Bank, India; is a reputed Commercial Bank in the Banking industry of Nepal. It has completed its successful 12 years of continuous service in the country. This is the first bank in Nepal, which has issued three kinds of Financial Security e.g.

Equity share, Bond and Redeemable Preference share. In this chapter, data from the various sources of the bank are presented and analyzed. Data collected from various sources are presented in the following table in accordance to the nature of data and as per the requirement of the study as follows:

#### 4.4.1 Total Assets and Performing Loan of Everest Bank Limited (Rs.)

**Table 4.19**

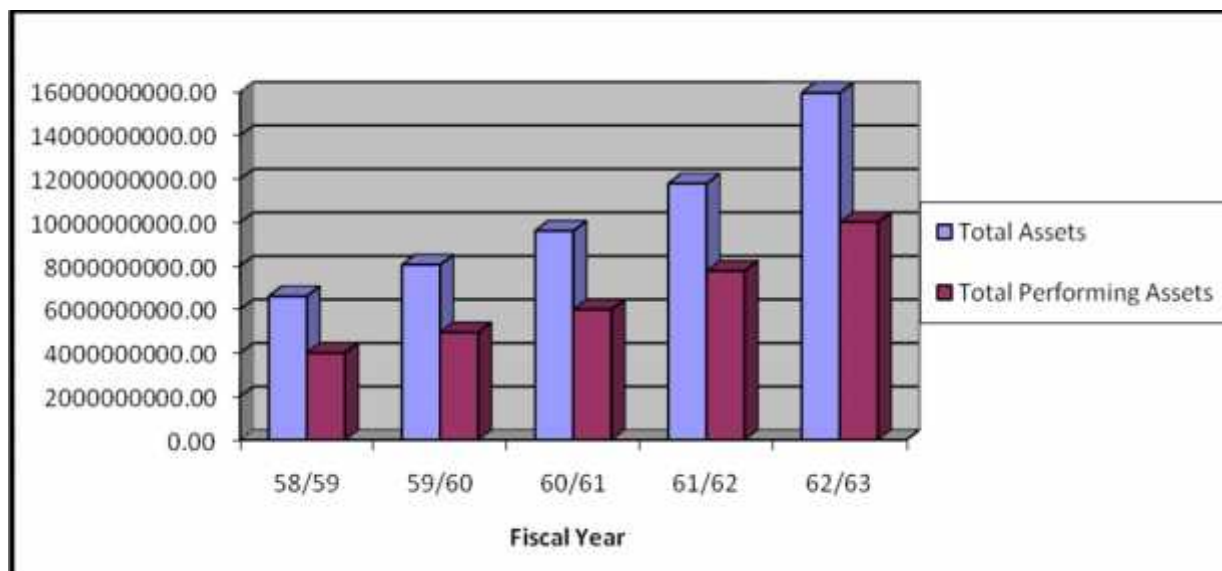
**Total Assets and Performing Loan of Everest Bank Limited (Rs.)**

S.N.	Particulars	2058/59	2059/60	2060/61	2061/62	2062/63
1	Total Assets	6607170724	8052209125	9608570861	11792126009	1595928687
2	Total Performing Assets	4001840315	4938390206	5991085718	7771282526	10007018658

(Source: Annual Report of Everest Bank Limited.)

**Figure 4.13**

**Diagram of Total Assets and Total Performing Assets of EBL**



Total Assets include sum of all the items at the assets side of Balance Sheet as it is mentioned in the introduction of balance-sheet items in the course of literature review. The figure of Total Assets was Rs. 6,607,170,724 at the end of fiscal year 2058/59. It was increased to Rs. 8,052,209,125 at the end of fiscal

year 2059/60 which increased to Rs. 9,608,570,861 at the end of fiscal year 2060/61, it reached Rs. 11,792,126,009 at the end of fiscal year 2061/62 consequently it is gradually raised to Rs. 15,959,284,687 at the end of year fiscal year 2062/63.

The Performing Loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2058/59, the Total Performing Loan of Everest Bank Limited was Rs. 4,001,840,315 which was increased to Rs. 4,938,390,206 in fiscal year 2059/60, which increased to Rs. 5,991,085,718 in fiscal year 2060/61, it reached Rs. 7,771,282,526 at the end of fiscal year 2061/62 and it increased to Rs. 10,007,018,658 at the end of fiscal year 2062/63.

**Table 4.20**  
**Percentage of Performing Loan to Total Assets**

<b>Fiscal Year</b>	<b>Total Assets (Rs.)</b>	<b>Performing Loan (Rs.)</b>	<b>% of Performing Loan to Total Assets (Rs.)</b>
2058/59	6,607,170,724	4,001,840,315	60.57 %
2059/60	8,052,209,125	4,938,390,206	61.33 %
2060/61	9,608,570,861	5,991,085,718	62.35 %
2061/62	11,792,126,009	7,771,282,526	65.90 %
2062/63	15,959,284,687	10,007,018,658	62.70 %

*(Source: Annual Report of Everest Bank Limited.)*

The percentage of Performing Loan to Total Assets was 60.57% at the end of fiscal year 2058/59 and increased to 61.33% at the end of fiscal year 2059/60. It increased to 62.35% at the end of fiscal year 2060/61 reached 65.90% at the end of fiscal year 2061/62 and raised to 62.70% at the end of fiscal year 2062/63.



#### 4.4.2 Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of EBL

**Table 4.21**

#### **Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of EBL**

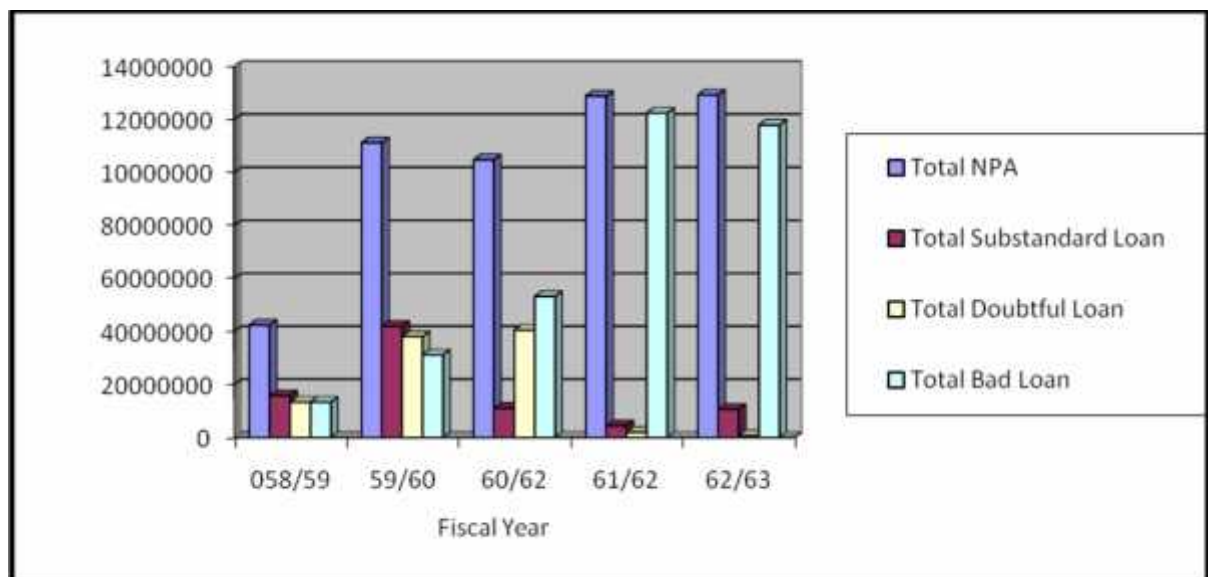
**(Amount Rs.)**

S.N.	Particulars	2058/59	2059/60	2060/61	2061/62	2062/63
1.	Total Non-Performing Assets	42,388,116	111,191,103	104,755,369	128,807,745	129,235,790
2.	Total Substandard Loan	15,732,509	41,954,709	11,082,572	4,408,738	10,669,326
3.	Total Doubtful Loan	13,328,276	38,055,772	40,494,733	1,977,471	683,784
4.	Total Bad Loan	13,327,331	31,180,622	53,178,064	122,421,536	117,882,680

*(Source: Annual Report of Everest Bank Limited.)*

**Figure 4.14**

#### **Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of EBL**



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and

bad as well. The total figure of Total Non-Performing Assets was Rs. 42,388,116 at the end of fiscal year 2058/59. Which was increased to Rs. 111,191,103 at the end of fiscal year 2059/60. The total NPA figure was Rs. 104,755,369 at the end of fiscal year 2060/61 raised to Rs. 128,807,745 at the end of fiscal year 2061/62 and become to Rs. 129,235,790 at the end of fiscal year 2062/63.

The entire loan, which is overdue for more than 3 months to 6 months, falls in this category, is known as Substandard Loan. The amount of such loan of Everest Bank was Rs. 15,732,509 at the end of year 2058/59. It increased Rs. 41,954,709 at the end of fiscal year 2059/60. But it declined to Rs. 11,082,572 at the end of fiscal year 2060/61 and Rs. 4,408,738 at the end of fiscal year 2061/62 consequently it is declined to Rs. 10,669,326 at the end of fiscal year 2062/63.

The loan, which is overdue for more than 6 months to one year, falls in this category is called Doubtful Loan. The amount of such loan was Rs. 13,328,276 in the fiscal year 2058/59, it was increased to Rs. 38,055,772 at the end of fiscal year 2059/60. It increased to 40,494,733 at the end of fiscal year 2060/61 and decreased to 1,977,471 at the end of fiscal year 2061/62 continuously it is decreased to Rs. 683,784 at the end of fiscal year 2062/63.

The entire loan overdue for more than one-year falls in the category is Bad Loan. The figure of such loan was Rs. 13,327,331 in the fiscal year 2058/59 is increased to Rs. 31,180,622 in the fiscal year 2059/60. It increased to Rs. 53,178,064 at the end of fiscal year 2060/61 and Rs. 122,421,536 at the end of fiscal year 2061/62 but it is decreased in Rs. 117882680 at the of fiscal year 2062/63.

**Table 4.22**

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

<b>S.N.</b>	<b>Fiscal Year</b>	<b>% of Substandard Loan to NPA</b>	<b>% of Doubtful Loan to NPA</b>	<b>% of Bad Loan to total NPA</b>
1.	2058/59	37.11	31.45	31.44
2.	2059/60	37.73	34.23	28.04
3.	2060/61	10.58	38.66	50.76
4.	2061/62	3.42	1.54	95.04
5.	2062/63	8.25	0.54	91.21

*(Source: Annual Report of Everest Bank Limited.)*

The percentage of Substandard Loan to Total NPA of EBL was 37.11% at the end of fiscal year 2058/59, it also 37.73 % at the end of fiscal year 2059/60. It reduced to 10.58% at the end of fiscal year 2060/61 and gradually declined to 3.42% at the end of fiscal year 2061/62 but it increased to 5.25% at the of fiscal year 2062/63.

The percentage of Doubtful Loan to total NPA at the end fiscal year 2058/59 was 31.45%; it increased in fiscal 2059/60 was 34.23%. It is found to 38.66% at the end of fiscal year 2060/61, highly reduced to 1.54% at the end of fiscal year 2061/62 and 0.54% at the end of fiscal year 2062/63. The decreasing trend of portion of the Doubtful Loan of the bank in the latest year shows the satisfactory recovery position of Doubtful Loan.

The percentage of Bad Loan to total NPA was 31.44% in fiscal year 2058/59. It decreased to 28.04% at the end of fiscal year 2059/60. It increased to 50.76 % at the end of fiscal year 2060/61 and 95.04% at the end of fiscal year 2061/62 but it decreased in to 91.21% at the end of fiscal year 2062/63. The trend of increasing tend of Bad Loan to total NPAs alarms that there may raise credit risk of the bank. So the bank has to be conscious of getting steps towards the timely recovery of loan.

#### 4.4.3 The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of EBL (Rs.)

**Table 4.23**

#### The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of EBL (Rs.)

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Total Lending</b>	<b>Total Deposit</b>	<b>Performing Loan</b>	<b>Total NPA</b>
2058/59	6,607,170,724	4,044,228,431	5,466,609,805	4,001,840,315	42,388,116
2059/60	8,052,209,125	5,069,581,309	6,694,963,060	4,938,390,206	111,191,103
2060/61	9,608,570,861	6,095,841,087	8,063,902,086	5,991,085,718	104,755,369
2061/62	11,792,126,009	7,900,090,271	10,097,690,989	7,771,282,526	128,807,745
2062/63	5,959,284,689	11,036,254,448	13,802,444,988	10,007,018,658	129,235,790

*(Source: Annual Report of Everest Bank Limited.)*

The figure of Total Lending was Rs. 4,044,228,431 in fiscal year 2058/59, it increased to Rs. 5,069,581,309.00 at the end of fiscal year 2059/60, it increased to Rs. 6,095,841,087 at the end of fiscal year 2060/61 such reached to Rs. 7,900,090,271 at the end of fiscal year 2061/62 and Rs. 10,136,254,448 at the end of fiscal year 2062/63.

The Total Deposit in the bank comprise the deposits by government, government organizations, banks, business houses, foreign institutions and agencies, other financial institutions, individuals and other organizations. Similarly such deposits can be divided into interest bearing deposits and non-interest bearing deposits. The figure of Total Deposit at the end of fiscal year 2058/59 was Rs. 5,466,609,805 fiscal year 2059/60 was Rs. 6,694,963,060 which increased to Rs. 8,063,902,086 at the end of fiscal year 2060/61 reached to Rs. 10,097,690,989 at the end of fiscal year 2061/62 and increased upto Rs. 13,802,444,988 at the end of fiscal year 2062/63.

The description of Total Assets, Total Performing Loan and Non-Performing Assets in different fiscal years is mentioned above.

**Table 4.24**

**Percentage of Performing Asset, NPA, Substandard, Doubtful and Bad Loan to Total Assets, Total Lending, Total Deposit and total NPA of EBL**

<b>S.N.</b>	<b>Particulars</b>	<b>058/59</b>	<b>59/60</b>	<b>60/61</b>	<b>61/62</b>	<b>62/63</b>
1.	% of Performing Loan/Total Assets	60.57	61.33	62.35	65.90	62.70
2.	% of Performing Loan /Total Lending	98.95	97.78	98.28	98.37	98.72
3.	% of Performing Loan/Total Deposit	73.20	73.76	74.29	76.96	72.50
4.	% of NPA to Total Assets	0.64	1.38	1.09	1.09	1.38
5.	% of NPA to Total Lending	1.04	2.20	1.72	1.63	1.27
6.	% of NPA to Total Deposit	0.77	1.66	1.29	1.28	0.94
7.	% of Substandard Loan to Total NPA	37.12	37.73	10.58	3.42	8.25
8.	% of Doubtful Loan to Total NPA	31.45	34.23	38.66	1.54	0.54
9.	% of Bad Loan to Total NPA	31.44	28.04	50.76	95.04	91.21

*(Source: Annual Report of Everest Bank Limited.)*

The Total Lending includes the entire loan and advances and bills purchased and discounted by the bank. The percentage of Performing to total loan to Total Lending at the end of fiscal year 2058/59 was 98.95%; in the fiscal year 2059/60 was 97.78%. It increased to 98.28% at the end of fiscal year 2060/61; slightly increased at 98.37 % at the end of fiscal year 2061/62 and 98.72% at the end of fiscal year 2062/63.

The percentage of Performing Loan to Total Deposit at the end of fiscal year 2058/59 was 73.20%. It slightly raised to 2059/60 was 73.76%. It increased to 74.29% at the end of fiscal year 2060/61. It increased 76.96% at the end of fiscal year 2061/62 and declined to 72.50% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Assets was 0.64% in fiscal year 2058/59; it was 1.38% at the end fiscal year 2059/60. It reduced to 1.09% at the end of

fiscal year 2060/61 and remained unchanged 1.09% at the end of fiscal year 2061/62 and slightly increased to 1.38% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Lending was 1.04% in fiscal year 2058/59, there was 2.20% at the end of fiscal year 2059/60. It declined to 1.72% at the end of fiscal year 2060/61 reduced to 1.63% at the end of fiscal year 2061/62 and 1.27% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Deposit at the end of fiscal year 2058/59 was 0.77%, it increased 2059/60 was 1.66%. It remained 1.29% at the end of fiscal year 2060/61 decreased to 1.28% at the end of fiscal year 2061/62 and 0.94% at the end of fiscal year 2062/63.

The description of percentage of Performing Loan to Total Assets and percentage of Substandard Loan, Doubtful Loan and Bad Loan to total NPA in different fiscal years are mentioned above.

