## CHAPTER – ONE

## INTRODUCTION

### 1.1 General Background of the Study.

One of the major concerns of the nation is to accelerate their development process and thereby increase the welfare of the people. So this is apparent that among the various components for economic progress, Financial Institutions plays vital role. Basically it works as financial intermediary by taking deposit and lending that money to deficit group of society. Investment activities drive the economy condition of the country. The more investment to the productive sector the more overall economic growth is achieved.

Financial institutions play intermediary role for mobilization of fund from non-productive sector to more productive sector. Major function of bank is to invest the money or depositor in such a project, which generates more net present value to bank. Further banks provide various facilities to entrepreneur to smoothen their business. Banks have made the possible to consume a product in Nepal, which has been made in other part of the world. For example, to export and import, the letter of credit (L/C) has been transacted through commercial banks.

After economic liberalization in country banking sector has face significant changes. Huge amount of direct investment has been made in banking sector. Economic liberalization has enabled the country to start several commercial banks. Before this Nepal had very few banks, which were rendering financial services but it was not sufficient to fulfill the requirement of that time. After economic liberalization the speed of economic growth has been recorded high. In one hand the open market system has brought cutthroat competition in banking sector and in other hand banks are still busy to cartel in exchange rate through informal organization like Foreign Exchange Dealers Association of Nepal (FEDAN) and customer are still deprive of getting benefit of open market.

Bank lower part of balance sheet consists of assets of bank, which generally consist of some liquid assets, some short-term call money, some investments, some fixed assets and the major portion of total assets is consist of loan and advances.

Total assets of bank can be divided in to two parts performing assets and non-performing assets. Performing assets are those assets which direct generates cash to organization or indirectly helps to generate cash of it facilitates the set ups for quality and quantity productivity. Loan and advances is direct contributor to banks income whereas cash in vault, balance in other bank, fixed assets and other assets are the facilitators which helps the daily operation of bank, Performing assets and positive value to bank as well as to Nation.

Non-performing assets refers to that portion of bank assets which is not generating cash to bank. Accumulated loss, Non-banking assets and non-performing loan are some example of non-performing assets. Non-performing loan is such loan, which fails to pay its interest to bank with in stipulated time. Non-performing loan has negative impact in banks growth as well as in economic growth. In one hand it stops the interest earnings of banks and in other hand it causes the bank to make certain percent provision (for possible loss of principle) from the operating profit. Increasing non-performing loan has impact on banks profitability.

## 1.2 Focus of the study

A country's prosperity largely depends upon the economic activities of that country and the financial institution play a vital role to smoothen the economic activities. There is a perfect positive correlation between the economic growth of a country and the exercise of different financial instrument of that country. In contest of Nepal, commercial banks are the pioneer and market dominant in respect of trade of capital market and security instruments. In the light of this statement we can say that the successful operation of commercial banks in inevitable for the economic development of Nepal in present scenario. The threat to the current Nepalese banks is the performance of their loan. The major portion of their investment is in lending sector and there is always a challenge to management to maintain their loan portfolio productive sufficient to operate bank successfully and pay reasonable return to their shareholders.

The current political scenario is instable and security has been major issue of country which was compelled the lots of manufacturing company to close down there business. This is not good symbol for banks because most of manufacturing company utilize bank loan to finance their current assets as well as for their long-term project. If the situation persists the borrower would not be able to repay their loan and interest in time, which obviously creates a big problem to the bank. Nepal Bangladesh Bank can be taken as an example for this situation. Nepal Rastra Bank has taken over the management of the bank due to non-recovery of their loan and large portion of non-performing loan. Further the bank is going to merge with Nepal Credit and Commerce Bank and Nepal Sri Lanka Merchant Bank. It is obvious that the good performance of loan is the only factor, which energizes the bank for overall development and long-term solvency. Therefore the mainly focuses on the performance of loan of Nepalese commercial banks which encompass through the analysis of performing and non-performing loan, cause and effects of the performance of loan to the overall profitability of the bank.

Increasing non-performing loan is the emerging problem of Nepalese commercial banks. The whole study covers different ratio analysis and other statistical analysis of selected commercial banks, which provides logical ground for determination of cause of non-performing loan. It also tries to show the effect of non-performing loan to total profitability of commercial banks. The total NPA of Nepalese commercial banks are growing rapidly and it is the main cause to failure of bank. In this study, the main causes of non-performing loan will be discussed, and a general recommendation to reduce them will be sighted.

### 1.3 Statement of Problem

Commercial bank being the financial institutions plays significant role by collecting deposit and lending these fund in the productive sectors as lending and investment. Economic development of the country is directly related to the volume of investment made and return obtained by the bank. Due to lack of experts to analyze the risk and return of investment and maintain optimum portfolio investment problem has become very serious for the least development country like Nepal.

Due to Maoist activity lots of infrastructures had been destroyed. Nepalese commercial banks have been facing the problem of investment in manufacturing sector. The loans are not serviced in time and there is a risk of non-recovery of principle as well, therefore most of commercial banks have switched its portfolio in less risky government securities and non-fund base loan like L/C. This has significant impact in economic growth. This has stopped economic activities in country causing reduction in Gross Domestic Product and declining employment opportunity. It impacts there may be social disorder in the country.

The credit extended by the commercial bank to agricultural and industrial sector is not satisfactory to meet the present need. Commercial banks have not been able to meet the needs of middle and lower class business yet. They are located only in urban areas and still there are a lot of operational hassles to sanction the loan. Nepotism and favoritism also effect the lending decision of the commercial bank, granting loan against insufficient collateral, overvaluation of pledged had and building, risk averting decision regarding loan recovery and negligence in recovery of overdue loan in some of the basic loopholes in Nepalese bank.

This study will be helpful to the bank to identity and solve some of its weakness and problem. In every organization the resources are sacred and out of these scares sources, the objectives of the organization are to be accomplished. Increase in revenue and control over expenditure significantly contributes to improve the profitability as well ass the over all financial performance of an organization by the help of the best utilization of resources.

Commercial banks investment has been found to lower productive due to the lack of supervision regarding whether there is poor utilization of their investment or not. Lack of farsightedness in policy formulating and absence of strong commitment towards its proper implementation has caused many problems to commercial banks. The guidelines in themselves are not sufficient unless properly implemented.

The rules and regulations are the only tools of NRB to supervise and monitor the financial institutions. Currently the banking sector is facing various problems one of them, the banking has been victims of non-performing loan. Due to instable political condition, insecurity and other factor industries of Nepal are closing down. Lending carries credit risk, which arises from the failure of borrower to fulfill its obligation within time.

Therefore the study will try to solve the confusion pertaining to identify the loan category for adequate provision according to latest guidelines of NRB and the study will further sights the analytical views towards the cause and effect of non-performing loan. This indeed will be beneficial for the professional working in this field and investor and shareholders who want to know the financial position of the bank.

**1.4 Objectives of study**

As sighted earlier the main threat to the commercial bank to Nepal is to reduce their non-performing loan and maintain the portfolio productive.

Thus the Primary objective of the study is to find out portion of non-performing loan of Nepalese commercial bank in their loan portfolio. Likewise it tries to sight the causes of NPL and remedies to reduce it. It further scrutinizes the impact of NPL to the profitability of banks.

Following general objectives can be point out for this study as follows

- Find out the cause of Non-performing loan of Nepalese commercial banks.
- Evaluate the proportion of Non-performing loan in total Assets, total deposit and total lending of commercial bank.
- Evaluate the relationship between loan and loan loss provision in the commercial bank.
- Present the trend of non-performing loan, loan loss provision in the Nepalese commercial banks.
- Analyze the impact of non-performing loan in the performance of commercial bank.

## 1.5 Significance of the study

The success and prosperity of bank depends upon the successful implementation of collected resources, which develops the economy of the country. Good lending of the bank has positive impact on economic development of the country and vice versa. Increasing non-performing loan is one of the challenges faced by commercial bank in the present context.

Several studies have been conducted regarding the financial performance of commercial bank of Nepal. Likewise deposit and loan pattern of Nepalese bank has also been studied by various researchers. Further there is numerous thesis arguing the risk and return on investment in the share of commercial banks. But less research has been made regarding the performance of loan of commercial bank among them most research has been conducted before the introduction of new NRB directives, which is not useful in present scenario. Some research covers the study of two big governments owned bank, which makes the study a general. This research will be different from all those research conducted earlier because it studies the non performing loan in middle class private commercial banks of the country. This study will be helpful to give some of the present issue, latest analysis regarding non-performing loan of commercial bank. Not only that this study gives the real picture of current non-performing loan of Nepalese commercial banks to its stakeholders.