#### **4.4.4 Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of EBL**

**Table 4.25**

#### **Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of EBL**

<b>Fiscal Year</b>	<b>Total Assets (Rs.)</b>	<b>Shareholder's Equity (Rs.) #</b>	<b>Net Profit (Rs.)</b>	<b>% of ROA<sup>+</sup></b>	<b>% of ROE<sup>+</sup></b>
2058/59	6,607,170,724	530,909,865	85,347,446	1.29	16.07
2059/60	8,052,209,125	612,824,701	94,180,428	1.17	15.36
2060/61	9,608,570,861	680,318,543	143,566,683	1.49	21.10
2061/62	11,792,126,009	769,617,365	170,807,797	1.45	22.19
2062/63	15,959,284,687	962,808,301	237,290,936	1.47	24.64

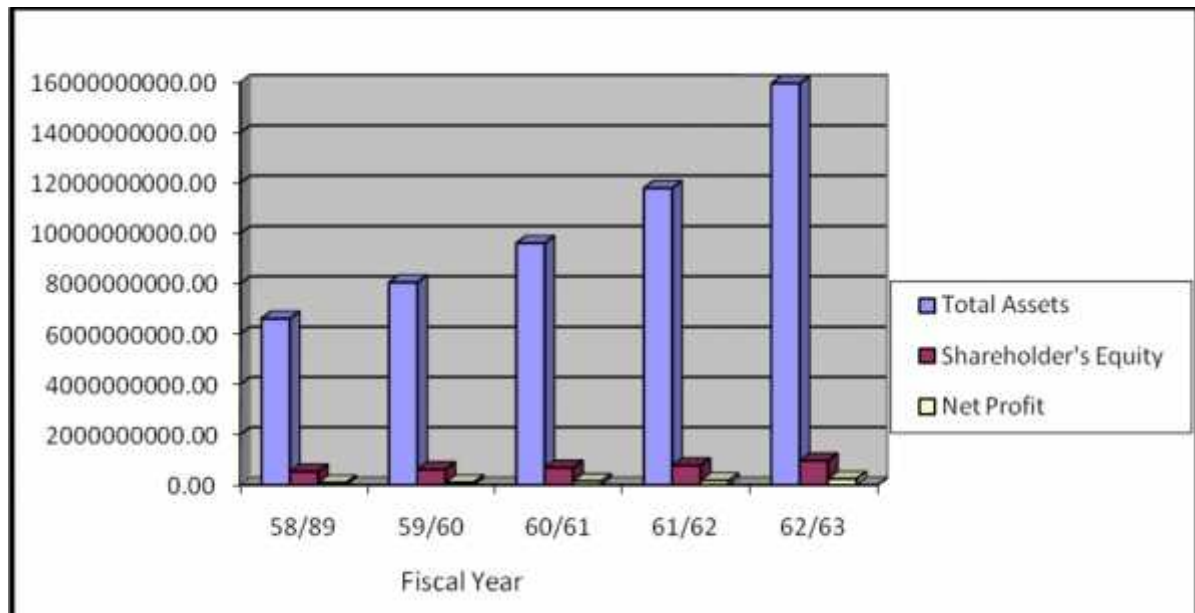
*(Source: Annual Report of Everest Bank Limited.)*

*# Shareholder' equity include share capital and Reserves and other funds*

*<sup>+</sup>Note: The calculation is made on Annex -4 of this report*

**Figure 4.15**

**Total Assets, Shareholder's Equity and net Profit of EBL**



Total Assets are all the sum of the items on the assets side of Balance Sheet. The Total Assets of Everest Bank was Rs. 6,607,170,724 in fiscal year 2058/59, it exceeded to Rs. 8,052,209,125 at the end of fiscal year 2059/60. This amount increased to Rs. 9,608,570,861 at the end of fiscal year 2060/61 continually reached to Rs. 11,792,126,009 at the end of fiscal year 2061/62 and Rs. 15,959,284,687 in fiscal year 2062/63.

The total amount of shareholder's equity remained as same, Rs. 530,909,865 in fiscal year 2058/59; it rose to Rs. 612,824,701 at the end of fiscal year 2059/60. This figure reached to Rs. 1,435,666,833 at the end of fiscal year 2060/61 gradually raised Rs. 769,617,365 at the end of fiscal year 2061/62 and Rs. 962,808,301 in fiscal year 2062/63.

The net profit after tax was Rs. 85,347,446 in fiscal year 2058/59, it increased Rs. 94,180,428 at the end of fiscal year 2059/60. This amount reached to Rs. 143,566,683 in fiscal year 2060/61, continually increased Rs. 170,807,797 at

the end of fiscal year 2061/62 and Rs. 237,290,936 at the end of fiscal year 2062/63. The increasing trend of net profit after tax in the recent years indicates that the earning of the bank is encouraging.

The ROA of EBL was 1.29% in fiscal year 2058/59 slightly declined to 1.17% in the fiscal year 2059/60. It was found 1.49% in the fiscal year 2060/61 decreased 1.45% in the fiscal year 2061/62 and increased to 1.47% at the end of fiscal year 2062/63.

The ROE was 16.07% in fiscal year 2058/59 declined to 15.36% in the fiscal year 2059/60. It was 21.10% in the fiscal year 2060/61 it raised 22.19% in fiscal 2061/62 and reached to 24.64% at the end of fiscal year 2062/63.

#### **4.4.5 Loan Classification and Loan Loss Provisioning of EBL**

The higher level of the Non-Performing Assets causes the larger amount of provisioning of loan loss. As per the Directives issued by Nepal Rastra Bank to Commercial Banks and Financial Institutions, certain percent of provision has to be maintained against each category of loan. The loan loss-provisioning amount has to be maintained from the operational profit of a bank.

So it is necessary to keep the lower level of NPAs in order to avoid the higher loss on cash for the Banks. If a Bank fails to maintain the loan loss provisioning as prescribed by Nepal Rastra Bank, the bank is under moral suasion or other necessary action to be taken. The loan loss provisioning maintained by Everest Bank during the study period is presented in the following table.

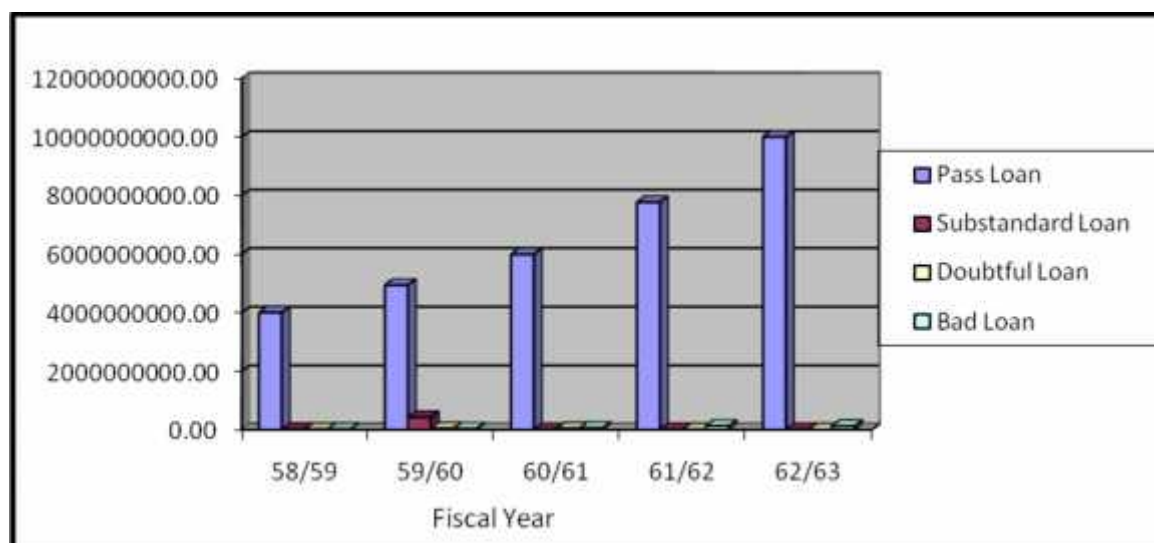


**Table 4.26**  
**Loan Classification of Everest Bank Limited**  
**Outstanding Loan Amount (Rs.)**

Types of Loan	2058/59	2059/60	2060/61	2061/62	2062/63
Pass Loan	4001,840,315	4,938,390,206	5,991,085,718	7,771,282,526	10,007,018,658
Sub std loan	15,732,509	41,954,709	11,082,572	4,408,738	10,669,326
Doubtful Loan	13,328,276	38,055,772	40,494,733	1,977,471	683,784
Bad Loan	13,327,331	31,180,622	53,178,064	122,421,536	117,882,680

*(Source: Annual Report of Everest Bank Limited.)*

**Figure 4.16**  
**Diagram of Loan Classification of Everest Bank Limited**



The Pass Loan or the loan non-overdue and/or overdue for three months falls in this category. Such loan amount was Rs. 4001,840,315 in fiscal year 2058/59 it increased to Rs. 4,938,390,206 at the end of fiscal year 2059/60. The loan in this category increased to 5,991085,718 at the end of fiscal year 2060/61 continually Rs. 7,771,282,526 at the end of fiscal year 2061/62 and Rs.10,

007,018,658 in fiscal year 2062/63. The portion of Pass Loan is significantly high in the recent years, which show that the bank's loan quality is not volatile. The loan overdue for three months to six months falls in this category is known as Substandard Loan. Such loan in Everest Bank at the end of fiscal year 2058/59 was Rs.15, 732,509; in fiscal year 2059/60 was Rs.41, 954,709. This figure decreased to 11,082,572 at the end of fiscal year 2060/61 and Rs. 4,408,738 at the end of fiscal year 2061/62 but it increased to Rs. 10,669,326 in fiscal year 2062/63. The decreasing trend of Substandard Loan of the Bank shows that the portion of the overdue loan is reduced in recent years. It means the loan quality of the bank is satisfactory.

The loan overdue for 6 months to 1 year falls in this category is called Doubtful Loan. The amount of such loan in Everest Bank at the end of fiscal year 2058/59 was Rs. 13,328,276 it increased in fiscal year 2059/60 was Rs. 38,055,772. This figure increased to Rs. 40,494,733 at the end of fiscal year 2060/61 continually decreased to Rs. 1,977,471 at the end of fiscal year 2061/62 and Rs. 683,784 in fiscal year 2062/63.

The loan overdue for more than 1 year falls in this category is called Bad Loan. The amount of such loan in Everest Bank at the end of fiscal year 2058/59 was Rs. 13,327,331; it reached in fiscal year 2059/60 was Rs. 31,180,622. This figure increased to Rs. 53,178,064 at the end of fiscal year 2060/61 and Rs. 122,421,536 at the end of fiscal year 2061/62 but declined to Rs. 117,882,680 in fiscal year 2062/63. The increment of Bad Loan to total loan as well as NPA doesn't signify good repayment of disbursed loan, which has chances of more loss in cash for the bank.



**Table 4.27**

**Loan Loss provisioning of Everest Bank Limited.**

Loan Types	F.Y. 2058/59			F.Y. 2059/60			2060/61		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
<b>Pass</b>	4001840315	68657091	1.71	4938390206	80423477	1.63	5991085718	135522405	2.26
<b>Sub. Std</b>	15732509	3933127	25	41954709	10488677	25	11082572	2770643	25
<b>Doubtful</b>	13328276	6664138	50	38055772	19027886	50	4094733	20247366	50
<b>Bad</b>	13327331	16496033	124	31180622	3118022	100	53178064	53178064	100
<b>Total</b>	<b>4044228431</b>	<b>95750389</b>	<b>2.37</b>	<b>5049581309</b>	<b>113058062</b>	<b>2.23</b>	<b>6059441087</b>	<b>211718478</b>	<b>3.49</b>

F.Y. 2061/62			F.Y. 2062/63		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%
7771282526	11226660	1.44	10007018658	128799892	1.29
4408738	1102184	25	10669326	2667331	25
1977471	988735	50	683784	341892	50
122421536	122421536	100	117882680	117882680	100
<b>7900090271</b>	<b>135739115</b>	<b>1.71</b>	<b>10136254448</b>	<b>249691795</b>	<b>2.46</b>

(Source: Annual Report of Everest Bank Limited.)

The provisioning for Pass Loan or overdue up to three months loan falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class.

The amount of such provisioning was Rs. 68,657,091 at the end of fiscal year 2058/59. This covers 1.71% of total Pass Loan, which has maintained the required percentage. Similarly, the provisioning for Pass Loan at the end of fiscal year 2059/60 was Rs. 80,423,477, which covers the 1.63% of total loan in this class. In fiscal year 2060/61 was Rs. 135,522,405, which covers 2.26% of total loan in this class, at the end of fiscal year 2061/62 such loan was Rs. 112,264,660, which carries 1.44% provisioning of the total loan in this class and in fiscal year 2062/63 was Rs. 128,799,892 which covers 1.29% provisioning of the total loan in this class. It shows that the bank has maintained the provisioning as per the Directives issued by NRB.

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

The loan was Rs. 3,933,127, which covers 25% provisioning of total loan in this class, Rs. 10,488,677 at the end of fiscal year 2059/60. This figure increased to Rs. 2,770,643 at the end fiscal year 2060/61 and Rs 110,284 at the end of fiscal year 2061/62 it raised Rs. 2,667,331 in fiscal year 2062/63. The provisioning figure of all fiscal years covered 25% of total loan in the class. It shows that the Everest bank has maintained provisioning as per the directive issued by NRB for this class loan as well.

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

The amount of provisioning for Doubtful Loan at the end of fiscal year 2058/59 was Rs. 6,664,138 and in fiscal year 2059/60 was Rs. 19,027,886, which is 50 percent of the total loan in this class. Similarly, the amount of provisioning at the end of fiscal year 2060/61 was Rs. 20,247,366 continually declined to Rs. 988,735 and Rs. 341,892 at the end of fiscal year 2061/62 and 2062/63 respectively. The provisioning of all fiscal year covered 50% of total loan in this class. The Everest bank has enough provisioning as per the Directives issued by NRB.

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

The amount of provisioning at the end of fiscal year 2058/59 was Rs. 16,496,033, which is 124% of total loan amount, such as Rs. 31,180,622 or 100% of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2060/61 was Rs. 53,178,064, continually Rs. 122,421,536 at the end of fiscal year 2061/62 and Rs. 117,882,680 in fiscal year 2062/63, which covered in all fiscal years were 100% of total loan in this class. The provisioning for Bad Loan is enough and enough for each fiscal year and the Everest bank has maintained the prudential regulation of NRB.

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

#### **4.5 Data Presentation and Analysis of 'Bank of Kathmandu Limited'**

Bank of Kathmandu (BOK) is one of the reputed Commercial Bank in the Banking industry of Nepal. It has successfully completed its successful 13 years of continuous service of its operation in the country. In starting of the operation, Nepalese investors, Thai Investors and Siam Commercial Bank of Thailand were jointly invested in this bank. But in 1998, Thai group decided to withdraw their share. Nowadays, Nepalese management perfectly handles on running this bank. In this chapter, data from the various sources of the bank are presented and analyzed. Data are collected from various sources are presented in the following table in accordance to the nature of data and as per the requirement of the study as follows:

##### **4.5.1 Total Assets and Performing Loan of Bank of Kathmandu Limited**

**Table 4.28**

#### **Total Assets and Performing Loan of Bank of Kathmandu Limited**

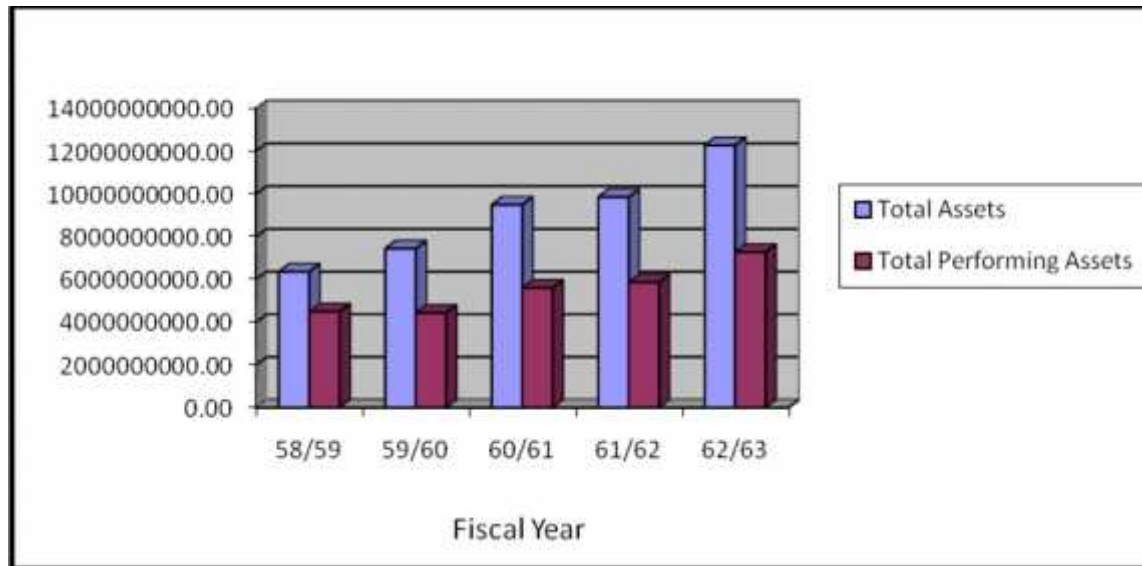
(Amount Rs.)

<b>S.N</b>	<b>Particulars</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
1	Total Assets	6356645864	7444816949	9496344672	9857130464	12278329302
2	Total Performing Assets	4493393077	4435158764	5608374713	5,873,538,981	7285076453

*(Source: Annual Report of Bank of Kathmandu Limited.)*

**Figure 4.17**

**Diagram of Total Assets and Total Performing Assets of BOK**



Total Assets include sum of all the items at the assets side of Balance Sheet as it is mentioned in the introduction of balance-sheet items in the course of literature review. The figure of Total Assets of BOK was Rs. 6,356,645,864 at the end of fiscal year 2058/59. It was increased to Rs. 7,444,816,949 at the end of fiscal year 2059/60 which increased to Rs. 9,496,344,672 at the end of fiscal year 2060/61, it reached Rs. 9,857,130,464 at the end of fiscal year 2061/62 consequently it is gradually raised to Rs. 12,278,329,302 at the end of year fiscal year 2062/63.

The Performing Loans comprise the loans, which are not overdue or earning in cash. At the end of fiscal year 2058/59, the Total Performing Loan of Bank of Kathmandu Limited was Rs. 4,493,393,077 which was decreased to Rs. 4,435,158,764 in fiscal year 2059/60, which increased to Rs. 5,608,374,713 in fiscal year 2060/61, it reached Rs. 5,873,538,981 at the end of fiscal year 2061/62 and it increased to Rs. 7,285,076,453 at the end of fiscal year 2062/63.