The study is mainly concerned with the analysis of NPL in total assets, total deposit and total lending of different Nepalese commercial banks. Therefore, it has significant to find the level of NPL of Nepalese commercial bank. It is also significant to find out whether the Nepalese commercial banks maintaining loan loss provision in accordance with the current NRB directives or not.

## 1.6 Limitation of the study

The study focuses the sensitive part of the bank which resultants the management a little bit hesitation to come up with open view regarding the lending policy and provision method. Therefore the study has been conducted on the basis of annual reports of selected banks, published and unpublished material, NRB publications, and interview with the bankers and my personal judgment. Therefore the strength of findings will largely depend upon the correctness of input information. This research has following limitations

- This study is concerned only with non performing assets of Nepalese commercial banks it does not consider other aspects of bank

- Only commercial banks have been considered for the study and five banks have been selected as sample for the study. Hence, the finding may not be applicable to other financial Institution like Co operative and Finance Companies

- The period of study is limited to five years

- The findings of this study are based on historic data. The present scenario of non performing loan of selected banks may changed

- The study is basically based on secondary data, articles publications and journals of the respective banks. Hence, the findings will be in accordance of data.

**1.7 Organization Of the Study**

This proposal is prepared in line with prescribed format and structured into five chapters; each devoted to some aspects of Investment in shares of commercial banks. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

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

**Chapter - One**

The first chapter deals with the subject matter consisting introduction, background of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitations of the study and chapter scheme of the study.

**Chapter - Two**

The second chapter is mainly focused with the review of available literature in the field of the studies being conducted. This includes review of the concerned topics, review of supportive text, review of books, review of various empirical studies conducted inside and outside the country, review of related articles and review of legislation related to non-performing loans of commercial banks.

**Chapter -Three**

The third chapter describes the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.

**Chapter -Four**

The fourth chapter is concerned with analytical framework. It deals with the presentation, analysis, interpretation and scoring the empirical findings out of the study through definite course of research methodology. In this study, investment operations of commercial banks, risk and return on investment and test of portfolio performance are evaluated and mentioned. This chapter also contains major finding of the study.

**Chapter -Five**

The final chapter five includes the major finding and conclusion of the study, which deals about the main theme of study. It is conclusive and suggestive chapter including the main findings and recommendation for improvement. This chapter deals about the main themes of the study and gives recommendations for the improvement in loan quality of the listed banks.

At last, appendixes and bibliography have also been included according to the use of study.

# CHAPTER -TWO

# REVIEW OF LITERATURE

## 2.1 Background of the Chapter

This chapter provides some ideas on the literature that is related to this particular topic. Especially it covers a comprehensive review of the published and unpublished work by academician and scholars.

Literature review is basically a "Stock Taking" of available literature in one's field of research. The literature survey, thus, provides us with the knowledge of the status of their field of research. Therefore, this chapter has its own importance in the study (Kothari, 1990: 10).

This chapter includes the review of previous studies, articles, and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and review of some related materials should be dealt with to give the research a clear vision. Past study knowledge provides foundation to the present study.

The study is quite new in Nepalese context. Very few published material are available to the person/organization interested to know about the non-performing loan of Nepalese commercial banks. Since it covers the analysis of till year 2007 it would be the latest research in this field. In order to avoid the duplication on the study and provide continuity to the previous study, published and unpublished material has been reviewed, likewise internet surfing has made a great contribution to this study. Further central bank guidelines regarding the non-performing loan have also been review to understand the deep knowledge of it.

So analyzing & presenting the following parts define this chapter:

- Conceptual/Theoretical review
- Review of related studies

## 2.2 Conceptual/ Theoretical Review

### 2.2.1 Commercial Banking at a Glance

The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. In the process of such intermediation, commercial bank plays funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance. According to commercial Bank Act 2031, “commercial banks are those banks which are established under this act to perform commercial function.” The commercial banks pool together the savings of the community and arrange for their productive use. They supply financial needs of modern business.

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confidence of various segments and extends credit to people.”

These banks are established to improve people’s economic welfare and facility, to provide loan to offer banking services to the people and the country. It provides internal resources for developing countries economic. It collects diversified capital from different parts of country through its own branches.

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.”

The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

#### 2.2.1.1 Commercial Bank

Bank can be defined according to the function they performed. Bank established with prime objective of profit maximization. To achieve this, Bank performs various functional activities.

“Principally, commercial bank accepts, deposits, provides loan, primarily to business firms there by facilitating the transfer of funds in the economy”.

However, in the previous years, banks were viewed as acceptor of deposits and provider of loan but modern commercial banks have to perform for overall development of trade commerce, industry, agriculture, including priority and dependent upon banking. So, we do not have doubt to say that the main objective of commercial banks is to earn profit by performing various functions.

Following are the main function performed by the commercial banks.

1) **Accepting Deposits.**

The main function of commercial bank is to accept deposits from the public in different types of deposits account. Generally a bank accepts deposit in three forms namely – saving, current and fixed deposits.

a) **Current deposits**

The account in which any amount can be deposited and withdrawn at any time is known as current account. In this account, banks do not give interest to the account holder. These days, the bank under this account as per their own rule has determined minimum limit of deposit.

b) **Saving deposits**

Saving account is managed to collect the small savings of people. This account can be opened with nominal amount. The main purpose of this account is to promote the saving habit of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. Bank provides nominal rate of interest in this account.

**c) Fixed Deposit**

A fixed deposit is one where a customer required keeping a fixed account with the bank for a specific period of time providing higher rate of interest. Amount cannot be withdrawn from bank before the expiry of time. The banker knows the time when the bank is free to make use of this money for granting loans and advance. In case of emergency, he is permitted to borrow money on the security of his fixed deposit account holder can take loan against the security deposit of it paying 2% extra interest.

**2) Advancing Loans**

The second major function of commercial bank is to provide loans and advances from the money, which receives by the way of deposits. Direct loans and advances are given to all types of persons against the security of movable and immovable properties. The banks in the following forms grant the loans;

**a) Overdraft**

An overdraft is an arrangement by which the customer is allowed to overdraw his account against some collateral security. The customer is charged interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft sanctioned to him by the bank.

**b) Cash Credit**

Cash credit is provided against the security of goods or personal security. The amount of the loan is credited to the current account of the borrower. The borrower can withdraw money through the cheques according to his requirements. But he has to pays interest on the full loaned amount.

**c) Direct Loans**

The banks against the security of movable or immovable assets provide direct loans. The borrowers are required to pay interest on the entire amount of loan sanctioned from the date of taking the loan to the date of repayment.

**d) Discounting Bills of Exchange**

If a creditor holding a bill of exchange wants money immediately, the bank provides him money by discounting bill of exchange. It deposited the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtors who accepted the bill.

**3) Agency Service**

Banks also provide the number of services on the behalf of its customers. A commercial bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheques, bills, promissory notes, draft, salaries, pensions, dividends, interest etc on behalf of the customers. It also acts as a correspondent or representative of its customers, other banks and financial corporations.

**4) Credit creation**

The most important function of the commercial banks is to create credit. In order to earn profits, they accept deposits and advance loans by keeping small cash in reserve for day to day transactions. When a bank advances a loan, it opens an account to draw money by cheque according to his needs. By providing the loans to different persons or business firm, the bank creates credit.

**5) General utilities services**

Apart from agency services, the commercial bank also provides some other useful services, which are known as general utility services. They can be explained as follows.

**a) Assist in foreign trade**

The Bank assists these traders who are engaged in foreign trade. He discounted the bill of exchange drawn by Nepalese exporter on the foreign importers and enables the exporters to receive money in the home currency. Similarly he also accepts the bills drawn by foreign exporters.

**b) Safekeeping of Valuables**

The bank receives valuables such as securities jewellery, documents of title to goods etc., from its customers for safe custody. The bank acts as the custodian of the valuables belonging to the customers. He receives them and returns them bank when demanded.

**c) Making Venture Capital Loans**

Banks have become active in financing the start-up costs of new companies, particularly in high-tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company, and other investors are often brought in to share the risk.

**d) Offers Security Brokerage Service**

At present, financial marketplace, many banks are striving to become true "financial super market" – offering a sufficiently wide array of financial services to permit customers to meet all of their financial needs at one location. Because of this reason, banks began to market security brokerage. Services offering customers get an opportunity to buy stocks, bonds and other securities without having to go to security dealer.

**e) Financial Advising**

Bankers have long been asked for financial advised by their customers, mainly when it comes to the use of credit and the saving or investing of funds. Many banks offer very useful financial advisory services, from helping financial to consulting to business managers and checking on the credit standing of firms.

**f) Offering Investment Banking and Merchant Banking Services**

Today Banks are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing, advice, and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

### 2.2.1.2 Commercial bank at a glance

(Nepal Rastra Bank's Website: WWW.nrb.org.)
The number of commercial bank branches operating in the country in Mid-July 2007 totaled 546, of which 435 belonged to 25 commercial banking activities. The regional distribution of these banks seemed to be much skewed. Of the total bank branches, 195 branches are being operated in the central development region, followed by eastern development region (96) and western development region (88). Only 32 and 24 branches are being operated in the mid-western and far-western development region respectively.

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. 411033.7 million in mid-July 2005 and to Rs. 428706.2 million in mid-July 2006. It expanded on an average 14.43 per cent per annum during 2000-2005 and increased by 4.29 per cent in mid-July 2005. Loans and advances remained major component in total assets of the commercial banks during 2000-2006. However, the share of loans and advances in total assets declined in recent years. The total loans and advances as per cent of total assets was 46.0 per cent in mid-July 2000. It reached to 39.83 per cent in mid-July 2005 and 41.25 per cent in mid-July 2006. Similarly, the share of liquid funds in total assets declined in the period 2000-06. It dropped to 9.3 per cent in mid-July 2005 and from 23.0 per cent in mid-July 2000. It slightly increased

9.06 per cent in mid-July 2006. Unlike the loans and advances and liquid funds, the share of investments in total assets increased in the same period. It increased to 14.64 per cent in mid-July 2005 from 8.6 per cent in mid-July 2000 and increased to 19.16 per cent in mid-July 2006.

Deposit liabilities held almost two third of the total liabilities over the period 2000-06. Deposits reached to Rs. 291245.5 million in mid-July 2006 from Rs. 252409.8 million in mid-July 2005, with an increase of 15.38 per cent. However, deposits as a per cent of total liabilities declined in recent years. It came down to 67.93 per cent in mid-July 2006 whereas this figure stood at 80.61 per cent in mid-July 2005 and 74.0 per cent in mid-July 2000.

Analysis of the components of deposits revealed that saving deposits, with increasing trend, held major share in total deposits. In mid-July 2006, saving deposits gripped 52.06 per cent on total deposits followed by current deposits 12.83 per cent, fixed deposits 26.29 per cent, and call deposits 8 per cent and other deposits 1 per cent. All components of deposits experienced healthy growth rate during 2000-05. Call deposits grew with the highest average rate of 36.6 per cent followed by saving deposits 14.62 per cent, current deposits 11.26 per cent and fixed deposits 1.6 per cent during last 5 years. As compared to the figures of mid-July 2005, current deposits increased by 7.90 per cent, saving deposits by 16.65 per cent, fixed deposits increased by 13.74 per cent and call deposits by 28.50 per cent in mid-July 2006.

Borrowings accounted only 2.2 per cent of total liabilities in mid-July 2006. With an increase of 39.11 per cent, it reached to Rs. 9519.6 million in mid-July 2006 from Rs. 6842.9 million in mid-July 2005. It expanded with an annual growth rate of 16.9 per cent over the past five years .This growth rate is lower than the average growth rates of deposit and total liabilities of the same periods

Liquid funds increased by 1.23 per cent and reached to Rs. 38842 million in mid-July 2006 from Rs. 38369.4 million in mid-July 2005. Liquid fund was Rs. 48240.0 million in mid-July 2000. On an average it declined at the rate of 4.48 per cent per annum during 2000-05. On the other hand, investments increased by 36.54 per cent and reached to Rs. 82173.5 million. In mid-July 2006 from Rs. 60181 million in mid-July 2005.

Growth of total loan and advances remained moderate in the last five and half years. Total loans and advances registered an average growth rate of 11.19 per cent per annum during 2000-05 and reached to Rs. 163718.8 million in mid-July 2005 from Rs. 96324.9 million in mid-July 2000. With an increase of 8 per cent, the outstanding amount of loan and advances in mid-July 2006 reached to Rs. 176820 million. Loans to private sector always dominated on the overall outstanding figure of loan and advances. Of the total outstanding loans and advances of Rs. 176820.2 million, 95.23 per cent was allocated to private sector, 2.12 per cent to Government enterprises, 1.19 per cent to bills purchased and discount, and 0.02 per cent to against bills collection in mid-July 2006.

Major portion of 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. 56432.2 million (31.95 per cent of total loans and advances) and credit to wholesale and retail business was Rs. 35073.6 million (19.83 per cent) in mid-July 2006. Agriculture sector was able to tap only 2.58 per cent of the total credit in this period. Other major credit distributed sectors included service industries (7.95 per cent), construction (7.57 per cent), and transportation, communication and public services (6.61 Percent). With 25.15 percent decrease, priority sector credit reached to Rs. 10104.1 million in mid July 2006 from Rs. 13499.24 million in mid July 2005. Priority sector credit as percent of total credit stood at 5.7 percent in mid July 2006 and 8.25 percent in mid July 2005. Similarly, deprived sector credit increased by 20.31 percent and reached to Rs. 5255.13 million in mid July 2006 as compared to Rs. 4367.91 million in mid July 2005. Deprived sector credit amounted to 2.97 percent of total credit in mid July 2006.

Credit deposit ratio of commercial banking system didn’t undergo a noteworthy change during 2000-06. It was 62.17 percent in 2000 and remained consistent around 60 percent during 2001-04. However, it increased to 64.86 percent in mid July 2005 but, it declined to 60.7 percent in mid July 2006.

The successful restructuring of two big banks resulted in better performance of whole commercial banking system. The banking syst6em was experiencing a continuous losses trend during 2000-03 but it turned to post a net profit of Rs. 3707 million in mid July 2004. The net profit of the banking system further improved and reached to Rs. 5205 million in mid July 2005. The figure of the net profit of the whole banking system is Rs. 7983.5 in mid July 2006. Despite some improvement, the aggregate capital funds to total risk weighted assets ratio of the banking system remained negative even in mid July 2006. The huge negative capital funds of two big banks namely RBB and NBL converted the total capital base of the banking system to be negative. The capital adequacy ratio stood at -6.33 percent in mid July 2005 and -5.30 percent in mid July 2006.

With marginal improvement, the level of non- performing loans and advances still remain at a significantly high level. The aggregate non -performing loan, which was Rs. 32226.66 in mid July 2003, reached to 27877.84 in mid July 2005 and Rs. 26770.42 in mid July. The aggregate non- performing loan as percent of total loan was 29.3 percent in mid July 2001 and decreased to 14.22 in mid July 2006.

NRB has also updated the financial institution establishment policy which changes when necessary to ensure financial sector stability. Accordingly, the new licensing policy in place requires to have paid up capital of Rs. 2 billion for new commercial banks (class A financial institution) to open. The concept of regional bank has been eliminated. List of commercial bank at present is shown below.

Table NO.56
List of Class A Licensed Financial Institution (Commercial Banks)
Mid-Janaury,2008