**Table 4.29**  
**Percentage of Performing Loan to Total Assets**

<b>Fiscal Year</b>	<b>Total Assets (Rs.)</b>	<b>Performing Loan (Rs.)</b>	<b>% of Performing Loan to Total Assets(Rs.)</b>
2058/59	6,356,645,864	4,493,393,077	70.69 %
2059/60	7,444,816,949	4,435,158,764	59.57 %
2060/61	9,496,344,672	5,608,374,713	59.05 %
2061/62	9,857,130,464	5,873,538,981	59.59 %
2062/63	12,278,329,302	7,285,076,453	59.33 %

*(Source: Annual Report of Bank of Kathmandu Limited.)*

The percentage of Performing Loan to Total Assets was 70.69% at the end of fiscal year 2058/59 and increased to 59.57% at the end of fiscal year 2059/60. It increased to 59.05% at the end of fiscal year 2060/61 reached 59.59% at the end of fiscal year 2061/62 and raised to 59.33% at the end of fiscal year 2062/63.

#### **4.5.2 Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of BOK**

**Table 4.30**  
**Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of BOK**

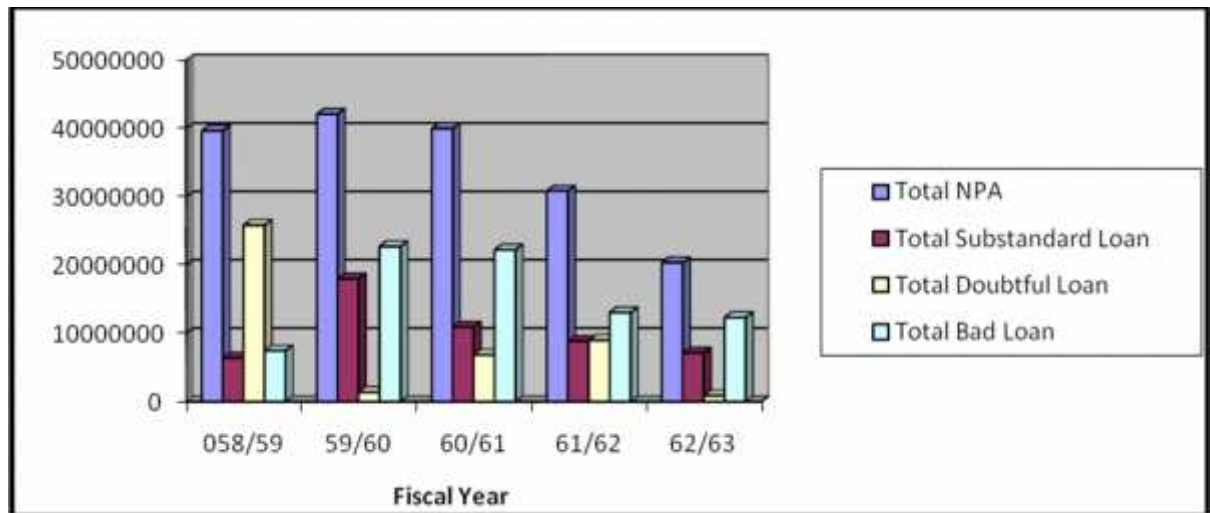
(Amount Rs.)

<b>S.N.</b>	<b>Particulars</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
1.	<b>Total Non-Performing Assets</b>	396,678,908	420,874,076	399,937,177	308,506,039	2,03,624,470
2.	<b>Total Substandard Loan</b>	63,846,717	179,870,104	109,099,768	88,423,249	71,610,921
3.	<b>Total Doubtful Loan</b>	258,341,965	13,702,127	68,530,408	89,806,458	8,804,237
4.	<b>Total Bad Loan</b>	74,490,226	227,301,845	222,306,901	130,276,331	123,209,312

*(Source: Annual Report of Bank of Kathmandu Limited.)*

**Figure 4.18**

**Diagram of Total NPA, Substandard Loan, Doubtful Loan and Bad Loan  
of Bank of Kathmandu Ltd.**



The entire loan overdue for more than 3 months to 1 year falls in the category of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and Bad Loan as well. The total figure of total Non-Performing Assets was Rs. 396678908 at the end of fiscal year 2058/59. Which was increased to Rs. 420,874,076 at the end of fiscal year 2059/60. The total NPA figure was Rs. 399,937,177 at the end of fiscal year 2060/61 declined to Rs. 308,506,039 at the end of fiscal year 2061/62 and become to Rs. 203,624,470 at the end of fiscal year 2062/63.

The entire loan, which is overdue for more than 3 months to 6 months, falls in this category, is known as Substandard Loan. The amount of such loan was Rs. 63,846,717 at the end of year 2058/59. It increased Rs. 179,870,104 at the end of fiscal year 2059/60. But it declined to Rs. 109,099,768 at the end of fiscal year 2060/61 decreased to Rs. 89,806,458 at the end of fiscal year 2061/62 consequently it is declined to Rs. 8,804,237 at the end of fiscal year 2062/63.

The loan, which is overdue for more than 6 months to one year, falls in this category is called Doubtful Loan. The amount of such loan was Rs.

258,341,965 in the fiscal year 2058/59, it was decreased to Rs. 13,702,127 at the end of fiscal year 2059/60. It increased to Rs. 68,530,408 at the end of fiscal year 2060/61 and increased to Rs. 89,806,458 at the end of fiscal year 2061/62 continuously it is decreased to Rs.8,804,237 at the end of fiscal year 2062/63.

The entire loan overdue for more than one-year falls in the category is Bad Loan. The figure of such loan was Rs. 74,490,226 in the fiscal year 2058/59 is increased to Rs. 227,301,845 in the fiscal year 2059/60. It decreased to Rs. 222,306,901 at the end of fiscal year 2060/61, it declined Rs. 130,276,331 at the end of fiscal year 2061/62 but it is decreased in Rs. 123,209,312 at the of fiscal year 2062/63.

**Table 4.31**

**The Percentage of Substandard Loan, Doubtful and Bad Loan to Total NPA**

S.N.	Fiscal Year	% of Substandard Loan to NPA	% of Doubtful Loan to NPA	% of Bad Loan to total NPA
1.	2058/59	16.09	65.12	18.79
2.	2059/60	42.74	3.26	54.00
3.	2060/61	27.28	17.13	55.59
4.	2061/62	28.66	29.11	42.23
5.	2062/63	35.17	4.32	60.51

*(Source: Annual Report of Bank of Kathmandu Limited.)*

The percentage of Substandard Loan to total NPA was 16.09% at the end of fiscal year 2058/59, it also 42.74% at the end of fiscal year 2059/60. It reduced to 27.28% at the end of fiscal year 2060/61 but gradually increased to 28.66% at the end of fiscal year 2061/62 but it increased to 35.17% at the of fiscal year 2062/63.

The percentage of Doubtful Loan to total NPA at the end fiscal year 2058/59 was 65.12%; it decreased in fiscal 2059/60 was 3.26%. It is found to 17.13% at the end of fiscal year 2060/61, but increased to 29.11% at the end of fiscal year

2061/62 decreased 4.32% at the end of fiscal year 2062/63. The decreasing trend of portion of the Doubtful Loan of the Bank of Kathmandu in the latest year shows the satisfactory recovery position of Doubtful Loan.

The percentage of Bad Loan to total NPA was 18.79% in fiscal year 2058/59. It increased to 54.00% at the end of fiscal year 2059/60. It increased to 55.59% at the end of fiscal year 2060/61 declined at 42.23% at the end of fiscal year 2061/62 but it increased in to 60.51% at the end of fiscal year 2062/63. The trend of increasing trend of Bad Loan to total NPAs alarms that there may raise credit risk of the bank. So the bank has to be conscious of getting steps towards the timely recovery of loan.

#### **4.5.3 The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of BOK**

**Table 4.32**

#### **Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of BOK**

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Total Lending</b>	<b>Total Deposit</b>	<b>Performing Loan</b>	<b>Total NPA</b>
2058/59	6,356,645,864	4,890,071,985	5,723,289,650	4,001,840,315	4,890,071,985
2059/60	7,444,816,949	4,856,032,840	6,170,711,570	4,938,390,206	4,856,032,840
2060/61	9,496,344,672	6,008,311,890	7,741,645,424	5,991,085,718	6,008,311,890
2061/62	9,857,130,464	6,182,045,019	8,942,748,598	7,771,282,526	6,182,045,019
2062/63	2,278,329,302	7,488,700,923	10,485,359,239	10,007,018,658	7,488,700,923

(Rs.)

(Source: Annual Report of Bank of Kathmandu Limited.)

The Total Lending includes the entire loan and advances and bills purchased and discounted by the bank. The figure of BOK's Total Lending was Rs. 489,0071,985 in fiscal year 2058/59, it decreased to Rs. 4,856,032,840 at the end of fiscal year 2059/60; it increased to Rs. 6,008,311,890 at the end of fiscal

year 2060/61 such reached to Rs. 6,182,045,019 at the end of fiscal year 2061/62 and Rs. 7,488,700,923 at the end of fiscal year 2062/63.

The Total Deposit in the bank comprise the deposits by government, government organizations, banks, business houses, foreign institutions and agencies, other financial institutions, individuals and other organizations. Similarly such deposits can be divided into interest bearing deposits and non-interest bearing deposits. The figure of Total Deposit of Bank of Kathmandu Ltd. at the end of fiscal year 2058/59 was Rs. 5,723,289,650 it reached in fiscal year 2059/60 was Rs. 6,170,711,570, which increased to Rs. 7,741,645,424 at the end of fiscal year 2060/61 raised to Rs. 8,942,748,598 at the end of fiscal year 2061/62 and increased upto Rs. 10,485,359,239 at the end of fiscal year 2062/63.

The description of Total Assets, Total Performing Loan and Non-Performing Assets in different fiscal years is mentioned above.

**Table 4.33**

**Loan, NPA, Substandard, Doubtful and Bad Loan to Total Assets, Total Lending, Total Deposit and Total NPA of BOK**

<b>S.N.</b>	<b>Particulars</b>	<b>2058/59</b>	<b>59/60</b>	<b>60/61</b>	<b>61/62</b>	<b>62/63</b>
1.	% of Performing Loan/Total Assets	70.69	59.57	59.06	59.59	59.33
2.	% of Performing Loan/Total Lending	91.89	91.33	93.34	95.01	97.28
3.	% of Performing Loan/ Total Deposit	78.51	71.87	62.71	65.68	69.48
4.	% of NPA to Total Assets	6.24	5.65	4.21	3.13	1.66
5.	% of NPA to Total Lending	8.11	8.67	6.66	4.99	2.72
6.	% of NPA to Total Deposit	6.93	6.82	5.17	3.45	1.94
7.	% of Substandard Loan to Total NPA	16.09	42.74	27.28	28.66	35.17
8.	% of Doubtful Loan to Total NPA	65.12	3.26	17.13	29.11	4.32
9.	% of Bad Loan to Total NPA	18.79	54.00	55.59	42.23	60.51

*(Source: Annual Report of Bank of Kathmandu Limited.)*

The percentage of Performing Loan to Total Lending at the end of fiscal year 2058/59 was 91.89%; in the fiscal year 2059/60 was 91.33%. It increased to

93.34% at the end of fiscal year 2060/61 gradually 95.01% at the end of fiscal year 2061/62 and 97.28% at the end of fiscal year 2062/63.

The percentage of Performing Loan to Total Deposit at the end of fiscal year 2058/59 was 78.51%. It declined to 2059/60 was 71.876%, continuous declined to 62.71% at the end of fiscal year 2060/61. It increased 65.68% in fiscal year 2061/62 and to 69.48% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Assets was 6.24% in fiscal year 2058/59; it decreased at 5.65% at the end fiscal year 2059/60. It reduced to 4.21% at the end of fiscal year 2060/61 and continuously declined at 3.13% at the end of fiscal year 2061/62 and 1.66% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Lending was 8.11% in fiscal year 2058/59, slightly increased to 8.67% at the end of fiscal year 2059/60. It declined to 6.66% at the end of fiscal year 2060/61; continuously to 4.99% at the end of fiscal year 2061/62 and 1.27% at the end of fiscal year 2062/63.

The percentage of NPAs to Total Deposit at the end of fiscal year 2058/59 was 6.93%, slightly decreased in fiscal year 2059/60 was 6.82%. It remained 5.17% at the end of fiscal year 2060/61 decreased to 3.45% at the end of fiscal year 2061/62 and consequently at 1.94% at the end of fiscal year 2062/63.

The description of percentage of Performing Loan to Total Assets and percentage of Substandard Loan, Doubtful Loan and Bad Loan to total NPA in different fiscal years are mentioned above.

#### 4.5.4 Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Bank of Kathmandu Limited

**Table 4.34**

#### Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Bank of Kathmandu Limited

Fiscal Year	Total Assets (Rs.)	Shareholder's Equity (Rs.) #	Net Profit (Rs.)	% of ROA <sup>+</sup>	% of ROE <sup>+</sup>
2058/59	6,356,645,864	520,184,620	9,274,782	0.15	1.78
2059/60	7,444,816,949	579,133,236	82,127,662	1.10	14.18
2060/61	9,496,344,672	650,745,230	127,473,189	1.34	19.59
2061/62	9,857,130,464	720,737,816	139,529,721	1.42	19.36
2062/63	12,278,329,302	839,733,881	202,440,627	1.65	24.11

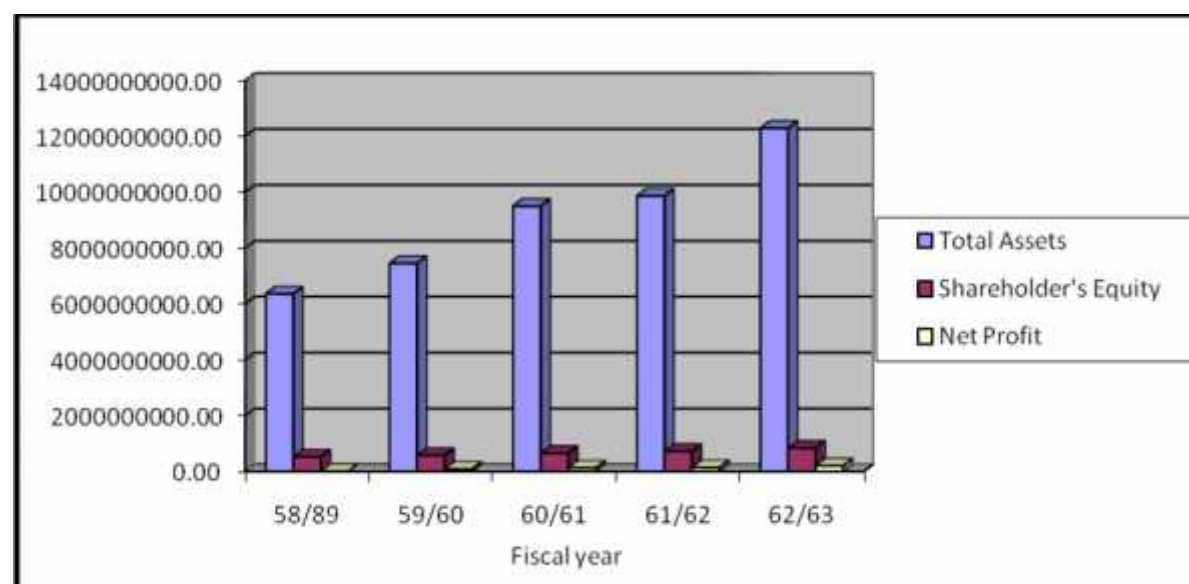
(Source: Annual Report of Bank of Kathmandu Limited.)

# Shareholder' equity include share capital and Reserves and other funds

<sup>+</sup>Note: The calculation is made on Annex -5 of this report

**Figure 4.19**

#### Total Assets, Shareholder's Equity and net Profit of BOK



Total Assets are the sum of the all particulars on the assets side of Balance Sheet. The amount of Total Assets was Rs. 6,356,645,864 at the end of fiscal year 2058/59; it continuously raised Rs. 7,444,816,949 at the end of fiscal year 2059/60. This amount increased to Rs. 9,496,344,672 at the end of fiscal year 2060/61 similarly at Rs. 9,857,130,464 in fiscal year 2061/62 and Rs. 12,278,329,302 at the end of year 2062/63.

The net profit after tax was Rs. 9,274,782 in fiscal year 2058/59, it increased to Rs. 82,127,662 at the end of fiscal year 2059/60. This amount is Rs. 127,473,189 end of fiscal year 2060/61, continually grown up Rs. 139,529,721 in fiscal year 2061/62 and Rs. 202,440,627 at the end of fiscal year 2062/63.

The net profit after tax remained Rs. 9,274,782 in fiscal year 2058/59 and Total Assets was Rs. 6,356,645,864 and ROA is 0.15%. Again net profit was Rs. 82,127,662 at the end of fiscal year 2059/60 and total asset is Rs. 7,444,816,949 and ROA is 1.10%. The Total Assets in fiscal year 2060/61 were Rs. 9,496,344,672 and net profit was Rs. 127,473,189 and ROA was 1.34%. In the next consecutive fiscal years: 2061/62 and 2062/63, the Total Assets of the BOK are Rs. 9,857,130,464 and Rs. 12,278,329,302. The net profit of the BOK remained Rs. 139,529,721 and Rs. 202,440,627 and the percentage of ROA remained 1.42% and 1.65% respectively.

The ROE, concerned to equity share capital, which comprises of share capital and general reserves in BOK, remained the same, Rs. 520,184,620 at the end of fiscal year 2058/59; it raised Rs. 579,133,236 in the fiscal year 2059/60. This figure increased to Rs. 650,745,230 at the end of fiscal year 2060/61 similarly Rs. 720,737,816 at the end of fiscal year 2061/62 and Rs. 839,733,881 in fiscal year 2062/63.

The percentage of ROE or ratio of net profit to shareholders' equity was in fiscal year 2058/59 was 1.78%. In fiscal year 2059/60 was 14.18%, it increased to 19.59% at the fiscal year 2060/61. It remained at 19.36% and raised 24.11%



at the end of fiscal years 2061/62 and 2062/63 respectively. The increasing trend of return on shareholder's equity in the recent years shows that the Bank's profitability is improving to good path.