| Names | Operation Date (A.D.) | Head Office | Telephone No.: | Fax no. |
|---|---|---|---|---|
| 1. Nepal Bank Limited | 1937/11/15 | Dharmapath, Kathmandu | 4221185 | 4222383 |
| 2. Rastriya Banijya Bank | 1966/01/23 | inghdarbarplaza, Kathmand | 4246022/4268302 | 4252931 |
| 3. NABIL Bank Limited | 1984/07/16 | Kantipath, Kathmandu | 4429546 | 4429548 |
| 4. Nepal Investment Bank Limited | 1986/02/27 | Durbar Marg, Kathmandu | 4228229/4225257 | 4228927/4226349 |
| 5. Standard Chartered Bank Nepal Limited. | 1987/01/30 | aya Baneshwar, Kathmand | 4781469 | 4780762 |
| 6. Himalayan Bank Limited | 1993/01/18 | Thamel, Kathmandu | 4227749 | 4222800 |
| 7. Nepal SBI Bank Limited | 1993/07/07 | Hattisar, Kathmandu | 4435516 | 4435612 |
| 8. Nepal Bangladesh Bank Limited | 1993/06/05 | aya Baneshwar, Kathmand | 4783972/75 | 4780106/4490824 |
| 9. Everest Bank Limited | 1994/10/18 | Lazimpat, Kathmandu | 4443377 | 4443160 |
| 10. Bank of Kathmandu Limited | 1995/03/12 | Kamaladi, Kathmandu | 4414541 | 4418990 |
| 11.Nepal Credit and Commerce Bank Limited | 1996/10/14 | iddharthanagar, Rupandel | 071-521921/4246991 | 071-521953/4244610 |
| 12. Lumbini Bank Limited | 1998/07/17 | Narayangadh, Chitawan | 056524150/4243158 | 056-524250/4227590 |
| 13. Nepal Industrial & Commercial Bank Limited | 1998/07/21 | Biaratnagar, Morang | 021-521921/4262277 | 021-522748/4241865 |
| 14. Machhapuchhre Bank Limited | 2000/10/03 | Prithvichowk, Pokhara | 061-530900/4443681 | 061-530500/4418537 |
| 15. Kumari Bank Limited | 2001/04/03 | Putali Sadak, Kathmandu | 4232112 | 4231960 |
| 16. Laxmi Bank Limited | 2002/04/03 | Adarshanagar, Birgunj | 011-663425/26 | 011-663427 |
| 17. Siddhartha Bank Limited | 2002/12/24 | Kamaladi, Kathmandu | 4442919/920 | 4442921 |
| 18. Agriculture Development Bank Ltd. | 2006/03/16 | Ramshahapath, Kathmandu | 4252358 | 4262718 |
| 19. Global Bank Ltd. | 2007/01/02 | Birgunj, Parsa | 4231198 | |
| 20. Citizens Bank International Ltd. | 2007/06/21 | Kamaladi, Kathmandu | 4262699, 4221799 | 4265030 |
| 21. Prime Commercial Bank Ltd. | 2007/09/24 | New Road, Kathmandu | 4233388 | 4233390 |
| 22. Sun Rise BANK Ltd. | 2007/10/12 | iridhara Crossing, Kathmar | 4420612, 4425089 | 4422475 |
| 23. Bank of Asia Ltd. | 2007/10/12 | Tripureswor, Kathmandu | 4263212, 4263213 | 4258326 |

Contd.....

### 2.2.2 Loan and Advances:

Loan and advances are the amount that has been provided to the deficit group of the society by bank. Banking business is to accept deposit from the surplus group of the society (or from those who want less risk to their money with less return) and supply those fund to the deficit group of society or to those entrepreneurs who have skill and knowledge but less financial resources to implement those viable projects. Almost all the banks has the loan and advances as their prime assets and interest earning from the loan and advances are the major source of income. Therefore the management is always concerned about the quality of their loan and advances. A well-known saying prevails in banking sector that **'A bad loan can wipe out the profit from hundred good loans'**. Therefore, the management thinks a hundred times before providing loan to customer. NRB has made it mandatory to all commercial banks to make their lending policy and all loans should be disbursed within that policy. The policy consists of segregating the total loan in sector wise, group wise, industry wise etc. therefore, the bank can maintain optimal portfolio of their loan and can diverse the risk accordingly.

### 2.2.3 Loan Classification:

Total loan of a bank consists of hundred of thousands of individual loan which have their own performance and inherit risk. To understand the overall performance of loan management has to segregate its total loan into different categories so that the focus should be made depending upon the classification of loan. Further loan has to classify as per the regulation of NRB so that the appropriate provision should be made to eliminate the risk to its stakeholders.

If we scrutinize the loan classification schedule of a commercial bank we found the loan and advances and bills purchased are classified into two major categories  which is performing loan and non performing loan. To understand it in detail, we have to deal it separately.

#### 2.2.3.1 Performing Loan

Performing loan is that loan which the principal are not past due for a period up to 3 months and restructured loans shall be included in this category. Earlier, restructured loan were not included in this category but the new directive issued by NRB has permitted the banks to treat restructured loans as performing loan, but the restructured loan should meet the all criteria stated in Unifies NRB Directives No-2.

#### 2.2.3.2 Non Performing Loan

All loan and advances the principal of which are past due for a period of more than 3 months shall be included in this category. Non -performing loan is further categorizes into sub standard, doubtful and loss. Sub standard loan are those loan which are past due for period of more than 3 months or up to 6 months, doubtful are past due for a period of more than 6 months or up to 1 year and loss are past due for a period of more 1 year. Non- performing loans have negative impact in banks growth as well as in economic growth. In the one hand, it stops the interest earnings of bank and in other hand it causes the bank to make certain percent provision (for possible loss of principle) from the operating profit. Increasing non- performing loan has direct and negative impact on banks profitability. Therefore, the management should focus on quality loan.

### 2.2.4 Non Performing Assets:

Assets side of balance sheet consists of performing and non -performing assets. Performing assets are those assets which help the bank to generate regular income where as non performing assets refer to that portion of bank's total assets which is not generating income to bank. Accumulated loss, non-banking assets and non-performing loan are some example of non-performing assets. Accumulated loss is the past loss from operation carried forward to balance sheet, which reduces the shareholder's equity. Non-performing loan is such loan, which fails to pay its interest to bank with in stipulated time and non-banking assets are those taken over assets which have been sold to set off the loan. Non-performing loan and non-banking assets have positive and direct relationship. The higher the non-performing assets, the lower will be the return to the organization. Therefore, the management always focuses to utilize the deployed assets in maximum and reduce the level of non-performing assets so that a sustainable income is generated.

### 2.2.5 Loan Loss Provision:

Loan and advances are the major sources of income of a bank and it is the major portion of its assets too. Therefore, management should always be conscious to maintain a high yield and low risky portfolio so that it regularly generates the income for the bank and reduces possible losses due to non-payment of principle.

Though bank tries to manage it's portfolio but what a bank can do is to control/ direct internal factor regarding the loan disbursement decision. But the performance of loan largely depends upon external factor, which the bank cannot eliminate. There are number of factor which affects the performance of loan some of them are adverse economic situation, high competition, security problem, poor management, low moral of borrower, etc.

Loan loss provision is a provision made to reduce the possible loss due to non-payment of principle. NRB has made it mandatory to provide provision according to the classification of outstanding loan. By doing so, NRB has protected the interest of stakeholder. Loan loss provision is essential to analyze the performance of management in all respect.

According to NRB, all good loans should provide 1 per cent provision, restructured/ rescheduled loan should provide 25.0 per cent, doubtful loan should provide 50 per cent and bad loan should provide 100 per cent provision. The above said provision is a minimum one but management can provide provision in higher rate to strengthen the bank's position.

**2.3 Review of Relevant NRB Directive:**

Nepal Rastra Bank being central bank of country has a great role to regularize the economic system of country. It develops different mechanisms and introduces various directives to monitor the financial institutions. Therefore the legal rules and provision related to non-performing loan should also be reviewed to understand the consequences of non-performing loan.

**NRB Directives No.2 (2)**

**Loan Classification And Provisioning**

(Bai.Bi.Ni.Bi. 148/1/2062/2063 dated 2062.4.3/ July 18, 2005 downloaded from website www.nrb.org.np)

Effective 2062.4.1/16 July 2005 (beginning of FY 2062/63-2005/06)

**Classification of loan and advances:**

Licensed institutions shall classify the loan and advances in accordance with clauses 1 to section 7, as follows:

**1. Classification of loan and advances**

a) **Pass**

All loan and advances the principal of which are not past due or past due for a period up to 3 months shall be included in this category.

**b) Substandard**

All loan and advances the principal of which are past due for a period of more than 3 months or up to 6 months shall be included in this category.

**c) Doubtful**

All loans and advances the principal of which are past due for a period of more than 6 months or up to 1 year shall be included in this category.

**d) Loss**

All loans and advances the principal of which are past due for a period of more than 1 year shall be included in this category.

**Clarifications**

1.“Performing loan” means pass loan

2.“Non-Performing loan means substandard, doubtful and bad loans.

**Notes:**

1.There is no restriction in classifying the loan and advances from low risk category to high-risk category by the licensed institutions. For instance, loan felling under substandard may be classified into doubtful or loss and loan felling under doubtful may be classified into loss category.

2.The term Loan and advances also includes Bill Purchased and discounted.

***Consultant Note***

Classification of outstanding loan and advances is on the basis of aging of principal amount. The respective overdue period of pass, sub standard and doubtful loans shall be considered for higher classification from the next day of the date of expiry of the overdue period provided for each class. (Clarification provided by letter of ref. Bai.Bya.4/34/059 dated 2059.2.13/ may 27, 2002.

**2. Additional arrangement in respect of pass loan**

All loans and advances extended against gold and silver, fixed deposit receipts credit cards and security of HMG securities and NRB bond shall be included under pass category.

However, where collateral of fixed deposit receipt of HMG securities or NRB Bonds is placed as additional security against loan for other purposes, such loans have to be classified as required under clauses 1 to 7.

Renewal of working capital having one year maturity period only may be classified as pass loan. Loans of working capital natured on which the service of interest is not regular shall be classified on the basis of amount due period.

***Consultant Note***

Loans against FDRs of other banks shall also qualify for inclusion under PASS loan (letter Ref.Bai.Bya.4/34/059 dated 2059.2.13/May 27, 2002). This is not clarified in the United Directives.

**3. Additional arrangement in respect of "Loss" loan**

Irrespective of whether the loan is past due or not loans having any of the following discrepancies shall be classified as "Loss".

(a) Securities are inadequate

(b) The borrower has been declared bankrupt.

(c) The borrower is absconding or cannot be found.

(d) Purchased of discounted bills are not realized within 90 days from the due date and non fund base credit not realized within 90 days from the conversion date.

***Consultants Note***

Bills purchased/ discounted are to be classified into loss loan where they are not realized within 90 days from due date. This is departure from the normal classification rule applicable to other loans. Accordingly, bills will have only two classification viz. PASS and Loss.

(e) Misuse of credit.

**Clarification**

For the purpose of the term misuse means the credit has not been used for the purposes originally intended non operation of project, income earn from the project/ business are not used in prepaying loan and advances but used in other purposes, certified misuse of credit and facilities by the supervisors and auditors in course of the sup [revision of audit].

***Consultants note***

Ever partial diversification is not allowed, per letter Bai.Bya. 4/34/059 dated 2059.2.13/May 27, 2002.

(f) Owing to non-recovery, initiation as to suctioning of the collateral has passed six months and if the recovery process is under litigation.

(g) Loans provided to the borrower included in the black list of credit information center.

(h) Project, business is not in condition to operate or not in operation.

(i) Credit card loan is not written off within the 90 days from the due date.

**4. Additional arrangement in respect opt term loan**

In respect of term loan, the classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment of principal/ interest.

**Clarification**

For the purpose “Team Loan” loan means having the maturity period of more than one-year period.

**5. Prohibition to recover principal And Interest By Exceeding The Overdraft Limit**

Principal and interest on loan and advances shall not be recovered by overdrawing the borrower’s current account exceeding the limit of overdraft facility.

However, this arrangement shall not be construed as prohibitive for recovering the principal and interest by debiting the customer's account. Where a system of recovery of principal and interest by debiting the customer's account exists and recovery is made as such resulting in overdraft, which is not settled within one month, then such overdrawn principal amount shall also liable to be included under the outstanding loan. Such loan shall be over graded by one step from its current classification. In respect of reorganization of interest, the same shall be as per clauses relating to income recognition mentioned directives No. 4/061/62.

**6. Letter Of Credits And Guarantee**

In the event of conversion of contingent liabilities of the licensed institution e.g. letter of credit, un-matured guarantee and other contingencies, into the fund based liabilities and required to make payment, such amount shall be classified as PASS loan up to 90 days from the date of conversion. Such credit facility shall be classified as LOSS loan if not realized within 90 days.

**7. Loan Rescheduling And Restructuring**

(1) Licensed institutions may reschedule or restructure loans only upon submission of a written plan of action by the borrower, which is resurrecting on the following grounds. The basis of loan restructuring and rescheduling shall be enclosed with each credit files.

a. Evidence of existence of adequate loan documentation and securities.
b. Licensed institution is assured on possibility of recovery of restructured or rescheduled loan.

**Clarifications**

1. The term "reschedule": means process of extending repayment period/time of credit taken by the borrower.
2. The term "restructuring" means process of changing the nature or condition of loan/facility, adding or deleting of conditions and in time limit.

(2) In addition to the submission of the written plan of Action for rescheduling or restructuring of loan per clauses (1) above, at least 25 per cent of the accrued interest outstanding on the date of restructuring or rescheduling should have been collected. Renewal of loan by collecting ALL INTEREST can be classified as pass loan.

(3) In cases of restructuring or rescheduling of loan of an industry which is recommended by the sick industry preliminary enquiry and recommendation committee formed under the Nepal government, Ministry of Industry, Commerce and supply after recovery of 15 per cent interest and completion of all necessary procedure, Provision for loan loss at a minimum of 25 per cent will be required. However, where the loan is restructuring or rescheduled by collecting less than 12 per cent interest, such loan shall require loan loss provisioning on past due period basis as is applicable to all.

(4) Separate statement shall be prepared for loans classified as per Sub- clauses (1) and (3) above.

**<u>Consultants note</u>**

i. Terms of rescheduling or restructuring may be as per the understanding between the licensed institutions and the borrower. This is true even in the case of recommended sick industries.

ii. At least 25 per cent of the total accrued interest unto the date of rescheduling or restructuring (12 per cent for sick industries) should have been collected. In such a case, the classification of the loan will remain in the current position. However, where rescheduling or restructuring is done against collection of ALL INTEREST- meaning all outstanding interest, the (loan) principal) will be eligible for classification under PASS. However, it is not clear as to requisite treatment where portion of interest is waived and balance is collected in full. Where the institutions agree to waive interest accruals, the same have to be accounted first to facilitate calculation of 25 (or 12) per cent interest on reduces outstanding balance.

***iii.*** In the case of sick industries recommended by the committee, rescheduling or restructuring is allowed with collection of less than 12 per cent interest with the condition that the loan shall be classified and normal provision is made. In other cases, collection of at least 25 per cent is mandatory for restructuring/ rescheduling.

**8.Loan Loss Provision**

(1) The loan has loss provisioning on the outstanding loans and advances and bill purchased shall be provided on the basis of classification made as per the directives, as follows:

| Classification of loan | Loan Loss Provision |
|---|---|
| Pass | 1 per cent |
| Substandard | 25 per cent |
| Doubtful | 50 per cent |
| Loss | 100 per cent |

(2) Provision on restructured or rescheduled loans shall make as follows:

(a) A minimum of 12.5 per cent provision shall be made on restructured or rescheduled loans.

(b) In respect of restructuring or rescheduling of deprived sector loan and guaranteed or insured priority sector loan. The requisite provisioning shall be only 25 per cent of the rates stated under sub- clauses (a) above.

(c) Where the installment of principle and interest of restructured or rescheduled loan is serviced regularly for two consecutive years? Such loan can be converted into PASS loan.

**Consultant's note**

- Rescheduling/ restructuring of loan resulting in improvement in classification to lowest risk category (PASS) is not prohibited. However, such rescheduled loan shall require provisioning of at least 12.5 per cent. The upper limit of such provisioning requirement is not specified even if a LOSS loan is reclassified and categorized as PASS loan. However, as per Clauses 9(1) mentioned below, adjustments to loan loss provisioning is allowed only on satisfactory service of the loan up to 2 consecutive years.

- Loan loss provisioning on rescheduling/ restructured sick.

- Recommended by sick industry preliminary enquiry and recommendation committee, upon recover of minimum 12 per cent outstanding interest is fixed at mini mum 25 per cent. Meaning, restructured loss loan can be provided provisioning at 25 per cent (upper limit is not prohibited though). The only concession provided in this case is Rescheduling is made possible against collection of 12 per cent interest (In other case, it is 25 per cent). At the same time, the provisioning is required at minimum 25 per cent (in other case it is 12.5 per cent).

(3) Full provisioning as per sub- selection (1) shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans.

However, in the case of insured loans, the provisioning requirements will be only 25 per Cent of the rates stated under sub- section (1).

**Consultant's note**

- Confessional provisioning is not limited to priority/ deprived sector and small/ medium industries only as was the case earlier. The condition is purchase of insurance cover.
- Accordingly, all loans, including priority sector/ deprived sector, not covered by the insurance (presumably with deposit insurance and credit Guarantee Corporation) fall under normal category. The norms of classification remain same for these loans and advances also. The required provisioning in the case of insured credits is follows:

| | |
|---|---|
| **Pass** | **0.25%** |
| **Substandard** | **6.25%** |
| **Doubtful** | **12.50%** |
| **Loss** | **25.0%** |

- In this case of rescheduling, restructuring of insured credit, the proportion of loan loss provisioning would be 3.125 per cent (being 25% of 12.5%). As clarified by circular no. Bai.Bya.pa.pa.81 (058/59) dated 2059.3.7/ June 21, 2002, presumed policy guidelines applicable in case of Unified Directives also. However, in the case of recommended sick industries, the minimum provisioning requirement will be 6.25 per cent.