#### **4.5.5 Loan Classification and Provisioning of BOK**

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

**Table 4.35**  
**Loan Classification of Bank of Kathmandu Limited**  
**Outstanding Loan Amount**

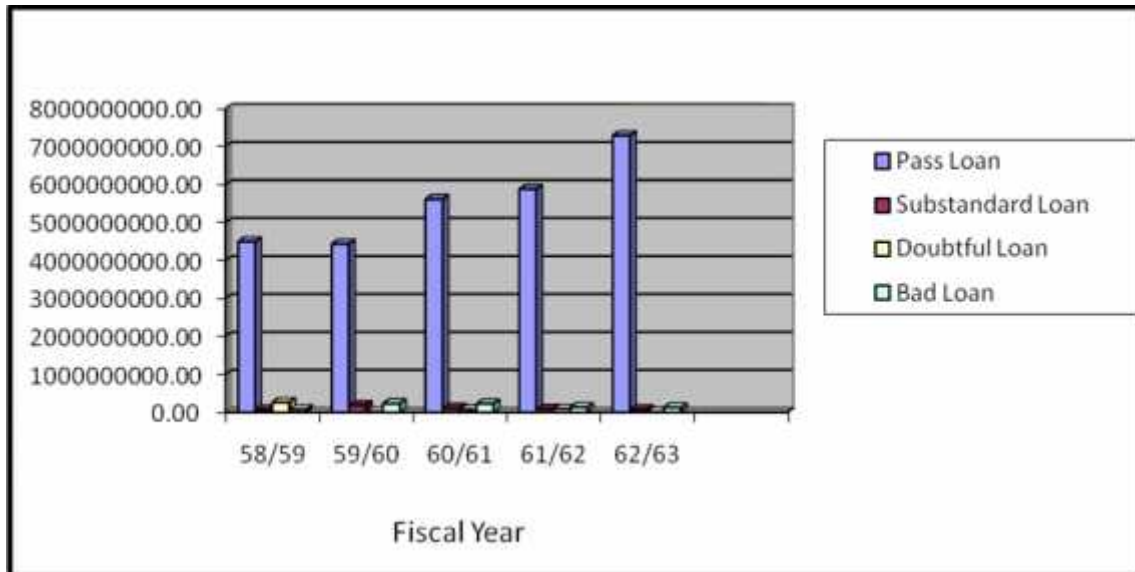
(Rs.)

<b>Types of Loan</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
Pass Loan	4,493,393,077	4,435,158,764	5,608,374,713	5,873,538,981	7,285,076,453
Sub stadandard Loan	63,846,717	179,870,104	109,099,868	88,423,249	71,610,921
Doubtful Loan	258,341,965	13,702,127	68,530,408	89,806,458	8,804,237
Bad Loan	74,490,226	227,301,845	222,306,901	130,276,331	123,209,312

*(Source: Annual Report of Bank of Kathmandu Limited.)*

**Figure 4.20**

**Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan**



The Pass Loan or the loan non-overdue and/or overdue for three months falls in this class. Such loan amount was Rs. 4,493,393,077 in fiscal year 2058/59. It declined to Rs. 4,435,158,764 at the end of fiscal year 2059/60. The loan in this category increased to Rs. 5,608,374,713 at the end of fiscal year 2060/61 similarly Rs. 5,873,538,981 at the end of fiscal year 2061/62 and Rs. 7,285,076,453 in fiscal year 2062/63.

The loan overdue for three months to six months falls in this class is known as Substandard Loan. Such loan in BOK at the end of fiscal year 2058/59 was Rs. 63,846,717; in the fiscal year 2059/60 was Rs. 179,870,104. This figure increased to Rs. 109,099,868 at the end of fiscal year 2060/61, but continually decreased to Rs. 89,806,458 at the end of fiscal year 2061/62 and Rs. 71,610,921 at the end of fiscal year 2062/63.

The loan overdue for 6 months to 1 year falls in this class is called Doubtful Loan. The amount of such loan in BOK at the end of fiscal year 2058/59 was Rs. 258,341,965; in fiscal year 2059/60 was Rs. 13,702,127. This figure

increased to Rs. 68,530,408 at the end of fiscal year 2060/61 up to Rs. 89,806,458 at the end of fiscal year 2061/62 and decreased to Rs. 8,804,237 in fiscal year 2062/63.

The loan overdue for more than 1 year falls in this class is Bad Loan. The amount of such loan in BOK at the end of fiscal year 2058/59 was Rs. 74,490,226. In fiscal year 2059/60 the Bad Loan raised at Rs. 227,301,845. There was continually declined to Rs. 222,306,901 at the end of fiscal year 2060/61 as well as to Rs. 130,276,331 at the end of fiscal year 2061/62 and Rs. 123,209,312 in the fiscal year 2062/63. The decrement of Bad Loan to total loan as well as NPA signify good repayment of disbursed loan, which has the progressive for the bank.



**Table 4.36**

**Loan Loss Provisioning of Bank of Kathmandu Limited**

Loan Types	F.Y. 2058/59			F.Y. 2059/60			F.Y. 2060/61		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount	%		Amount (Rs.)	%
<b>Pass</b>	4493393077	56751790	1.26	4435158764	43091821	0.97	5608374713	77766375	1.39
<b>Sub. Std</b>	63846717	15961679	25	179870104	36087908	20.06	109099868	27274967	25
<b>Doubtful</b>	258341965	129170982	50	13702127	6851063	50	68530408	34265204	50
<b>Bad</b>	74490226	74490226	100	227301845	227301845	100	222306901	222306901	100
<b>Total</b>	<b>4890071985</b>	<b>276374677</b>	<b>5.65</b>	<b>4856032840</b>	<b>3133326</b>	<b>6.45</b>	<b>6008311790</b>	<b>361613547</b>	<b>6.02</b>

F.Y. 2061/62			F.Y. 2062/63		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%
5873538981	75407996	1.28	7285076453	91068543	1.25
88423249	22086406	24.98	71610921	17902730	25
89806458	42119735	46.90	8804237	4402118	50
130276331	129851409	99.67	123209312	116244952	94.35
<b>6182045019</b>	<b>269465546</b>	<b>4.38</b>	<b>7488700923</b>	<b>22961834</b>	<b>3.06</b>

(Source: Annual Report of Bank of Kathmandu Limited.)

The amount of provisioning for Pass Loan or overdue up to three months loan falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class.

The amount of provisioning for such loan of Bank of Kathmandu was Rs. 56,751,790 in fiscal year 2058/59, which showed 1.26% Pass Loan of total loan amount. It had allocated Rs. 43,091,821 at the end of fiscal year 2059/60. This covers 0.97% of total Pass Loan, which has nearly maintained the required percentage. Similarly, the amount of provisioning for Pass Loan at the end of fiscal year 2060/61 was Rs. 77,766,375 which covers the 1.39% of total loans in this class and Rs. 750,407,996 at the end of fiscal year 2061/62, which also covers the 1.28% of total loan in this class. It was Rs. 91,068,543 in fiscal year 2062/63, which covered 1.25% of total loan. It shows that there is compliance with the regulation issued by NRB.

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

The total loan in this class was Rs. 15,961,679 in fiscal year 2058/59; it covered 25% of loan. It was Rs. 36,087,908 at the end of fiscal year 2059/60 that showed only 20.06% of total loan of the class. This figure was Rs. 27,274,967 at the end fiscal year 2060/61, it allocated 25%, it was Rs. 22,086,406 at the end of fiscal year 2061/62; that covered 24.98% and Rs. 17,902,730 in fiscal year 2062/63 which showed 25% of total loan of this class. It shows that the Bank has compliance with the directive issued by NRB.

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

The amount of provisioning for Doubtful Loan of BOK at the end of fiscal year 2058/59 had Rs. 129,170,982. In fiscal year 2059/60 was Rs. 6,851,063, which is 50% of the total loan in this class. Similarly, the amount of provisioning at the end of fiscal year 2060/61 was Rs. 34,265,204 it declined to Rs. 42,119,735 at the end of fiscal year 2061/62, which covered only 46.90% of loan of the class, and Rs. 4,402,118 in fiscal year 2062/63, that provisioned 50% of total loan in this class. Therefore, there is enough provisioning as per the Directives issued by NRB.

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

The amount of provisioning at the end of fiscal year 2058/59 in this class loan was Rs. 74,490,226 or 100% of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2059/60 was Rs. 227,301,845, in fiscal year 2060/61 was Rs. 222,306,901, which has provisioned 100% of loan in the class. There was Rs. 129,851,409 at the end of fiscal year 2061/62 is maintained 99.67% of total loan in this class and Rs. 116,244,952 in fiscal year 2062/63 is covered 94.35% of total loan. It shows the latest year provisioned is not perfect, so NRB has warned BOK to consider their Directives.

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

#### **4.6 Data Presentation and Analysis of “Machhapuchchhre Bank Limited”**

Machhapuchchhre Bank Limited (MBL) is new Bank than other sample Commercial Banks in the Banking industry of Nepal. It has successfully completed its successful eight years of continuous service of its operation in the country. This central office of the bank is outside of Kathmandu Valley, located in Pokhara. In this chapter, data from the various sources of the bank are presented and analyzed. Data are collected from various sources are presented in the following table in accordance to the nature of data and as per the requirement of the study as follows:

##### **4.6.1 Total Assets and Total Performing Loan of Machhapuchchhre Bank Limited (Amount Rs.)**

**Table 4.37**  
**Total Assets and Total Performing Loan of Machhapuchchhre Bank Limited**

(Amount Rs.)

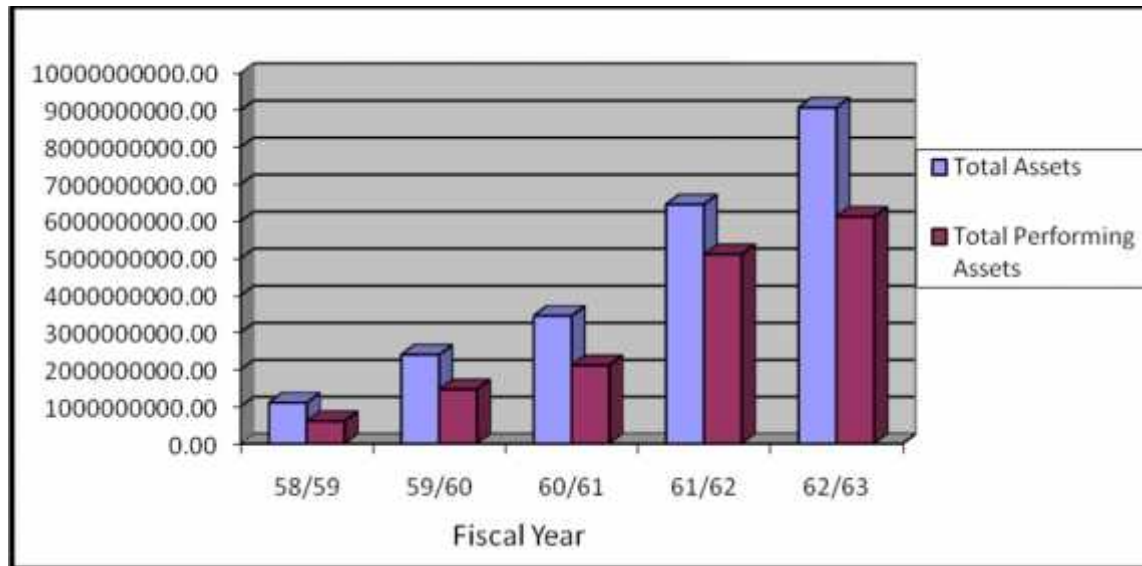
S.N.	Particulars	2058/59	2059/60	2060/61	2061/62	2062/63
1.	<b>Total Assets</b>	1104377361	2399857094	3448634251	6456460820	9069830401
2.	<b>Total Performing Assets</b>	609172232	1464766122	2115804974	5110362471	6129656359

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*



**Figure 4.21**

**Diagram of Total Assets and Performing Asset of MBL**



Total Assets include sum of all the items at the assets side of Balance Sheet as it is mentioned in the introduction of balance-sheet items in the course of literature review. The figure of Total Assets was Rs. 1,104,377,361 at the end of fiscal year 2058/59 which increased Rs. 2,399,857,094 at the end of fiscal year 2059/60 which increased to Rs. 3,448,634,251 at the end of fiscal year 2060/61 gradually raised Rs. 6,456,460,820 at the end of fiscal year 2061/62 and Rs. 9,069,830,401 at the end of fiscal year 2062/63.

The Performing Loans comprise those loans, which are not overdue, or they are earning in cash. At the end of fiscal year 2058/59 the Total Performing Loan of Machhapuchchhre Bank Limited was Rs. 609,172,232 it increased in fiscal year 2059/60, Rs. 1,464,766,122.00, which increased to Rs. 2,115,804,974.00 in fiscal year 2060/61, correspondingly raised Rs. 5,110,362,471 at the end of fiscal year 2061/62 and Rs. 6,129,656,359 at the end of fiscal year 2062/63.

**Table 4.38****Performing Loan to Total Assets of MBL (Rs.)**

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Performing Loan</b>	<b>% of Pass Loan to Total Assets</b>
2058/59	1,104,377,361	609,172,232	55.16 %
2059/60	2,399,857,094	1,464,766,122	61.04 %
2060/61	3,448,634,251	2,115,804,974	61.35 %
2061/62	6,456,460,820	5,110,362,471	79.15 %
2062/63	9,069,830,401	6,129,656,359	67.58 %

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*

The percentage of Performing Loan to Total Assets was 55.16% at the end of fiscal year 2058/59, it become 61.04% at the end of fiscal year 2059/60. It increased to 61.35% at the end of fiscal year 2060/61, raised to 79.15% at the end of fiscal year 2061/62 and 67.58% in fiscal year 2062/63. This shows that the bank is far from the risk of its defaults.

#### **4.6.2 Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of MBL**

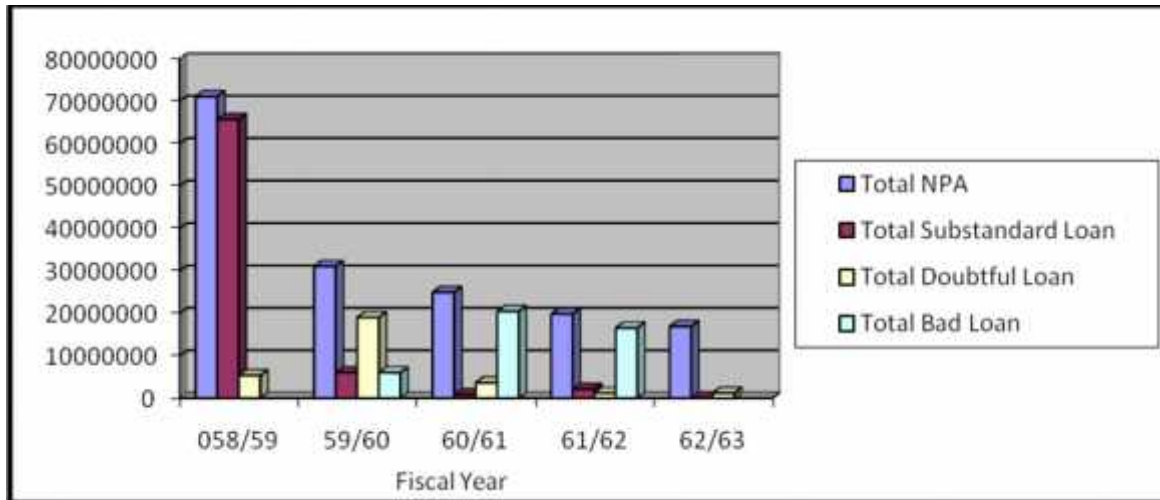
**Table 4.39****Total NPA, Substandard Loan, Doubtful Loan and Bad Loan of MBL****(Rs.)**

<b>S.N</b>	<b>Particulars</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
1.	Total Non-Performing Assets	71,122,846	31,098,986	24,983,046	19,860,891	16,916,597
2.	Total Substandard Loan	65,731,307	6,052,732	843,817	2,113,042	65,003
3.	Total Doubtful Loan	5,391,539	19,014,889	3,656,287	1,178,854	1,213,723
4.	Total Bad Loan	Nil	6,031,364	20,482,941	16,568,994	Nil

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*

**Figure 4.22**

**NPA, Substandard Loan, Doubtful Loan and Bad Loan of MBL**



The entire loan overdue for more than 3 months to 1 year falls in the class of Non-Performing Assets. This covers Substandard Loan, Doubtful Loan and Bad Loan as well. The total figure of total Non-Performing Assets was Rs 71,122,846 at the end of fiscal year 2058/59; it decreased to Rs. 31,098,986 at the end of fiscal year 2059/60. The total NPAs figure was Rs. 24,983,046 at the end of fiscal year 2060/61 consequently declined to Rs. 19,860,891 at the end of fiscal year 2061/62 and Rs. 16,923,579 at the end of fiscal year 2062/63.

The entire loan, which is overdue for more than 3 months to 6 months, falls in this category, is known as Substandard Loan. The amount of such loan of Machhapuchchhre Bank Ltd. was Rs. 65,731,307 at the end of fiscal year 2058/59 reduced to Rs. 6,052,732 at the end of fiscal year 2059/60. It declined to Rs. 843,817 at the end of fiscal year 2060/61 continuously declined Rs. 2,113,042 at the end of fiscal year 2061/62 and Rs. 65003 at the end of fiscal year 2062/63.

The loan, which is overdue for more than 6 months to one year, falls in this class is called Doubtful Loan. The amount of such loan was Rs. 5,391,539 at

the end of fiscal year 2058/59, it increased to Rs. 19,014,889 at the end of fiscal year 2059/60. It increased to 3,656,287 at the end of fiscal year 2060/61, decreased to 1,178,854 at the end of fiscal year 2061/62 and Rs. 1,213,723 in fiscal year 2062/63.

The entire loan overdue for more than one year falls in the category of Bad Loan. MBL had no Bad Loan at the end of fiscal year 2058/2059. But it appeared Rs. 6,031,364 in the fiscal year 2059/60. It increased to Rs. 20,482,941 at the end of fiscal year 2060/61; it declined position on Rs. 16,568,994 at the end of fiscal year 2061/62 and Rs. 15,637,870 at the end of fiscal year 2062/63.

**Table 4.40**

**Substandard Loan, Doubtful Loan and Bad Loan to Total NPA**

S.N.	Fiscal Year	% of Substandard Loan to NPA	% of Doubtful Loan to NPA	% of Bad Loan to total NPA
1.	2058/59	92.42	7.58	Nil
2.	2059/60	19.46	61.14	19.40
3.	2060/61	3.38	61.14	81.99
4.	2061/62	10.63	5.94	83.43
5.	2062/63	0.38	7.18	92.44

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*

The percentage of Substandard Loan to Total NPA of MBL was so high due to none of Bad Loan. There was 92.42% at the end of fiscal year 2058/59; it declined to 19.46 % at the end of fiscal year 2059/60. It increased to 3.38 % at the end of fiscal year 2060/61 it raised 10.63 % at the end of fiscal year 2061/62 and decreased to 0.38% at the end of fiscal year 2062/63. Which is favorable condition.

The percentage of Doubtful Loan to total NPA at the end fiscal year 2058/59 was 7.58%; it heavily increased in fiscal year 2059/60 was 61.14 %. It found to

be reduced to 14.64 % at the end of fiscal year 2060/61 consequently 5.94% at the end of fiscal year 2061/62 and 7.18% at the end of fiscal year 2062/63. The decreasing trend of portion of the Doubtful Loan of the Bank shows the satisfactory recovery position of Doubtful Loan.

There was none of Bad Loan end of fiscal year 2058/59, up to the end of fiscal year 2059/60-it was 19.40 %. It increased to 81.99 % at the end of fiscal year 2060/61 gradually increased to 81.43% at the end of fiscal year 2061/62 and 92.04% at the end of fiscal year 2062/63. Though nominal, the increasing trend of Bad Loan to Total NPA alarms that there may raise high credit risk of the bank. So the MBL has to be conscious of getting steps towards the timely recovery of loan.

#### **4.6.3 The Comparative Figure of Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of MBL (Rs.)**

**Table 4.41**

#### **Total Assets, Total Lending, Total Deposit, Total Performing Loan and Total NPA of MBL (Rs.)**

<b>Fiscal Year</b>	<b>Total Assets</b>	<b>Total Lending</b>	<b>Total Deposit</b>	<b>Total Performing Loan</b>	<b>Total NPA</b>
2058/59	1,104,377,361	680,295,078	994,816,732	609,172,232	71,122,846
2059/60	2,399,857,094	1,495,865,108	1,778,786,289	1,464,766,122	31,098,986
2060/61	3,448,634,251	2,540,788,021	2,754,632,089	2,515,804,974	24,983,046
2061/62	6,456,460,820	5,130,223,362	5,586,802,644	5,110,362,471	19,860,891
2062/63	9,069,830,401	6,146,572,956	7,893,297,672	6,129,656,359	16,916,597

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*

The Total Lending includes the entire loan and advances and bills purchased and discounted by the bank. The figure of Total Lending was Rs. 680,295,078 in fiscal year 2058/59, highly increased Rs. 1,492,865,108 at the end of fiscal year 2059/60 and it increased to Rs. 2,540,788,021 at the end of fiscal year

2060/61, it increased Rs. 5,130,223,362 in fiscal year 2061/62 and remained at Rs. 6,146,572,956 at the end of year 2062/63.

The Total Deposit in the bank comprise the deposits by government, government organizations, banks, business houses, foreign institutions and agencies, other financial institutions, individuals and other organizations. Similarly such deposits can be divided into interest bearing deposits and non-interest bearing deposits. The figure of Total Deposit at the end of fiscal year 2058/59 was Rs. 994,816,732, it increased in fiscal year 2059/60 was Rs. 1,778,786,289, which increased to Rs. 2,754,632,089 at the end of fiscal year 2060/61 and Rs. 5,586,802,644 at the end of fiscal year 2061/62 and remained at Rs. 7,893,297,672 at the end of fiscal year 2062/63.

The description of Total Assets, Total Performing Loan and Non-Performing Assets in different fiscal years is mentioned above.

**Table 4.42**

**Performing Loan, NPA, Substandard, Doubtful and Bad Loan to Total Assets, Total Lending, Total Deposit and Total NPA of MBL**

<b>S.N</b>	<b>Particulars</b>	<b>58/59</b>	<b>59/60</b>	<b>60/61</b>	<b>61/62</b>	<b>62/63</b>
1.	% of Performing Loan/Total Assets	55.16	61.04	61.35	79.15	67.58
2.	% of Performing Loan/Total Lending	89.54	97.92	99.02	99.61	99.72
3.	% of Performing Loan/Total Deposit	61.23	82.35	76.81	91.47	77.66
4.	% of NPA to Total Assets	6.44	1.30	0.72	0.31	0.19
5.	% of NPA to Total Lending	10.45	2.08	0.99	0.39	0.27
6.	% of NPA to Total Deposit	7.14	1.75	0.91	0.36	0.21
7.	% of Substandard Loan to Total NPA	92.42	19.46	3.38	10.63	0.38
8.	% of Doubtful Loan to Total NPA	7.58	61.14	61.14	5.94	7.18
9.	% of Bad Loan to Total NPA	Nil	19.40	81.99	83.43	92.44

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*

The percentage of Performing Loan to Total Lending at the end of fiscal year 2058/59 was 89.54%, it raised in fiscal year 2059/60 was 97.92%. It increased

to 99.02% at the end of fiscal year 2060/61 slightly increased to 99.61 % at the end of fiscal year 2061/62 and end of fiscal year 2062/63 was 99.72%.

The percentage of Performing Loan to Total Deposit at the end of fiscal year 2058/59 was 61.23%, it increased in fiscal year 2059/60 was 82.35%. It decreased to 76.81% at the end of fiscal year 2060/61, but increased to 91.47% at the end of fiscal year 2061/62 and remained 77.66% at the end of year 2062/63.

The percentage of NPAs to Total Assets of MBL was 6.44% in fiscal year 2058/59, it decreased to 1.30 % at the end fiscal year 2059/60. It reduced to 0.72% at the end of fiscal year 2060/61 remained at 0.31% in fiscal year 2061/62 and 0.19% at the end of fiscal year 2062/63.

The percentage of NPA to Total Lending was 10.45% at the end of fiscal year 2058/59, it decreased to 2.08% at the end of fiscal year 2059/60. It declined to 0.99% at the end of fiscal year 2060/61, declined to 0.39% at the end of fiscal year 2061/62 and slightly decreased to 0.27% at the end of fiscal year 2062/63. The percentage of NPA to Total Deposit at the end of fiscal year 2058/59 was 7.14% it decreased in fiscal year 2059/60 was 1.75%. It remained 0.91% at the end of fiscal year 2060/61, it decreased 0.36% at the end of fiscal year 2061/62 and 0.21% at the end of fiscal year 2062/63.

The description of percentage of Performing Loan to Total Assets and percentage of Substandard Loan, Doubtful Loan and Bad Loan to total NPA in different fiscal years are mentioned above.

#### 4.6.4 Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Machhapuchchhre Bank Limited

**Table 4.43**

#### Return on Total Assets (ROA) and Return on Shareholder's Equity (ROE) of Machhapuchchhre Bank Limited

Fiscal Year	Total Assets (Rs.)	Shareholder's Equity (Rs.) #	Net Profit (Rs.)	% of ROA <sup>+</sup>	% of ROE <sup>+</sup>
2058/59	1,104,377,361	79,544,038	(42,349,782)	-3.83	-53.24
2059/60	2,399,857,094	501,705,898	15,307,485	0.64	3.05
2060/61	3,448,634,251	554,221,843	6,689,945	1.35	8.42
2061/62	6,456,460,820	637,739,384	84,870,027	1.31	13.31
2062/63	9,069,830,401	931,091,357	133,996,709	1.48	14.39

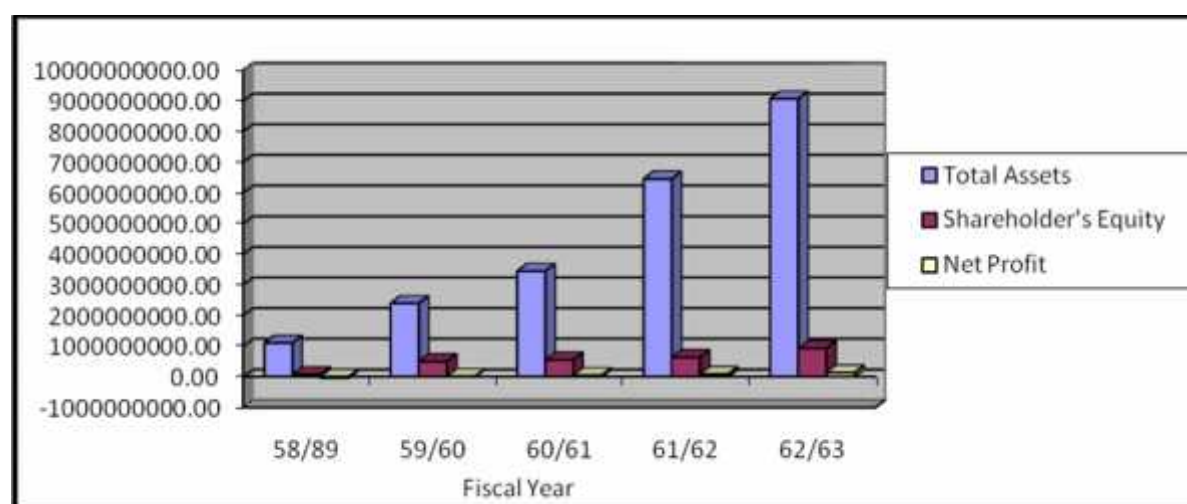
(Source: Annual Report of Machhapuchchhre Bank Limited.)

# Shareholder' equity include share capital and Reserves and other funds

<sup>+</sup>Note: The calculation is made on Annex -6 of this report

**Figure 4.23**

#### Total Assets, Shareholder's Equity and net Profit of MBL





Total Assets are the sum of the all particulars on the assets side of Balance Sheet. The amount of Total Assets was Rs. 1,104,377,361 at the end of fiscal year 2058/59; it was continuously raised Rs. 2,399,857,094 at the end of fiscal year 2059/60. This amount increased to Rs. 3,448,634,251 at the end of fiscal year 2060/61 similarly at Rs. 6,456,460,820 in fiscal year 2061/62 and Rs. 9,069,830,401 at the end of year 2062/63.

There was totally loss due to operation phase of MBL, such it was negative (Rs.42349782) in fiscal year 2058/59. The net profit after tax was Rs. 15,307,485 at the end of fiscal year 2059/60. This amount is Rs. 46,689,945 end of fiscal year 2060/61, continually grown up Rs. 84,870,027 in fiscal year 2061/62 and Rs. 133,996,709 at the end of fiscal year 2062/63.

The net loss was (Rs.42349782) and Total Assets were Rs. 1, 104,377,361, it effects to ROA which was negative as -3.83% in fiscal year 2058/59. The net profit after tax remained Rs. 15,307,845 at the end of fiscal year 2059/60 and total asset is Rs. 2,399,857,094 and ROA is 0.64 %. The Total Assets in fiscal year 2060/61 were Rs.3,448,634,251 and net profit was Rs. 46,689,94, and ROA was 1.35%. In the next consecutive fiscal years: 2061/62 and 2062/63, the Total Assets of the Bank are Rs. 6,456,460,820 and Rs. 9,069,830,401. The net profit of the MBL remained Rs. 84,870,027 and Rs. 133,996,709 and the percentage of ROA remained 1.31% and 1.48% respectively.

The ROE, concerned to equity share capital, which comprises of share capital and general reserves in MBL, remained the same, Rs. 79,544,038 at the end of fiscal year 2058/59; it raised Rs. 501,705,898.00 in the fiscal year 2059/60. This figure increased to Rs. 554,221,843 at the end of fiscal year 2060/61 similarly Rs. 637,739,384 at the end of fiscal year 2061/62 and Rs. 931,091,357 in fiscal year 2062/63.

The percentage of ROE or ratio of net profit to shareholders' equity was negative in fiscal year 2058/59 was -53.24%. In fiscal year 2059/60 was 3.05%, it increased to 8.42% at the fiscal year 2060/61. It continually raised 13.31 % and 14.39% at the end of fiscal years 2061/62 and 2062/63 respectively. The increasing trend of return on shareholder's equity in the recent years shows that the bank's profitability is improving to prefecture path.

#### **4.6.5 Loan Classification and Provisioning of MBL**

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

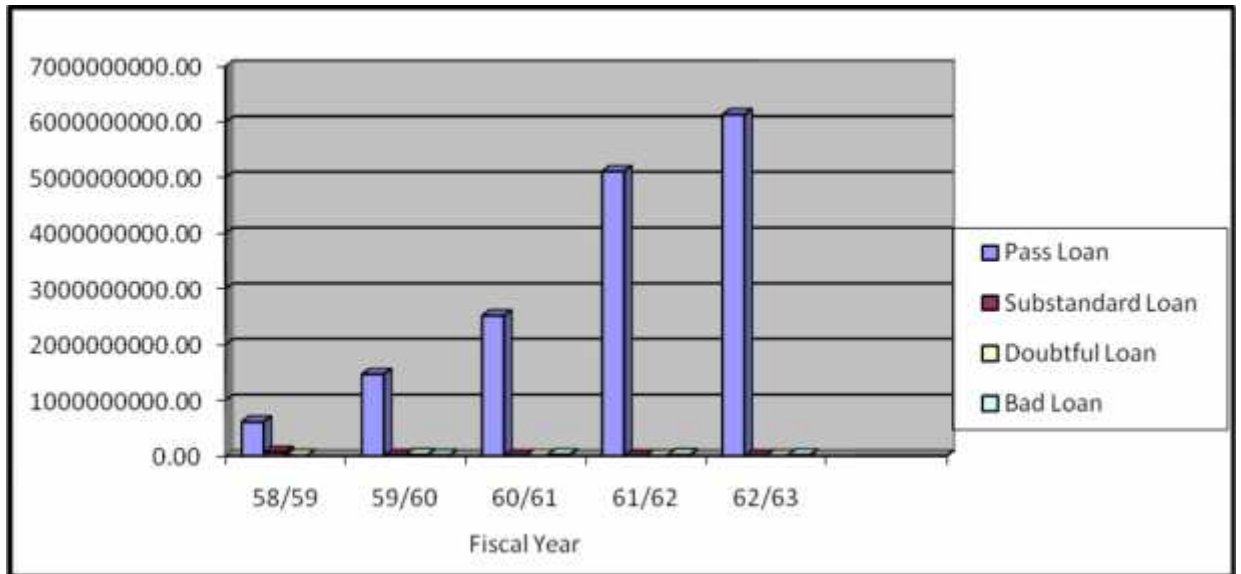
**Table 4.44**  
**Loan Classification of Machhapuchchhre Bank Limited**  
**Outstanding Loan Amount (Rs.)**

<b>Types of Loan</b>	<b>2058/59</b>	<b>2059/60</b>	<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>
Pass Loan	609,172,232	1,464,766,122	2,515,804,974	5,110,362,471	6,129,656,359
Sub std Loan	65,731,307	6,052,732	843,817	2,113,042	65,003
Doubtful Loan	5,391,539	19,014,889	3,656,287	1,178,854	1,213,723
Bad Loan	Nil	6,031,364	20,482,941	16,568,994	15,637,870

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*

**Figure 4.24**

**Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan**



The Pass Loan or the loan non-overdue and/or overdue for three months falls in this class. Such loan amount was Rs. 609,172,232 in fiscal year 2058/59. It reached to Rs. 1,464,766,122 at the end of fiscal year 2059/60. The loan in this category increased to Rs. 2,515,804,974 at the end of fiscal year 2060/61 similarly Rs. 5,110,362,471 at the end of fiscal year 2061/62 and Rs. 6,129,656,359 in fiscal year 2062/63.

The loan overdue for three months to six months falls in this class is known as Substandard Loan. Such loan in MBL at the end of fiscal year 2058/59 was Rs. 65,731,307; in the fiscal year 2059/60 was Rs. 6,052,732. This figure decreased to Rs. 843,817 at the end of fiscal year 2060/61, but increased Rs. 2,113,042 at the end of fiscal year 2061/62 and it declined to Rs. 65,003 at the end of fiscal year 2062/63.

The loan overdue for 6 months to 1 year falls in this class is called Doubtful Loan. The amount of such loan in MBL at the end of fiscal year 2058/59 was Rs. 5,391,539; in fiscal year 2059/60 was Rs. 19,014,889. This figure increased

to Rs. 3,656,287 at the end of fiscal year 2060/61, it decreased to Rs. 1,178,854 at the end of fiscal year 2061/62 and raised Rs. 1,213,723 in fiscal year 2062/63.

The loan overdue for more than 1 year falls in this class is Bad Loan. The amount of such loan in MBL at the end of fiscal year 2058/59 was Nil due to starting phase of the bank. In fiscal year 2059/60 the Bad Loan was Rs. 6,031,364. This figure increased to Rs. 20,482,941 at the end of fiscal year 2060/61 but declined to Rs. 16,568,994 at the end of fiscal year 2061/62 and Rs. 15,637,870 in the fiscal year 2062/63. The decrement of Bad Loan to total loan as well as NPA signify good repayment of disbursed loan, which has prosperous way for the bank.