(4) Where the loan is extended only against personal/ corporate guarantee, a statement of the assets and equivalent to the personal guarantee amount of the borrower not claimable by any other, shall be compulsorily obtained. Loans extended only against personal/ corporate guarantee shall also be classified as per above and where the loans fall under the category of pass substandard and doubtful, in addition to the normal loan loss provision applicable to the category, an additional provision by 20 per cent point shall also be provided, however in the case of institutions described under clauses 3 (b) of directives No. 3, the same shall be as prescribes by this NRB from time to time (Bai.Bi.Ni.Bi. /bitta/paripatra/148/1/062/063 dated 2062.6.12/ September 28, 2005). Additional loan loss provision as above shall also be provided for loans, which are partly provided by collateral of physical assets and personal/ institutional guarantee is obtained to cover the shortfall. Classification of such loan and advances shall be prepared separately. However such additional 20 per cent loan loss provision will not be required for loans extended to the institutions like Nepal Oil Corporation Ltd. And Nepal food corporation listed under section 3(b) of directives No. 3 (Bai.Bya.Ni.Bi./Paripatra/ niti/61/062/063 dated 2062.1.10/ February 22, 2006).

***Note***: loan loss provision set aside for performing loan is defined as “General loan loss provision” and loan loss provision set aside for non-performing loan is defined as “Specific Loan Loss Provision”.

**Consultant’s note:**

By virtue of above, the loan loss provision required against a personal guarantee loan will be 21 per cent, 45 per cent and 70 per cent for pass. Substandard and doubtful category respectively. Such an additional loan loss provisioning will be required where loan is extended against the personal guarantee only without having obtained other form of collateral. The directive also requires additional provisioning where the value of physical collateral falls short of the loan amount and partially covered by personal guarantee.

**Some Additional Note On Provisioning**

- The unified directives has withdrawn provisioning requirement at double the rate against credit and non- funded facilities extended to the promoters or shareholders in the promoters group of the bank holding less than 1 per cent of the total issued capital. Now, such facility is entirely prohibited and disclosure is required of facilities extended earlier.
- A cent percent loan loss provisioning shall be provided for the amount due from black- listed person, firm, company or organized institutions. Where such provisioning is found, the concerned chief executive officer shall be imposed penalty up to Rs. 5,00,000 under section 100 (2) of Nepal Rastra Bank Act, 2058.
- Lending to the family of any black- listed individual shall require provisioning at double of the required amount under the existing arrangement. However, provision in excess of one hundred per cent shall not be necessary.
- The full amount of excess provisioning made against the pass, substandard doubtful and bad than those prescribed by NRB, as well as loan loss provision made against restructuring and rescheduling loan can be included as the additional loan loss provision under supplementary capital. However, the total of above loan loss provisioning amount shall not exceed 1.25 per cent of the total risk weighted assets.
- Where the financial guarantee is not provided as prescribed, such guarantee shall be liable for provisioning at 100 per cent.
- Where a licensed institution has extended loan or facility to one customer, firm company or group of related borrowers in excess of the prescribed exposure

limit, such excess credits or facilities shall be provided with cent per cent additional loan loss provisioning to cover the concentration risk.

- In the event of Directives issued by NRB, an additional loan loss provision shall be provided at 100 per cent for excess concentration in as sector of the economy.

**9. Adjustment In Provisioning**

(1) Except under the following cases, adjustment of loan loss provision is prohibited.

a) The loan has been completely written off.

b) In the event of repayment of installment or partial payments of loan, the loan loss provision has to be provided as per loan classification and write back the provisions related to the amount of repaid loans.

c) Where the installment of principle of interest of restructured or rescheduled loan is serviced regularly for two consecutive years, the loan loss provisioning may be adjusted. However, the amount adjusted by writing back the loan loss provision cannot be used for distribution of dividend or issue bonus shares by showing in the profit.

**<u>Consultant's notes:</u>**

- By virtue of sub- clauses (b), adjustments in loan loss provision amount are permitted where the entire loans and advances have been classified and adequate provision is made against the same.
- By virtue of sub- clauses © though, rescheduling/ restructuring of loan is possible, the advantage in terms of writing back previously provided loan loss provisioning would not be available unless service is regular consecutively for 2 years.
- The written back provisioning amount against rescheduled/ restructured loans cannot be used for distribution of dividend or even issue of bonus shares as per sub- clauses © above, it is not time bound, simply not a specified.
- The accounting treatment of this needs clarifying from NRB. Even if the "profit" arising on account of provisions written back is not distributed, it will have to be

capitalized into retained earning. This will require maintenance of records so that the bonus issue does not 'consume' the provision written back amount.

- Where the bank has the policy to write off credit card dues within 180 days of becoming past due, no provision on such loans shall be required if written off.

## 10. Loan Loss Provisioning Relating To Non Banking Assets

(1) For all non- banking assets acquired by the licensed institutions up to FY 2059/60, where the assets were not disposed off in three years after the FY 2059/60, i.e. up to FY 2062/63, provisioning for loss on such non- banking assets shall be provided at one hundred per cent within 3 fiscal years, as follows:

| Fiscal year | Provisioning for loss |
|---|---|
| FY 2060/61 | 33.33% |
| FY 2061/62 | 66.67% |
| FY 2062/63 | 100% |

(2) For all non banking assets required by the licensed institutions during 2060/61 and thereafter, provisioning at 25 per cent shall be provided in the year of acquisition, and provide as follows within subsequent 3 fiscal years:

| Year | Provision for loss |
|---|---|
| First year | 50% |
| Second year | 75% |
| Third year | 100% |

(3) In case of disposal of the non- banking assets, the existing provision against such assets may be adjusted in the profit and loss account in the year of sale of such assets.

**Consultant's note:**

A. Once it is decided to hold the property by the institutions themselves, the loan account shall have to be adjusted with the valued amount. Though existing provision on such loan may be utilized for the purpose of above provisioning requirement, yet separation of such provision is required.

B. The circular is silent as to the provisioning and income reorganization where the institutes decide to utilize the properties for the own use. Accordingly, in such cases the prevailing rules apply- meaning no provisioning shall be required.

**11. Submission Of Return Relating To Classification Of Loan And Advances**

Licensed institutions shall, as of the end of Saon, Paush, Chaitra and Ashad, prepare the statement of outstanding loan and advances classified on the basis of aging and submit the particulars as per the enclosed directives Form No 2.1, 2.2 and 2.3 to the bank and financial institution regulation department and related supervision department of Nepal Rastra Bank with in 1 month from the end of each quarter.

**12. Action To Be Taken In Case Of Non Compliance**

Licensed institutions not complying the directives may be initiated action under the section 100 of NRB ACT 2058.

## 2.4 Review of relevant articles/ journals

### 2.4.1. It should be justifiable

The banker magazine of September 2006 issue, the chief editor Madhukar Adhikari in his article "it should be justifiable" has argued in favor of the businessman. He says businessmen are not only helpful for the country but also the major taxpayer to the government. Recently Nepal government has introduced the policy to seize the passport of the intentional defaulter but it is difficult to identify the intentional defaulter. Due to the years of crises in the country, they are the most affected group and if the salutation is not considered capital, may fight to the neighboring country, which is ultimately loss for the nation.

### 2.4.2 Management of bad loan- Major Problem of Financial Sector

Satyandra Pyara Shrestha, ex- governor of Nepal Rastra bank in his article published in The Boss magazine says, the management of bad loan is a high-prioritized exercise in the country for past 10 years. But the remarkable achievements have not been sighted yet. Handover of management of two big government banks is an example of financial sector reform action in the country. It has been almost 4 years of handover of management of two big government banks to the foreign expert but the achievement is not satisfactory.

He identifies not only government banks but private sector banks are also slowly affected but the non-performing loan. Therefore, a strong focus should be made by the management to reduce the level of NPL. He believes in co ordination between the borrower and the lender. He further says, if a viable project is not being completed in time and not being able to pay its interest in time, the bank and the project owner should sit together and find out the way to complete it rather than blacklisting and running towards the legal action.

### 2.4.3 Private sector view on banking sector

Former second vice president of FNCCI Mr. Diwakar Golchha in his first article published in the business age has shown his concern on the level of NPA of NBL and RBB often discussed has a logical treatment. Because, the reported non- performing loan consists of loan of some such business houses whose business has been suspended a decade ago but the bank is carrying the loan as non-performing loan, which is ultimately going to increase the NPL level of such banks.

### 2.4.4 Project Failure and Sickness in Nepal

Mr. Shakespeare Vaidya in his article agrees the significant progress made by the Nepalese financial institutions. He is quite dissatisfied with the tendency of Nepalese commercial banks to focus on collateral based projects rather than the cash flow and viability of the project. This ultimately leads the bank to non-receipt of time and increment in NPL level.