**Table 4.45**

**Loan Loss provisioning of Machhapuchchhre Bank Limited:**

Loan Types	F.Y. 2058/59			F.Y. 2059/60			F.Y. 2060/61		
	Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
		Amount (Rs.)	%		Amount (Rs.)	%		Amount (Rs.)	%
<b>Pass</b>	609172232	6105254	1	1464766122	14647661	1	2515804974	25158049	1
<b>Sub. Std</b>	65731307	16432826	25	6052732	1513183	25	843817	210954	25
<b>Doubtful</b>	5391539	265769	50	19014889	9507444	50	3656287	1828143	50
<b>Bad</b>	nil	nil		6031364	6031364	100	20482941	20482941	100
<b>Total</b>	<b>680295078</b>	<b>25233849</b>	<b>3.71</b>	<b>1495865107</b>	<b>31699652</b>	<b>2.12</b>	<b>2540788019</b>	<b>47680087</b>	<b>1.88</b>

F.Y. 2061/62			F.Y. 2062/63		
Loan Amount (Rs.)	Provisioning		Loan Amount (Rs.)	Provisioning	
	Amount (Rs.)	%		Amount (Rs.)	%
5110362471	51103624	1	612966359	61884523	1
2113042	528260	25	65003	16250	25
1178854	589427	50	1213723	606861	50
16568994	16568994	100	15637870	15637870	100
<b>5130223361</b>	<b>68790305</b>	<b>1.34</b>	<b>6146572955</b>	<b>78145504</b>	<b>1.27</b>

*(Source: Annual Report of Machhapuchchhre Bank Limited.)*

The amount of provisioning for Pass Loan or overdue up to three months loan falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of provisioning required for Pass Loan is 1% of the total loan in this class.

The amount of provisioning for such loan of MBL was Rs. 6,105,254 in fiscal year 2058/59, which showed 1% Pass Loan of total loan amount. It had allocated Rs. 14,647,661 at the end of fiscal year 2059/60. This covers 1 % of total Pass Loan, which has maintained the required percentage. Similarly, the amount of provisioning for Pass Loan at the end of fiscal year 2060/61 was Rs. 25,158,049 which covers the 1% of total loans in this class and Rs. 51,103,624 at the end of fiscal year 2061/62, which also covers the 1 % of total loan in this class. It was Rs. 61,884,523 in fiscal year 2062/63, which covered 1% of total loan. It shows that there is compliance with the regulation issued by NRB.

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

The total loan of MBL in this class was Rs. 16,432,826 in fiscal year 2058/59. It was Rs. 1,513,183 at the end of fiscal year 2059/60. This figure increased to Rs. 210,954 at the end fiscal year 2060/61 it was Rs. 528,260 at the end of fiscal year 2061/62 and Rs. 16,250 in fiscal year 2062/63. The figure of all fiscal years covers 25% of total loan in the class. It shows that the Machhapuchchhre Bank has compliance with the directive issued by NRB.

The amount of provisioning for Doubtful or overdue loan for more than six months up to 1 year falls in this class. As per the Directives of NRB issued to Banks and Financial Institutions licensed by NRB, the percentage of

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

The amount of provisioning for Doubtful Loan at the end of fiscal year 2058/59 had Rs. 2,695,769. In fiscal year 2059/60 was Rs. 9,507,444, similarly the amount of provisioned at the end of fiscal year 2060/61 was Rs. 1,828,143, it declined to Rs. 589,427 at the end of fiscal year 2061/62 and Rs. 606,861 in fiscal year 2062/63. The provisioning of all fiscal years covers 50% of total loan in this class. Therefore, there is enough provisioning as per the Directives issued by NRB.

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

There weren't provisioning amount due to none of Bad Loan in fiscal year 2058/59 due latest operation year. The amount of provisioning at the end of fiscal year 2059/60 was Rs. 6,031,364 or 100% of the total loan in this class. Similarly, the provisioning of such loan at the end of fiscal year 2060/61 was Rs. 20,482,941 and Rs. 16,568,994 at the end of fiscal year 2061/62 and Rs. 15,637,870 in fiscal year 2062/63 that covered all those fiscal years were 100% of total loan in this class. It shows that the MBL has followed the Directives issued by NRB.

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



#### 4.7 Comparative Study of Loan Loss Provisioning of Sample Banks

The above calculated and collected data are indicated lot of differences of the sample banks. Basically there has been maintained the level of NPA, differences of Total Assets, Total Deposit, the level of provisioned of the loan category, Return on Total Assets (ROA), Return on Shareholders' Equity (ROE), Correlation Coefficient between the Total Lending with ROA and ROE.

Those data has been calculated in the annex chapter and then comparison between the given sample banks. We can measure the strong and weak of those banks' performance and pointed to their mistake and carelessness. We hope that all the banks can maintain the NPA level at the international standard. The comparative study is focused on the followings:

##### 4.7.1 Loan Loss Provisioning of Nabil, NIBL, EBL, BOK and MBL

**Table 4.46**

**Loan Loss Provisioning of Sample Banks in Fiscal Year 2058/59**

S.N.	Particulars	Name of the Banks				
		Nabil (%)	NIBL (%)	EBL (%)	BOK (%)	MBL (%)
1.	For Pass Loan	1.94	1.40	1.71	1.26	1
2.	For Substandard Loan	24.08	12.13	25	25	25
3.	For Doubtful Loan	49.55	47.36	50	50	50
4.	For Bad Loan	69.44	99.45	124	100	nil

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

The above table depicts the percentage of the loan loss provision of Sample Banks are: Nabil, NIBL, EBL, BOK and MBL as of fiscal year end 2058/59. As per the prevailing Directives issued by NRB to Bank and Financial Institutions, Bank has to maintain the different requirement of provision as classification of the loan and advances. According to this, 1 percent provision

is required for Pass or good loan, 25 percent provision for Substandard Loan, 50 percent for Doubtful Loan and 100 percent for Bad Loan.

Nabil has maintained 1.94%, 24.08%, 49.55% and 69.44% provision for Pass, substandard, Doubtful and Bad Loan respectively, NIBL has 1.4%, 12.13%, 47.36% and 99.45%, EBL has maintained 1.71%, 25%, 50% and 124% provision for Pass, substandard, Doubtful and Bad Loan respectively. Similarly, BOK has 1.26%, 25%, 50% and 100% MBL has maintained 1%, 25%, 50% and 100% provision for Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan respectively.

Those all data are show that, Nabil has provisioned very low percent of Bad Loan. NIBL has also provisioned low rate on Substandard Loan. But BOK, EBL and MBL have maintained enough provision as per Directives of NRB.

**Table 4.47**

**Loan Loss Provisioning of Sample Banks in Fiscal Year 2059/60**

S.N.	Particulars	Name of the Banks				
		Nabil (%)	NIBL (%)	EBL (%)	BOK (%)	MBL (%)
1.	For Pass Loan	1.60	0.98	1.63	0.97	1
2.	For Substandard Loan	24.40	11.31	25	20.06	25
3.	For Doubtful Loan	48.96	12.72	50	50	50
4.	For Bad Loan	85.14	97.84	100	100	100

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

The above table depicts the percentage of the loan loss provision of given Sample Banks of fiscal year end 2059/60. Nabil has maintained 1.60%, 24.40%, 48.96% and 85.14% provision for Pass, substandard, Doubtful and Bad Loan respectively, NIBL has 0.98%, 11.31%, 12.72% and 97.84%, EBL has maintained 1.63%, 25%, 50% and 100% provision for Pass, substandard, Doubtful and Bad Loan respectively. Similarly, BOK has 0.97%, 20.26%, 50%

and 100% MBL has maintained 1%, 25%, 50% and 100% provision for Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan respectively.

Those data shows that, Nabil has improving to provisioned of Bad Loan than last year. NIBL has again provisioned very low rate on substandard and Doubtful Loan, which is not satisfactory. BOK also missed to maintain on Substandard Loan. But EBL and MBL have maintained enough provision as per Directives of NRB. Thus it is learnt that the banks have followed the prudential regulations and there is good management of risk against loan and advances.

**Table 4.48**  
**Loan Loss Provisioning of Sample Banks in Fiscal Year 2060/61**

S.N.	Particulars	Name of the Banks				
		Nabil (%)	NIBL (%)	EBL (%)	BOK (%)	MBL (%)
1.	For Pass Loan	1.55	0.99	1.26	1.39	1
2.	For Substandard Loan	23.22	25.16	25	25	25
3.	For Doubtful Loan	49.40	46.80	50	50	50
4.	For Bad Loan	97.19	98.38	100	100	100

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

The above table depicts the percentage of the loan loss provision of given sample Banks of fiscal year end 2060/61. Nabil has maintained 1.55%, 23.22%, 49.40% and 97.19% provision for Pass, substandard, Doubtful and Bad Loan respectively, NIBL has 0.99%, 25.16%, 46.80% and 98.38%, EBL has maintained 1.26%, 25%, 50% and 100% provision for Pass, substandard, Doubtful and Bad Loan respectively. Similarly, BOK has 1.39%, 25%, 50% and 100% MBL has maintained 1%, 25%, 50% and 100% provision for Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan respectively. The data shows that, Nabil has improving to provisioned of Bad Loan than last year.

NIBL has highly improved to provision for loan, which is more satisfactory. Again, BOK, EBL and MBL have maintained enough provision an accuracy rate as per Directives of NRB. Thus the banks are followed the prudential regulations and there is good management of risk against loan and advances.

**Table 4.49**

**Loan Loss Provisioning of Sample Banks in Fiscal Year 2061/62**

S.N.	Particulars	Name of the Banks				
		Nabil (%)	NIBL (%)	EBL (%)	BOK (%)	MBL (%)
1.	For Pass Loan	2.18	0.99	1.44	1.28	1
2.	For Substandard Loan	31.10	25.80	25	24.98	25
3.	For Doubtful Loan	73.21	50.12	50	46.90	50
4.	For Bad Loan	97.04	91.80	100	99.67	100

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

The above table depicts the percentage of the loan loss provision of given Sample Banks of fiscal year end 2059/60. Nabil has maintained 2.18%, 31.10%, 73.21% and 97.04% provision for Pass, substandard, Doubtful and Bad Loan respectively, NIBL has 0.99%, 25.80%, 50.12% and 91.80%, EBL has maintained 1.44%, 25%, 50% and 100% provision for Pass, substandard, Doubtful and Bad Loan respectively. Similarly, BOK has 1.28%, 24.98%, 46.90% and 99.67% MBL has maintained 1%, 25%, 50% and 100% provision for Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan respectively.

Those data shows that, Nabil has most improved to provision more excess rate than NRB Directives of all loan except Bad Loan. NIBL has provisioned low rate on Bad Loan. BOK also has maintained slightly on Doubtful Loan. But EBL and MBL have maintained enough provision as per Directives of NRB. Thus on average it is learnt that the Banks have followed the prudential regulations and there is good management of risk against loan and advances.

**Table 4.50****Loan Loss Provisioning of Sample Banks in Fiscal Year 2062/63**

S.N.	Particulars	Name of the Banks				
		Nabil (%)	NIBL (%)	EBL (%)	BOK (%)	MBL (%)
1.	For Pass Loan	1.64	1.28	1.29	1.25	1
2.	For Substandard Loan	67.93	25	25	25	25
3.	For Doubtful Loan	47	50	50	50	50
4.	For Bad Loan	94.55	99	100	94.35	100

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

The above table depicts the percentage of the loan loss provision of given Sample Banks of fiscal year end 2059/60. Nabil has maintained 1.64%, 67.93%, 47% and 94.55% provision for Pass, substandard, Doubtful and Bad Loan respectively, NIBL has 1.28%, 25%, 50% and 99%, EBL has maintained 1.29%, 25%, 50% and 100% provision for Pass, substandard, Doubtful and Bad Loan respectively. Similarly, BOK has 1.25%, 25%, 50% and 94.35% MBL has maintained 1%, 25%, 50% and 100% provision for Pass Loan, Substandard Loan, Doubtful Loan and Bad Loan respectively.

Those data shows that, Nabil has provisioned excess rate than NRB Directives Substandard Loan. NIBL has more improved on provision of loan, which is most satisfactory fiscal year rather other year. BOK has maintained slightly on Bad Loan. But, EBL and MBL have maintained enough provision as per Directives of NRB.

Thus we can conclude the above data that Nabil and NIBL have more fluctuate up and down on loan loss provisioning at the fiscal year. BOK has an average report. But EBL and MBL has excellent and very conscious on the followed of NRB Directives.

## 4.8 Correlation Analysis

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

- a) Correlation coefficient lies between -1 and +1,
- b) A positive or negative relation exists,
- c) The relation is significant or insignificant,
- d) Establish cause and effect relation.

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

### 4.8.1 Correlation Coefficient Between NPA and ROA of Sample Banks: (Nabil, NIBL, EBL, BOK and MBL)

**Table 4.51**

**Correlation Coefficient between NPA and ROA of Sample Banks**

<b>Banks</b>	<b>Coefficient of Correlation (r)</b>	<b>Relationship</b>	<b>Coefficient of determination (r)<sup>2</sup></b>	<b>Probable Error (PE)</b>	<b>Significant/Insignificant</b>
<b>Nabil</b>	-0.90	Negative	0.8167	0.0553	Insignificant
<b>NIBL</b>	-0.52	Negative	0.275	0.2185	Insignificant
<b>EBL</b>	-0.37	Negative	0.1347	0.261	Insignificant
<b>BOK</b>	-0.15	Negative	0.024	0.294	Insignificant
<b>MBL</b>	-0.99	Negative	0.9966	0.001	Insignificant

*(Sources: Calculation of data is given in annex)*

The table 4.51 explains the relationship between level of Non-Performing Asset to Total Lending (denoted here as NPA) and return on Total Assets ROA. The coefficient of correlation between NPA and ROA of Nabil is -0.90,

NIBL has 0.52, EBL has -0.37, BOK has -0.15 and MBL has -.099 respectively.

The table shows the similar type of correlation between the level of NPA and ROA of all banks. In case of MBL, there is negative and high degree of correlation, which is insignificant. On the other hand, BOK has more less negative and moderate degree of correlation than other Banks that is insignificant as well.

Similarly, the coefficient of determination ( $r^2$ ), Nabil has 0.8167, NIBL has 0.275, EBL has 0.1347, BOK has 0.024 and MBL has 0.9966 respectively. It means 81 percent, 27 percent, 13 percent, 2 percent and 99 percent of the total variation in ROA of the banks respectively has been explained by the NPA.

Since the number of observations carried five years data are used, significance and insignificance relationship between NPA and ROA may be concluded. It clearly concluded from the analysis that the ROA is dependent on the level of NPA of the bank. It means that the NPA somehow determines the ROA.

In the case of MBL, there is 99 percent of the ROA is determined by the level of NPA. Therefore, we can concluded that there was negative ROA in fiscal year 2058/59 due to it's inauguration year such that it obtained high degree of negative correlation coefficient as well it's non NPA, which is insignificant. But also it will be better to reduce the level of NPA to get higher return on its Total Assets. On the other hand, the level of Nabil determined 81 percent of ROA determined by the level of NPA; it is also serious on high degree of negative coefficient. It is better to reduce the level of NPA to keep on getting higher return on its Total Assets. There is only 2.94 percent of ROA of BOK by the level of NPA which has positive indicators as we know that it is better to reduce the level of NPA to keep on getting high level of return on Total Assets.

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

#### **4.8.2 Correlation Coefficient Between NPA and ROE of Sample Banks: (Nabil, NIBL, EBL, BOK and MBL)**

**Table 4.52**  
**Correlation Coefficient between NPA and ROE of Sample Banks**

<b>Banks</b>	<b>Coefficient of Correlation (r)</b>	<b>Relationship</b>	<b>Coefficient of determination (r)<sup>2</sup></b>	<b>Probable error (PE)</b>	<b>Significant/ Insignificant</b>
<b>Nabil</b>	-0.78	Negative	0.6115	0.1171	Insignificant
<b>NIBL</b>	-0.87	Negative	0.766	0.07	Insignificant
<b>EBL</b>	-0.27	Negative	0.073	0.2795	Insignificant
<b>BOK</b>	-0.49	Negative	0.2423	0.2286	Insignificant
<b>MBL</b>	-0.99	Negative	0.9994	0.0001	Insignificant

*(Sources: Calculation of data is given in annex)*

The table 4.52 explains the relationship between level of Non-Performing Asset to Total Lending (denoted here as NPA) and return on shareholder's equity (ROE). The coefficient of correlation between NPA and ROE of Nabil is -0.78, NIBL has -0.87, EBL has -0.27, BOK has -0.49 and MBL has -.099 respectively.

The table shows the similar type of correlation between the level of NPA and ROE of all banks. In case of MBL, there is negative and high degree of correlation, which is insignificant. On the other hand, EBL has less negative and moderate degree of correlation than other banks that is insignificant as well.



Similarly, the coefficient of determination ( $r^2$ ), Nabil has 0.6115, NIBL has 0.766, EBL has 0.073, BOK has 0.2423 and MBL has 0.9994 respectively. It means 61 percent, 76 percent, 7 percent, 24 percent and 99 percent of the total variation in ROE of the banks respectively has been explained by the NPA.

Since the number of observations carried five years data are used, significance and insignificance relationship between NPA and ROE may be concluded. It is clearly concluded from the analysis that the ROE is dependent on the level of NPA of the bank. It means that the NPA somehow determines the ROE.

In the case of MBL, there is 99 percent of the ROE is determined by the level of NPA. Therefore, we can concluded that there was negative ROE in fiscal year 2058/59 due to it's inauguration year such that it obtained high degree of negative correlation coefficient as well it's non NPA, which is insignificant. But also it will be better to reduce the level of NPA to get higher return in its Total Assets. On the other hand, the level of NIBL determined 76 percent of ROE determined by the level of NPA; it is also serious on high degree of negative coefficient. It is better to reduce the level of NPA to keep on getting higher return in its shareholders equity. There is only 7 percent of ROA of EBL determined by the level of NPA which has positive indicators as we know that it is better to reduce the level of NPA to keep on getting high level of return on shareholders equity.

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

There are mostly different correlation coefficients of all banks on depending upon the return on Total Assets return on shareholders equity from the above result. On average Everest Bank Limited has moderate rate rather than other banks at the of all fiscal year.