Finally, he concluded that to safeguard the banks from the financial crises likely to be arising from the project failures and sick units, that is non- performing loan, the government needs to a number of things and fast. It must bring a broad rule for poor financial institutions, transferring bad loans to bridge bank or loan recovery agency, removes many non-performing loans from even healthier bank's balance sheets, beef up regulations, supervision and disclosure, improve ability to banks to sell the collateral that backs sourced loans, and re capitalize the banking system.

### 2.5 Review of Relevant Thesis

**Mr. Jaya Lal Neupane** has carried out study on 'Non Performing Loan and Loan Loss Provisioning of Commercial Banks' with reference to Nepal Bank Limited, Rastriya Banijya Bank and Nabil Bank Limited. His objectives is to find out and analyze the guidelines and provisions pertaining to loan classification and loan loss provision and level of NPL in commercial bank, and to find out the impact of loan loss provision on the profitability of the commercial banks.

In his study, he concluded the ineffective credit policy, political pressure to lend non- viable projects, overvaluation of collateral and even without collateral disbursement are the major causes of mounting non- performing assets in government owned banks. He further adds lending factors of accumulating NPAs are poor credit appraisal system, ineffective credit monitoring and supervision system, poor security system and recession, willful defaulter etc.

**Mr. Hiraman Niraula** in his thesis 'A Study of Loan Classification and Non- Performing Assets Management of Rastriya Banijya Bank' has pointed out the Non- Performing loan as a major problem of Nepalese commercial banks. In his study he discloses the factor that the RBB holds the largest portion of Non- Performing loans of the banking sector.

He concludes that the ineffective credit policies, overvaluation of collateral are the major causes of mounting non-performing assets. He realizes the needs to resolve the problems of NPAs by changing the policy and gaining the confidence of borrower to settle loan by way of understanding.

**Ms. Shama Bhattarai** in her thesis 'Implementation of Directives issued by Nepal Rastra Bank' with reference to the Nepal SBI bank and Nepal Bangladesh bank limited has focused to the legal implementations of non-performing loan of commercial banks. She concluded the impact of new directives issued by NRB has a negative impact to the commercial banks. She writes the new directive compels the bank to provide additional loan loss provision for outstanding loans, which ultimately reduces the operating profits of banks. However, it strengthens the position of banks and increases the quality assets of banks.

**Ms. Niva Shrestha** has conducted a study named 'A study of non performing loan and loan loss provisioning of commercial banks' with reference to the Nabil Bank Limited, Standard Chartered Bank and Nepal Bank Limited. Her objectives are to find out the portion of no performing loan, relationship between loan loss provision and loan and advances and profitability.

She has pointed out the problems of the commercial banks as lack of smooth functioning of economy, different policies and guidelines of NRB, political instability, security problem, poor information system, over liquidity caused by the lack of good lending opportunities, increasing non performing assets etc.

**Mr. Prashanth K. Reddy,** a finance student of The Indian Institute of Management, Ahmadabad, India has prepared a paper on '**A comparative study of Non Performing Assets in India in the Global context- similarities and dissimilarities, remedial measures'**. He has found noticeable improvements in the financial health of Indian banks in terms of asset quality. Further, pre and post reform NPA levels are not strictly comparable as a result of significant tightening of accounting norms. He found out that the regulation made by RBI to build provision up to at least a level of 50 per cent of their gross NPAs has decreased the level of NPA. In his paper he has conducted country wise analysis and pointed out the causes and measures of NPA.

Summary of his finding has been presented to gain deep understanding of causes NPAs and measure adopted by those countries.

## A. China

**Causes:**

**Moral hazard**: the SOE's believe that there the government will bail them out in case of trouble and so they continue to take high risks and have not really strived to achieve profitability and to improve operational efficiency.

**Bankruptcy laws** favor borrowers and law courts are not reliable enforcement vehicles.

**Political and social implications** of restructuring big SOE's force the government to keep them afloat.

- Banks are reluctant to lend the private enterprises due to-
  a. Non- standard accounting practices.
  b. While an NPA of an SOE is financially undesirable, an NPA of a private enterprise is both financially and politically undesirable.

**Measures**

- Reducing risks by strengthening banks, raising disclosure standards and spearheading reforms of the SOE's by reducing their level of debt.
- Laws were passed allowing the creation of asset management companies, foreign equity participation in securitization and asset-backed securitization.
- The government, which bore the financial loss of debt 'discounting'. Debt/ equity swaps were allowed in a case a growth opportunity existed.
- Incentives like tax breaks, exemption from administration fees and clear- cut asset evaluation norms were implemented.

## B. Thailand

**Causes:**

- **Liberated capital and current account** and external borrowings with inaccurate assessment of exchange rate risk and risk of capital flight in a crisis.
- **A legal system that made credit recovery time consuming** and difficult.

- **Real estate spectaculars** look massive loans projecting high growth in demand and prices of properties. When this did not materialize all loans went bad.
- **Steep interest rate rise** turned a lot of loans into NPAs.
- Inability to correctly assess credit risk.

**Measures:**

- Amendments were made to Bankruptcy Act.
- **Corporate Debt Restructuring Advisory Commission** was set up for the takeover and restructuring of banks.
- **The Financial Sector Restructuring Plan** focused on capital support facilities for bank recapitalization and setting up of AMCs.
- **New rules governing NPA exit** procedures based on international standards were introduced.
- **Privatization of government entities** were mooted, but faced strong political opposition for the fear of social backlash.
- **Adoption of international standards for loan classification and provisioning.**
- **Caps on Foreign Equity ownership** in financial institutions were removed.

**C. Korea**

**Causes:**

- **Directed credit:** protracted periods of interest rate control and selective credit allocations gave rise to an inefficient distribution of funds. The Chaebol's focus on increasing market share and pursuing diversification with the little attention to profitability caused tremendous stress on the economy.
- **The "compressed growth" policy** via aggressive, leveraged expansion worked well as long as the economy was growing and the ROI exceeded the cost of capital. This strategy backfired when the slowing demand and rising input costs placed severe stress on their profitability.
- **Lack of monitoring**- Banks relied on collateral and guarantees in the allocation of credit, and little attention was paid to earnings performance and cash flows.

- **Contagion effects** from South East Asia coincided with a period of structural adjustments as well as a cyclical downturn in Korea.

**Measures:**

- **Speed of action**- The speedy containment of systemic risk and the domestic credit crunch problem with the injection of large public funds for bank recapitalization were critical steps towards normalizing the financial system.
- **Corporate Restructuring Vehicles (CRVs) and Debt/ Equity Swaps** were used to facilitate the resolution of bad loans.
- **Creation of the Korea asset management Corporation (KAMCO)** and a NPA fund to fund to finance the purchase of NPAs.
- **Securitization** KAMCO's recoveries came through asset- backs securitization and outright sales. International investors like the Lone Star Fund participated in the process.
- **Strengthening of the provision norms** and loan classification standards based on forward- looking criteria (like future cash flows) were implemented.
- **The objective of the central bank was solely defined as maintaining price stability.** The Financial Supervisory Commission (FSC) was created to ensure an effective supervisory system in line with universal banking practices.

**D. Japan**

**Causes:**

- **Investments were made real estate** at high prices during the boom. The recession caused prices to crash and turned a lot of these loans bad.
- **Legal mechanisms** to dispose bad loans were time consuming and expensive and NPAs remained on the balance sheet.
- **Expansionary fiscal policy measures** administered to stimulate the economy supported industrial sectors like construction and real estate, which may have further exacerbated the problem.

- **Weak corporate governance** coupled with a no- bankruptcy doctrine was a moral hazard in the Japanese economy.
- **Inadequate accounting systems** and information flow makes assessment of loan performance outside a bank in Japan difficult.

**Measures:**

- **Amendment of foreign exchange control law** and the threat of suspension of banking business in case of failure to satisfy the capital adequacy ratio prescribed. Legislation to improve information flow has been passed.
- **Accounting standards-** Major business groups established a private standard setting vehicle for Japanese accounting standard in line with international standards.
- **Government support**- the government's committed public funds to deal with banking sector weakness.

**Peter J. Wallison,** resident fellow, American enterprise Institute had conducted a study on Non-performing loan of Japan and suggested five principles for dealing with non-performingloans seems quite relevant in context of Nepal too.

1. **Japan's accounting system must clearly reflect values:**
    - It is impossible to determine what a non- performing loan is without an adequate accounting system.
    - The commercial law of Japan specifies certain accounting principles, and the Ministry of Finance has the authority to set accounting standards.
    - In the US, these standards are wholly determined by the accounting profession.
    - We do not believe that the government can determine truth through legislation.