#### 4.9 Major Findings

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

1. The percentage of NPA to Total Assets of Nabil decreased by 0.45% from the end of fiscal year 2058/59 was 3.16% compared to that of fiscal year 2059/60 was 2.71%. It remained in percentage at the end of fiscal year 2060/61 was 1.71% comparatively decreased by 1%. The percentage of NPA to Total Assets was 0.84% at the end of fiscal year 2061/62 has declined of 0.87% than previous year. While it remained 0.82% at the end of fiscal year 2062/63, that compared to reduced by 0.02% than previous fiscal year.
2. The percentage of NPA to Total Assets of NIBL decreased by 1.32% from the end of fiscal year 2058/59 was 2.62% compared to that of fiscal year 2059/60 was 1.30%. It remained at the end of fiscal year 2060/61 was 1.37% comparatively raised to 0.07%. The percentage of NPA to Total Assets was 1.72% at the end of fiscal year 2061/62 has increased of 0.35% than previous year. But it varies by 0.44% at the end of fiscal year 2062/63 was 1.28% that compared to reduce than last fiscal year.
3. The percentage of NPA to Total Assets of EBL at the end of fiscal year 2058/59 was 0.64% compared on increased upto 0.74% that of fiscal year 2059/60 was 1.38%. It decreased by 0.29% at the end of fiscal year 2060/61 was 1.09%. There was not change on percentage of NPA to Total Assets was 1.09% at the end of fiscal year 2061/62. But it reduced by 0.28% at the end of fiscal year 2062/63 was 0.81% that compared with previous fiscal year.
4. The percentage of NPA to Total Assets of BOK at the end of fiscal year 2058/59 was 6.93% compared on decreased by 0.11% that of fiscal year

2059/60 was 6.82%. It also decreased by 1.65% at the end of fiscal year 2060/61 was 5.17%. It remained percentage of NPA to Total Assets was 3.45% at the end of fiscal year 2061/62 declined by 1.72% than previous year. It reduced by 1.51% at the end of fiscal year 2062/63 was 1.94% that compared with previous year.

5. The percentage of NPA to Total Assets of MBL at the end of fiscal year 2058/59 was 6.44% compared on decreased heavily by 5.14% that of fiscal year 2059/60 was 1.30%. It also decreased by 0.58% at the end of fiscal year 2060/61 was 0.72%. The percentage of NPA to Total Assets was 0.31% at the end of fiscal year 2061/62 declined by 0.41% than the previous year. It reduced by 0.12% at the end of fiscal year 2062/63 remained at 0.19% that compared as last fiscal year.
6. The percentage of NPA to Total Lending of Nabil decreased by 1.6% from the end of fiscal year 2058/59 was 7.14% compared to that of fiscal year 2059/60 was 5.54%. It remained in percentage at the end of fiscal year 2060/61 was 3.35% comparatively decreased by 2.19%. The percentage of NPA to Total Lending was 1.32% at the end of fiscal year 2061/62 has declined of 2.03% than previous year. While it remained 1.37% at the and of fiscal year 2062/63, that compared to slightly increased by 0.05% than previous fiscal year.
7. The percentage of NPA to Total Lending of NIBL decreased by 2.82% from the end of fiscal year 2058/59 was 4.80% compared to that of fiscal year 2059/60 was 1.98%. It remained at the end of fiscal year 2060/61 was 2.47% comparatively raised to 0.49%. The percentage of NPA to Total Lending was 2.68% at the end of fiscal year 2061/62 has slightly increased of 0.21% than previous year. But it differs by 0.61% at the end of fiscal year 2062/63 was 2.07% that compared to reduce than last fiscal year.

8. The percentage of NPA to Total Lending of EBL at the end of fiscal year 2058/59 was 1.04% compared on increased upto 1.16% that of fiscal year 2059/60 was 2.20%. It decreased by 0.48% at the end of fiscal year 2060/61 was 1.72%. The percentage of NPA to Total Lending was 1.63% at the end of fiscal year 2061/62 which was slightly declined by 0.09%. But it reduced by 0.36% at the end of fiscal year 2062/63 was 1.27% that compared with previous fiscal year.
9. The percentage of NPA to Total Lending of BOK at the end of fiscal year 2058/59 was 8.11% compared on decreased by 0.56% that of fiscal year 2059/60 was 8.67%. It also decreased by 2.01% at the end of fiscal year 2060/61 was 6.66%. It remained percentage of NPA to Total Lending was 4.99% at the end of fiscal year 2061/62 declined by 1.67% than previous year. It reduced by 2.27% at the end of fiscal year 2062/63 was 2.72% that compared with previous year.
10. The percentage of NPA to Total Lending of MBL at the end of fiscal year 2058/59 was 10.45% compared on decreased heavily by 8.37% that of fiscal year 2059/60 was 2.08%. It also decreased by 1.09% at the end of fiscal year 2060/61 was 0.99%. The percentage of NPA to Total Lending was 0.39% at the end of fiscal year 2061/62 decreased by 0.60% than the previous year. It reduced by 0.12% at the end of fiscal year 2062/63 remained at 0.27% that compared as last fiscal year.
11. The percentage of NPA to Total Deposit of Nabil decreased by 0.25% from the end of fiscal year 2058/59 was 3.59% compared to that of fiscal year 2059/60 was 3.34%. It remained in percentage at the end of fiscal year 2060/61 was 2.03% comparatively decreased by 1.31%. The percentage of NPA to Total Deposit was 0.99% at the end of fiscal year 2061/62 has declined of 1.04% than previous year. While it remained

0.94% at the end of fiscal year 2062/63, that compared to slightly increased by 0.05% than previous fiscal year.

12. The percentage of NPA to Total Deposit of NIBL decreased 1.64% from the end of fiscal year 2058/59 was 3.12% compared to that of fiscal year 2059/60 was 1.48%. It remained at the end of fiscal year 2060/61 was 1.57% comparatively raised to 0.09%. The percentage of NPA to Total Deposit was 1.97% at the end of fiscal year 2061/62 has slightly increased of 0.40% than previous year. But it differs by 0.53% at the end of fiscal year 2062/63 was 1.44% that compared to reduce than last fiscal year.

13. The percentage of NPA to Total Deposit of EBL at the end of fiscal year 2058/59 was 0.77% compared on increased upto 0.89% that of fiscal year 2059/60 was 1.66%. It declined by 0.37% at the end of fiscal year 2060/61 was 1.29%. The percentage of NPA to Total Deposit was 1.28% at the end of fiscal year 2061/62 which was decreased by 0.01%. Again it reduced by 0.34% at the end of fiscal year 2062/63 was 0.94% that compared with previous fiscal year.

14. The percentage of NPA to Total Deposit of BOK at the end of fiscal year 2058/59 was 6.93% compared on decreased by 0.11% that of fiscal year 2059/60 was 6.82%. It also decreased by 1.65% at the end of fiscal year 2060/61 was 5.17%. It remained percentage of NPA to Total Deposit was 3.45% at the end of fiscal year 2061/62 declined by 1.72% than previous year. It reduced by 1.51% at the end of fiscal year 2062/63 was 1.94% that compared with previous year.

15. The percentage of NPA to Total Deposit of MBL at the end of fiscal year 2058/59 was 7.14% compared on decreased heavily by 5.42% that of fiscal year 2059/60 was 1.75%. It also decreased by 0.84% at the end

of fiscal year 2060/61 was 0.91%. The percentage of NPA to Total Deposit was 0.36% at the end of fiscal year 2061/62 increased by 0.55% than the previous year. It reduced by 0.18% at the end of fiscal year 2062/63 remained at 0.21% that compared as last fiscal year.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

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

The ancient history of banking dates back to bank of Venice, Italy, in 1157 A.D. Till the modern age, there has been various types of banks, which carry out the banking transactions. The first Commercial Bank established in Nepal is Nepal Bank Limited, 30<sup>th</sup> Kartik, 1994. At present there are twenty Commercial Banks carrying out their function in the country.

This study especially focused in sample five Commercial Banks, i.e. Nabil Bank Ltd., Nepal Investment Bank Ltd., Everest Bank Ltd., Bank of Kathmandu Ltd. and Machhapuchchhre Bank Ltd. only. The main purpose of study is focused and the report based on followings:

The successful working of the bank depends upon the ability of the management to distribute the fund among various kind investments:

outstanding loan and advances, investment on shares, debentures and bonds, bill purchase and discount etc. make assets as a whole. Among them loan and advances are the most profitable assets of a bank. These assets constitute primary source of income to the bank. Being a profit making business institution, a bank aims at making huge profit. Since loan and advances disbursed against transparent and clear agreement of interest, they are the most profitable business to the banks which is not certain in case of investment on share and others instruments. So bank is always willing to invest on loan and advances as much as possible. But it is not so easy to earn by lending and bank has to pay more attention to safety of the disbursed loan and advances. If a bank is too much timid, it may fail to obtain the adequate return on loan able fund, which is confined to it for use. On the other hand, if the bank is too much liberal, it may easily impair its profits with the increment of bad debts or Non-Performing Loan. Therefore, banks should keep in mind the fact that most of the bank failures in the world are due to shrinkage of loan and advances.

Despite being more profitable than other assets, loan and advances carry more risk of non-repayment to the bank. Such risk is known as credit risk or default risk. The outstanding loan and advances of the Bank can be classified into two classes: Performing Assets and Non-Performing Assets. The loan and advances that are not overdue or overdue up to three months are Performing Loan or Pass Loan, which are known as Performing Assets. Where as the loan and advances overdue for more than three months are Non-Performing Loan and they are classified into Substandard Loan, Doubtful Loan and Bad Loan according to their overdue aging period. Loan become non-Performing; while the principal and its interest amount is not paid back by the borrower to the bank for above stated period. Since NPA is not paid back its interest and principal to the bank, it could wreck Banks' profitability both through loss of interest and write off of the principal loan amount. Since loan occupies major space in the assets of the bank, it is synonymously used to the assets in banking literature. Hence in narrow sense, Non-Performing Loan is known as NPA. Performing Assets have



multiple benefits to the banks as well as to the whole economy while Non-Performing Assets erode even existing capital of the bank.

The existing level of NPA has been great problem in the contemporary banking business of the world. In this context, Nepal can't remain exception of the NPA problem. The level of NPA in Nepalese Banking business is quite alarming. It is widespread fact that the bank and financial institution in Nepal are facing the winding problem of NPA and it is challenging even in the future. The latest figure of NPA as of mid-Jan 2006 as mentioned by Mr. M.P. Adhikary, the Director of NRB is Rs. 29.06 billion, which is equivalent to 18.19 percent of the total loan. It is a great figure regarding the prudential level of NPA that should be below 5 percent. It is even worse in the case of public sector Banks: NBL and RBB which posses around 50 percent NPA till mid-Jan 2006 being the apex supervisory and regulatory authority of Banking sector, NRB has issued directive regarding the outstanding loan of the Banks. According to these Directives, a bank has to classify its loan into Pass Loan, Substandard Loan and Bad Loan on the basis of their overdue aging. As classified in this directive, Pass or non-overdue loan is known as Performing Asset while substandard, Doubtful and Bad Loan are known as Non-Performing Asset.

Selected Sample Banks have similar status regarding the level of NPA. The level of NPA in these banks is below 4 percent on average till the three consequent years. Though this level found little fluctuating, it is within the acceptable limit below 5 percent and around 1 percent.

The level of NPA to Total Lending of Nabil Bank seems quite satisfactory. The level of NPA to Total Assets (TA), Total Deposit (TD) and Total Lending (TL) has been gradually decreasing every year. At the end of fiscal year (F/Y) 2058/59 the level of NPA to TA, TD and TL was 3.16%, 3.59% and 7.14% respectively which decreased in fiscal year 2059/60 was 2.71%, 3.34% and 5.54%, continuously further decreased in F/Y 2060/61 of NPA to TA, TD and

TL was 1.71%, 2.03% and 3.35%. It stands on 0.84%, 0.99% and 1.32% in F/Y 2061/62 and came down NPA to TA, TD and TL at 0.82%, 0.94% and 1.37% till the end of F/Y 2062/63 respectively. This result indicates that NPA is acceptable that the bank has giving attempt and supervises its NPA regularly. It is encouraging NPA level and no alarming situation regarding it.

The level of NPA to Total Lending of Nepal Investment Bank seems much satisfactory. The level of NPA to Total Assets (TA), Total Deposit (TD) and Total Lending (TL) has been slightly decreasing and increasing every year. At the end of fiscal year (F/Y) 2058/59 the level of NPA to TA, TD and TL was 2.62% 3.12% and 4.80% respectively which decreased in fiscal year 2059/60 was 1.30%, 1.48% and 1.98%. But it slightly increased in F/Y 2060/61 to 2061/62 was 1.37%, 1.57% and 2.47% of NPA to TA, TD and TL upto 1.72%, 1.97% and 2.68% respectively. It declined at 1.28%, 01.44% and 2.07% till the end of F/Y 2062/63 respectively. This result indicates that NPA decrement from F/Y 2058 to 2063 on periphery of 2% that the Bank has giving attempt, keep continuing and supervises its NPA frequently. The decreasing trend of NPA to its marginal level is quite encouraging in this bank. The important assessment to be derived here is that the bank progressed rapidly after their coming into operation under Nepalese Management, whatever they took over the management the NPA stood 4.80% in 2002 but it remains at 2.07% in 2006. The level of NPA to Total Lending of Everest Bank seems more satisfactory than all of other banks. The level of NPA to Total Assets (TA), Total Deposit (TD) and Total Lending (TL) has been slightly decreasing and increasing every year. At the end of fiscal year (F/Y) 2058/59 the level of NPA to TA, TD and TL was 0.64%, 0.77% and 1.04% respectively which slightly increased in fiscal year 2059/60 was 1.38%, 1.66% and 2.20%, but it continuously further decreased of NPA to TA, TD and TL at the end of F/Y 2060/61 was 1.09%, 1.29% and 1.72%. It declined and stands on 1.09%, 1.28% and 1.63% in F/Y 2061/62 and came down of NPA to TA, TD and TL at 0.81%, 0.94% and 1.27% till the end of F/Y 2062/63 respectively. The small fluctuation in the

level of NPA towards the marginal level is not so serious. This result indicates that NPA is fully acceptable that the Bank has giving attempt, keep regularly and supervises its NPA.

The level of NPA to Total Lending of Bank of Kathmandu seems more satisfactory. The level of NPA in Total Assets (TA), Total Deposit (TD) and Total Lending (TL) has been gradually decreasing every year. At the end of fiscal year (F/Y) 2058/59 the level of NPA to TA, TD and TL was 6.24%, 6.93% and 8.11% respectively which reduced in fiscal year 2059/60 was 5.65%, 6.82% but slightly increased to 8.67% of NPA to TA, TD and TL, continuously further decreased in F/Y 2060/61 was 4.21%, 25.17% and 6.66%. It remained of NPA to TA, TD and TL on 3.13%, 3.45% and 4.99% in F/Y 2061/62 and came down at 1.66%, 1.94% and 1.72% till the end of F/Y 2062/63 respectively. This result indicates that NPA is acceptable that the bank has giving attempt and supervises its NPA regularly. Till the date of study, it concluded that the bank is cautious of managing its loan in prudent manner.

The level of NPA to Total Lending of Machhapuchchhre Bank seems quite satisfactory. The level of NPA to Total Assets (TA), Total Deposit (TD) and Total Lending (TL) has been gradually decreasing every year. At the end of fiscal year (F/Y) 2058/59 the level of NPA to TA, TD and TL was high value 6.44%, 7.14% and 10.45% respectively which decreased in fiscal year 2059/60 was 1.30%, 1.75% and 2.08%, continuously further decreased in F/Y 2060/61 of NPA to TA, TD and TL was 0.72%, 0.91% and 1.09%. It stands on 0.31%, 0.36% and 0.99% in F/Y 2061/62 and came down NPA to TA, TD and TL at 0.19%, 0.21% and 0.27% till the end of F/Y 2062/63 respectively. This result indicates that NPA is acceptable that the bank has giving attempt and supervises its NPA regularly. MBL seems to implement the directive of NRB in prudent manner and indicates that there is good corporate governance in the bank.

NRB as supervisory and regulatory authority of Nepalese Banking Sector has issued directive regarding the outstanding loan and advances of the bank. According to this directive, a bank has to maintain the provision against the classification of its loan. The directive has made provision of 1 percent against Pass Loan, 25 percent against Substandard Loan, 50 percent against Doubtful Loan and 100 percent against Bad Loan. The loan loss provisions made by both of the Sample Banks are enough till the date of study. This result concludes that there is good compliance on average of NRB directive in all of the banks.

## **5.2 Conclusion**

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

The heart of this study is that the high degree of negative correlation of the banks between the NPA and ROA or NPA and ROE indicates towards the inverse relation between NPA and ROA or NPA and ROE. It means that the level of NPA effect the ROA and return on ROE. That is why it is always necessary to reduce the level of NPA to increase the ROE and ROA. The true fact that should always keep in mind by the banks is, reducing the level of NPA, maintains your sound financial health. And we believed from the above data that Nepalese bankers could easily handle their management very well.

## **5.3 Recommendations**

The high level of NPA is the symptom of communicable disease to the banks. It has widespread effects to the bank's transaction. Unless the level of NPA is

reduced, the bank neither can distribute bonus to the staff nor can give dividend to the shareholders and pay the interest to the primary depositors. In short it decreases the profitability of the banks. Therefore some recommendations are made as follows to reduce the level of NPA in the banks.

**i. Enough staff and Good Corporate Structure**

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

**ii. Assessment of the Projects and Valuation of the Collateral**

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

**iii. Efficient Management and Corporate Governance**

Well-trained and professional managers can handle the functions of loan in good way. Having the power to oversee the market risk and analyze future trend of the business; their own or client's, can manage the loan in well productive way. So training is need for existing managers and staffs and new manpowers that can tackle with such challenges should be introduced to the banks. Similarly, corporate governance also helps to manage the loan in sound way. The loan sanction without influence by the Executive chief or directors

and in real ground can give good return to the bank. Similarly, the internal auditor should fairly point out the errors committed by the directors or executives of the banks.

**iv. Compliance to the Legal and Regulatory Provision**

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

**v. Need for Credit Risk Management and Risk Focused Supervision**

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

**vi. Need for Proper Risk Mitigation on Creamy Projects**

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

**vii. Need for Proper NPA Management**

The high level of NPA in the country is still in alarming level. It is the not only the problem of an individual bank but also for the whole nation. Therefore, the

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

#### **viii. Miscellaneous**

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

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

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

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

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	7.14	1.54	10.9956	50.9796	2.3716
2059/60	5.54	2.51	13.9054	30.6916	6.3001
2060/61	3.35	2.72	9.112	11.2225	7.3984
2061/62	1.32	3.02	3.9864	1.7424	9.1204
2061/63	1.37	2.85	3.9045	1.8769	8.1225
Total	X=18.72	Y=12.64	XY=41.9039	X <sup>2</sup> =96.513	Y <sup>2</sup> =33.313

Here, No. of Variables = n

$$n = 5, \quad x = 18.72, \quad Y = 12.64, \quad XY = 41.9039, \quad X^2 = 96.513, \quad Y^2 = 33.313$$

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \times \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times 41.9039 - 18.72 \times 12.64}{\sqrt{5 \times 96.513 - (18.72)^2} \times \sqrt{5 \times 33.313 - (12.64)^2}} \\
 &= \frac{209.5195 - 236.6208}{\sqrt{482.565 - 350.4384} \times \sqrt{166.565 - 159.8696}} \\
 &= \frac{-27.1013}{\sqrt{132.1266} \times \sqrt{6.7954}} \\
 &= \frac{-27.1013}{11.4946 \times 2.61} = \frac{-27.1013}{29.9889}
 \end{aligned}$$

$$r = -0.9037$$

The Coefficient of determination  $r^2 = (-0.9037)^2 = 0.8167$

$$P.E (r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.8167}{\sqrt{5}}$$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{0.1833}{2.236} \\
 &= 0.6745 \times 0.082 = 0.0553
 \end{aligned}$$

**7. Calculation Correlation of Coefficient Between NPA to Total Lending and ROE of Nabil:**

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

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	7.14	23.69	169.1466	50.9796	561.2162
2059/60	5.54	31.67	175.4518	30.6916	1002.9889
2060/61	3.35	30.73	102.9455	11.2225	944.3329
2061/62	1.32	31.29	41.3028	1.7424	979.0641
2061/63	1.37	33.81	46.3197	1.8769	1143.1161
Total	X = 18.72	Y = 151.19	XY = 535.1664	X <sup>2</sup> = 96.513	Y <sup>2</sup> = 4630.7181

Here, No. of Variables = n

n = 5, x = 18.72, Y = 151.19, XY = 535.1664, X<sup>2</sup> = 96.513, Y<sup>2</sup> = 4630.7181

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \times \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times 535.1664 - 18.72 \times 151.19}{\sqrt{5 \times 96.513 - (18.72)^2} \times \sqrt{5 \times 4630.7181 - (151.19)^2}} \\
 &= \frac{209.5198 - 282.6208}{\sqrt{482.565 - 350.4384} \times \sqrt{23153.5905 - 22858.4161}} \\
 &= \frac{-154.4448}{\sqrt{132.1266} \times \sqrt{295.1744}} \\
 &= \frac{-154.4448}{11.4946 \times 17.1806} = \frac{-154.4448}{197.4841}
 \end{aligned}$$

$$r = -0.782$$

The Coefficient of determination  $r^2 = (-0.782)^2 = 0.6115$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.6115}{\sqrt{5}} \\
 P.E.(r) &= 0.6745 \times \frac{0.3885}{2.236} = 0.6745 \times 0.1737 = 0.1171
 \end{aligned}$$

#### 6. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Nepal Investment Bank Ltd. (NIBL)

Solution,

Where X denotes NPA to Total Lending and Y denotes ROA

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	4.80	1.15	5.52	23.04	1.3225
2059/60	1.98	1.29	2.5542	3.9204	1.6641
2060/61	2.47	1.15	2.8405	6.1009	1.3225
2061/62	2.68	1.43	3.8324	7.1824	2.0449
2061/63	2.07	1.64	3.3948	4.2849	2.6896
Total	X = 14	Y = 6.66	XY = 18.1456	X <sup>2</sup> = 44.5286	Y <sup>2</sup> = 9.0436

Here, No. of Variables = n

Here, n = 5, x = 14, Y = 6.66, XY = 18.1456, X<sup>2</sup> = 44.5286, Y<sup>2</sup> = 9.0436

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \times \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times 18.1456 - 14 \times 6.66}{\sqrt{5 \times 44.5286 - (14)^2} \times \sqrt{5 \times 9.0436 - (6.66)^2}} \\
 &= \frac{209.5195 - 236.6208}{\sqrt{482.565 - 350.4384} \times \sqrt{23153.5905 - 22858.4161}} \\
 &= \frac{90.728 - 93.24}{\sqrt{222.643 - 196} \times \sqrt{45.218 - 44.3556}} \\
 &= \frac{-2.512}{\sqrt{26.643} \times \sqrt{0.8624}} = \frac{-2.512}{5.1616 \times 0.9286} = \frac{-2.512}{4.793}
 \end{aligned}$$

$$r = -0.524$$

The Coefficient of determination  $r^2 = (-0.524)^2 = 0.275$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.275}{\sqrt{5}}
 \end{aligned}$$

$$P.E.(r) = 0.6745 \times \frac{0.725}{2.236} = 0.6745 \times 0.324 = 0.2185$$

## 7. Calculation Correlation of Coefficient Between NPA to Total Lending and ROE of NIBL

Where X denotes NPA to Total Lending and Y denotes ROE

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	4.80	10.91	52.368	23.04	119.0281

2059/60	1.98	18.29	36.2142	3.9204	334.5241
2060/61	2.47	20.94	51.7218	6.1009	438.4836
2061/62	2.68	19.67	52.7156	7.1824	386.9089
2061/63	2.07	24.76	51.2532	4.2849	613.0576
Total	<b>X = 14</b>	<b>Y = 94.57</b>	<b>XY = 244.2728</b>	<b>X<sup>2</sup> = 44.5286</b>	<b>Y<sup>2</sup> = 1892</b>

Here, No. of Variables = n

Here, n = 5,  $\Sigma X = 14$ ,  $\Sigma Y = 94.57$ ,  $\Sigma XY = 244.2728$ ,  $\Sigma X^2 = 44.5286$ ,  $\Sigma Y^2 = 1892$

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \Sigma XY - \Sigma X \times \Sigma Y}{\sqrt{n \times \Sigma X^2 - (\Sigma X)^2} \sqrt{n \times \Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 244.2728 - 14 \times 94.57}{\sqrt{5 \times 44.5286 - (14)^2} \times \sqrt{5 \times 1892 - (94.57)^2}} \\
 &= \frac{1221.364 - 1323.98}{\sqrt{222.643 - 196} \times \sqrt{9460 - 8943.4836}} \\
 &= \frac{-102.616}{\sqrt{26.643} \times \sqrt{516.5164}} = \frac{-102.616}{5.1616 \times 22.727} = \frac{-2.511}{117.31}
 \end{aligned}$$

$$r = -0.875$$

The Coefficient of determination  $r^2 = (-0.875)^2 = 0.766$

$$\begin{aligned}
 P.E (r) &= 0.6745 \times \frac{1 - r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1 - 0.766}{\sqrt{5}}
 \end{aligned}$$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{0.234}{2.236} \\
 &= 0.6745 \times 0.1046 = 0.070
 \end{aligned}$$

**6. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Everest Bank Ltd. (EBL)**

Solution,

Where X denotes NPA to Total Lending and Y denotes ROA

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	1.04	1.24	1.3416	1.0816	1.6641
2059/60	2.20	1.17	2.574	4.84	1.3689
2060/61	1.72	1.49	2.5628	2.9584	2.2201
2061/62	1.63	1.45	2.3635	2.6569	2.1025
2061/63	1.27	1.47	1.8669	1.6129	2.1609
Total	<b>X = 7.86</b>	<b>Y = 6.87</b>	<b>XY = 10.7068</b>	<b>X<sup>2</sup> = 13.1498</b>	<b>Y<sup>2</sup> = 9.5165</b>

Here, no of Variables = n

Here, n = 5,  $\bar{x} = 7.86$ ,  $\bar{y} = 6.87$ ,  $\sum XY = 10.7068$ ,  $\sum X^2 = 13.1498$ ,  $\sum Y^2 = 9.5165$

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \times \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times 10.7068 - 7.86 \times 6.87}{\sqrt{5 \times 13.1498 - (7.86)^2} \times \sqrt{5 \times 9.5165 - (6.87)^2}} \\
 &= \frac{-0.4542}{\sqrt{3.9694} \times \sqrt{0.3856}} = \frac{-0.4542}{1.9923 \times 0.6209} = \frac{0.4542}{1.237}
 \end{aligned}$$

$$r = -0.367$$

The Coefficient of determination  $r^2 = (-0.367)^2 = 0.1347$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.1347}{\sqrt{5}} \\
 P.E.(r) &= 0.6745 \times \frac{0.8653}{2.236} \\
 &= 0.6745 \times 0.387 \\
 &= 0.261
 \end{aligned}$$

**7. Calculation Correlation of Coefficient Between NPA to Total Lending and ROE of EBL**

Where X denotes NPA to Total Lending and Y denotes ROE

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	1.04	16.07	16.7128	1.0816	258.2449
2059/60	2.20	15.36	33.792	4.84	235.9296
2060/61	1.72	21.10	36.292	2.9584	445.21
2061/62	1.63	22.19	36.1697	2.6569	492.3961
2061/63	1.27	24.64	31.2928	1.6129	607.1296
Total	<b>X = 7.86</b>	<b>Y = 99.36</b>	<b>XY = 154.2593</b>	<b>X<sup>2</sup> = 13.1498</b>	<b>Y<sup>2</sup> = 2038.9102</b>

Here, No. of Variables = n

Here, n = 5,  $\bar{x} = 7.86$ ,  $\bar{y} = 99.36$ ,  $\sum XY = 154.2593$ ,  $\sum X^2 = 13.1498$ ,  $\sum Y^2 = 2038.9102$

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \times \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times 154.2593 - 7.86 \times 99.36}{\sqrt{5 \times 13.1498 - (7.86)^2} \times \sqrt{5 \times 2038.9102 - (99.36)^2}} \\
 &= \frac{-9.6731}{\sqrt{3.9694} \times \sqrt{322.1414}} = \frac{-9.6731}{1.9923 \times 17.9482} = \frac{-9.6731}{35.7582}
 \end{aligned}$$

$$r = -0.2705$$

The Coefficient of determination  $r^2 = (-0.2705)^2 = 0.073$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.073}{\sqrt{5}} \\
 P.E.(r) &= 0.6745 \times \frac{0.927}{2.236} \\
 &= 0.6745 \times 0.4145 \\
 &= 0.2795
 \end{aligned}$$



**6. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Bank of Kathmandu Ltd. (BOK)**

Solution,

Where X denotes NPA to Total Lending and Y denotes ROA

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	8.11	0.15	1.2165	65.7721	0.0225
2059/60	8.67	1.10	9.537	75.1689	1.21
2060/61	6.66	1.34	11.6044	74.9956	1.7956
2061/62	4.99	1.42	7.0858	24.9001	12.0164
2061/63	2.72	1.65	4.488	7.3984	2.7225
Total	X = 31.15	Y = 5.66	XY = 33.9317	X <sup>2</sup> = 248.2351	Y <sup>2</sup> = 7.767

Here, No. of Variables = n

Here, n = 5, X = 31.15, Y = 5.66, XY = 33.9317, X<sup>2</sup> = 248.2351, Y<sup>2</sup> = 7.767

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy}(r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times 33.9317 - 31.15 \times 5.66}{\sqrt{5 \times 248.2351 - (31.15)^2} \times \sqrt{5 \times 7.767 - (5.66)^2}} \\
 &= \frac{-6.6505}{\sqrt{270.853} \times \sqrt{6.7994}} = \frac{-6.6505}{16.4576 \times 2.6076} = \frac{-6.6505}{142.9148}
 \end{aligned}$$

$$r = -0.155$$

The Coefficient of determination  $r^2 = (-0.155)^2 = 0.024$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.024}{\sqrt{5}} \\
 P.E.(r) &= 0.6745 \times \frac{0.976}{2.236} \\
 &= 0.6745 \times 0.436 \\
 &= 0.294
 \end{aligned}$$

**7. Calculation Correlation of Coefficient Between NPA to Total Lending and ROE of BOK**

Where X denotes NPA to Total Lending and Y denotes ROE

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	8.11	1.78	14.4358	65.7721	3.1684
2059/60	8.67	14.18	122.9406	75.1689	201.0724
2060/61	6.66	19.59	130.4694	74.9956	383.7681
2061/62	4.99	19.36	96.6064	24.9001	374.8096
2061/63	2.72	24.11	65.5792	7.3984	581.2921
Total	<b>X = 31.15</b>	<b>Y = 79.02</b>	<b>XY = 430.0314</b>	<b>X<sup>2</sup> = 248.2351</b>	<b>Y<sup>2</sup> = 1544.1106</b>

Here, No. of Variables = n

Here, n = 5,  $\Sigma X = 31.15$ ,  $\Sigma Y = 79.02$ ,  $\Sigma XY = 430.0314$ ,  $\Sigma X^2 = 248.2351$ ,  $\Sigma Y^2 = 1544.1106$

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \Sigma XY - \Sigma X \times \Sigma Y}{\sqrt{n \times \Sigma X^2 - (\Sigma X)^2} \sqrt{n \times \Sigma Y^2 - (\Sigma Y)^2}} \\
 &= \frac{5 \times 430.0314 - 31.15 \times 79.02}{\sqrt{5 \times 248.2351 - (31.15)^2} \times \sqrt{5 \times 1544.1106 - (79.02)^2}} \\
 &= \frac{-311.316}{270.853 \times \sqrt{1476.3926}} = \frac{-311.316}{16.4576 \times 38.4238} = \frac{-311.316}{632.3635}
 \end{aligned}$$

$$r = -0.4923$$

The Coefficient of determination  $r^2 = (-0.4923)^2 = 0.2423$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.2423}{\sqrt{5}}
 \end{aligned}$$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{0.7577}{2.236} \\
 &= 0.6745 \times 0.3389 \\
 &= 0.2286
 \end{aligned}$$

**6. Calculation of Correlation Coefficient Between NPA to Total Lending and ROA of Machhapuchchhre Bank Ltd. (MBL)**

Solution,

Where X denotes NPA to Total Lending and Y denotes ROA

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	10.45	-3.83	-40.0235	109.2025	14.6689
2059/60	2.08	0.64	1.3312	4.3264	0.4096
2060/61	0.98	1.35	1.323	0.9804	1.8225
2061/62	0.39	1.31	0.1509	0.1521	1.7161
2061/63	0.27	1.48	0.3996	0.0729	2.1904
Total	<b>X = 14.17</b>	<b>Y = 0.95</b>	<b>XY = -36.4588</b>	<b>X<sup>2</sup> = 114.7143</b>	<b>Y<sup>2</sup> = 20.8075</b>

Here, No. of Variables = n

Here, n = 5,  $\sum X = 14.17$ ,  $\sum Y = 0.95$ ,  $\sum XY = -36.4588$ ,  $\sum X^2 = 114.7143$ ,  $\sum Y^2 = 20.8075$

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \times \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times (-36.4588) - 14.17 \times 0.95}{\sqrt{5 \times 114.7143 - (14.17)^2} \times \sqrt{5 \times 20.8075 - (0.95)^2}} \\
 &= \frac{-195.7555}{\sqrt{372.7826} \times \sqrt{103.135}} = \frac{-195.7555}{19.3075 \times 10.1555} = \frac{-195.7555}{196.0773}
 \end{aligned}$$

$$r = -0.9983$$

The Coefficient of determination  $r^2 = (-0.9983)^2 = 0.9966$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{1 - r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1 - 0.9966}{\sqrt{5}} \\
 P.E.(r) &= 0.6745 \times \frac{0.0034}{2.236} \\
 &= 0.6745 \times 0.0015 \\
 &= 0.001
 \end{aligned}$$

## 7. Calculation Correlation of Coefficient Between NPA to Total Lending and ROE of MBL

Where X denotes NPA to Total Lending and Y denotes ROE

Fiscal Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2058/59	10.45	- 53.24	- 556.358	109.2025	2834.4976
2059/60	2.08	3.05	6.344	4.3264	9.3025
2060/61	0.98	8.42	8.2516	0.9804	70.8964
2061/62	0.39	13.31	5.1909	0.1521	117.1561
2061/63	0.27	14.39	3.8853	0.0729	207.0721
Total	<b>X = 14.17</b>	<b>Y= -14.07</b>	<b>XY= -532.6862</b>	<b>X<sup>2</sup> = 114.7143</b>	<b>Y<sup>2</sup> = 3298.9247</b>

Here, no of Variables = n

Here, n = 5, x = 14.17, Y = -14.07, XY = -532.6862, X<sup>2</sup> = 114.7143, Y<sup>2</sup> = 3298.9247

Now, Correlation Coefficient Between X and Y

$$\begin{aligned}
 R_{xy} (r) &= \frac{n \times \sum XY - \sum X \times \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \times \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times (-532.6862) - 14.17 \times (-14.07)}{\sqrt{5 \times 114.7143 - (14.17)^2} \times \sqrt{5 \times 3298.9247 - (-14.07)^2}} \\
 &= \frac{-2464.0591}{\sqrt{372.7826} \times \sqrt{16296.6586}} = \frac{-2464.0591}{19.3075 \times 127.6584} = \frac{-2464.0591}{2464.7773}
 \end{aligned}$$

$$r = -0.9997$$

The Coefficient of determination  $r^2 = (-0.9997)^2 = 0.9994$

$$\begin{aligned}
 P.E.(r) &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.9994}{\sqrt{5}} \\
 P.E.(r) &= 0.6745 \times \frac{0.0006}{2.236} \\
 &= 0.6745 \times 0.00026 \\
 &= 0.000175
 \end{aligned}$$