2. **Non- performing loans- to the extent they cab ne sold at what ever price they will bring as soon as possible.**

- There will be no economic recovery in Japan until the overhang of overvalued assets- real estate, productive assets, and the failing companies that hold them- are sold off to the private sector for their fair value. No one is going to be willing to invest in new assets if the possibility exists that existing assets will be dumped on the market.
- This also applies to the government- owned or companies that are the part of Fiscal Investment and Loan Program.
- As with non -performing loans generally, as long as the investments of the FILP companies overhang the market, there can be no recovery in Japan.
- The only way to determine the value of these assets is to sell them for whatever they will bring; they have no value other than what people will pay for them.

**3. When non- performing assets are sold, they must be sold at auction:**

- Since Japan lacks an effective accounting system, it will be difficult to establish values.
- The only way is to encourage bidding by the largest possible crowd. The first bidders will make windfall profits- and this will cause second thoughts among members of the public- but it is important to keep in mind that these profits will attract more bidders.
- Eventually, with large numbers of bidders, the assets sold will bring good prices.

**4. Foreign bidders must be welcomed**

- In order to produce the best price, foreigners must be allowed to bid, and to acquire large amounts of assets in Japan.
- Japan cannot compete in a global economy if it’s companies compete at home.
- Japanese taxpayers, who must ultimately pay the bill for the cost of this effort, are entitled to receive the greatest return these assets can bring.

**5. The government must re capitalize the banks:**

- The sale of assets at deep discounts will make the Japanese banks insolvent.

- The government will have to re capitalize the banks and reimburse its losses through the sale of the bank's assets.
- This means the bank's shareholders will be wiped out, and their management changed.
- When the banks have returned to profitability, the government must sell off the shares.

### 2.5 Research Gap

There are hundred of researchers related to banking sector. Most of them are related to the performance of commercial banks some are of risk and return of commercial banks. Very few researchers have been made regarding non- performing loan of commercial banks.

Going through the material related to non performing loan of commercial bank, I found that most of them are either studying the non performing loan of two big government owned bank (RBB and NBL) or the sample of study consist the banks which rarely provides loan to real economic sector. Review has showed that the two banks (RBB and NBL) reported non performing loan consists of loan of some such business houses whose business has been suspended a decade ago but the bank is carrying the loan as none performing which is ultimately going to increase the NPL level of such banks. In this regard those studies are not sufficient to exhibit the true picture of overall country. In addition to this, the previous researchers are based on the past data, which may not be feasible or identical in the present context. Hence, this study has been carried out to fill the gap by taking reference of middle class commercial banks. This research will be helpful to understand the level of NPAs of middle class commercial banks of Nepal and provides present scenario of NPAs.

# CHAPTER - THREE

# RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps adopt by a researcher in studying the problem with certain objectives. It describes the method and process applied in the entire aspect of the study. In this chapter, the research design, data collection procedure and procedures concerning analysis of data are described thoroughly. Analysis is conducted by using appropriate financial and statistical tools and the findings are presented in a systematic way.

## 3.1 Research Design

This research is based on secondary data. It is simply an analytical and descriptive research. It covers the data of five years from annual report of concern bank. The collected data are analyzed by using financial as well as statistical tools such as profitability ratios, arithmetic mean, standard deviation etc.

## 3.2 Populations and Samples

Population refers to the entire group people, events or things of interest that a researcher wishes to investigate. As this study is about loan classification and loan loss provisioning of commercial banks, all 23 commercial banks of Nepal are taken into accounts as population. Out of total population i.e. 23 banks, following 5 commercial banks are selected as samples for this study by using judgmental sampling method.

- Bank of Kathmandu Limited
- Kumari Bank Limited
- Nepal Investment Bank Limited
- Everest Bank Limited
- Nepal Industrial and Commercial Bank Limited

Annual reports of concerned bank, various publications of NRB have been collected from concerned departments of NRB Baluwatar. Similarly, reports of credit information Bureau (CIB) have been collected from office of CIB, Thapathali. The reference of NRB directives and guidelines has been executed from Bank of Kathmandu Limited and website of NRB various banks journals have been collected from respective banks. Reports of World Ban, textbooks, journals, and unpublished dissertation have been obtained by visiting to central library and Shanker Dev Campus library. In addition, wave sites of NRB, BOK, KBL, NIBL, EBL and NICB have also used for related information.

## 3.3 Data Analysis Tools

### 3.3.1 Financial Tools

To evaluate the financial position and performance of any firm ratio is used as a key tool of financial analysis. "Financial Analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account". Financial Analysis is the use of financial statements to analyze a company's financial position and performance and to assess future financial performance.

#### 3.3.1.1 Ratio Analysis

Ratio Analysis is a tool of scanning the financial statement of the firm. It is simply one number expressed in terms of another and as such it expresses the numerical and quantitative relationship between two variables. Through this, one comes to know that in which areas operation the organization is strong and in which areas it is weak. Ratio Analysis is the widely used tool of financial analysis in financial analysis; a ratio is used as a benchmark for evaluating the financial position of the firm. Ratio Analysis reflects the relative strengths and weakness of any organization and also indicates the operation and financial growth of the organization. "Ratio helps to summarize large quantities of financial data and to make quantitative judgment about the firm's financial performance. The relationship between two accounting figures expressed mathematically is known as financial ratio". Even though there are many ratios, only those ratios have been calculated which are related to the subject matter. Following ratios have been computed and analyzed in this study.

***Loans and Advances to Total Assets Ratio***

Total assets side of a bank is composition of different assets among them some generated income and some do not generate income. Among income generating assets loan and advances are the high income generating assets therefore management always tries to increase the portion of loan and advances in total assets and decrease non income generating portion of assets from total portfolio. The ratio of loans and advances to total assets measures the volume of loans and advances in the structure of total assets. Loans and Advances of commercial banks represent the major portion in total assets. The high degree of ratio indicates the good performance of the banks mobilizing its fund by way of lending functions. However in its reverse side, the high degree indicates low liquidity with the bank. Loans and Advances always carry certain degree of risk. Thus this asset of banking business is regarded as risky assets. The low ratio indicates low productivity and high degree of safety in liquidity and vice versa. This ratio is calculated as follows.

$$\textbf{\textit{Loan and Advances to Total Assets}} = \frac{\text{Loan and Advances}}{\text{Total Assets}}$$

- ***Credit Deposit Ratio (CD Ratio)***

  CD Ratio is the most important tool to analysis the profitability of a bank. Since, all depositors has to pay interest and if any deposit is not utilized in profit earning way it will decrease net interest income of that bank. CD ratio is the parameters, which ascertain fund deployment efficiency of commercial bank. In other words, this ratio is calculated to find out how successfully the banks are utilizing their total deposits on credit or loans and advances for profit generation purpose as loans and advances yield high rate of return. Greater CD ratio implies the better utilization of total deposits and better earning, however, liquidity requirements also needs due consideration. Hence, management should always try to make better combination of risk and return. This ratio is calculated by dividing total credit by total deposit of the bank.

$$\textbf{\textit{Credit Deposit Ratio}} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

***Loan Loss Provision to Loan and Advances ratio***

Loan loss provision to Loan and Advances shows percentage of loan is covered against the possible future loss due to non-payment of loan. This ratio describes the quality of assets in the form of loan and advances that a bank is holding. Since, there is risk inherent in loan and advances, NRB has directed commercial banks to classify its loan and advances into different category and accordingly to make provision for possible loss. Loan Loss provision signifies the cushion against the future contingencies created by the default of the borrower in payment of loan and ensures the continuous solvency of the bank. Since high provision has to be made for non-performing loan, higher provision for loan loss reflects increasing non performing loan in volume of total loan.

The total ratio signifies the good quality of assets in the volume of total loan. It indicates how efficiently it manages loan and advances and make effort to cope with probable loan loss. Higher ratio implies higher portion of NPL in the total loan portfolio. The ratio is calculates as follows.

$$\textbf{\textit{Loan Loss Provision Ratio}} = \frac{\text{Loan Loss Provision}}{\text{Total Loan Advances}}$$

***Non-Performing Loans to Total Loan***

Total loan is divided into two category performing loan and non-performing loan. Non-performing loan to total loan ratio determines the proportion of non-performing loan in the total loan portfolio. Higher ratio implies the bad quality of assets of banks in the form of loan and advances. Hence, lower NPL to total credit ratio is preferred. The ratio is calculated as follows.

$$\textbf{\textit{NPL to Total Loan and Advances}} = \frac{\text{Non - Performing Loan}}{\text{Total Loan and}}$$

- ***Total Provision to Non Performing Loan***

  NRB had directed all commercial bank to provide provision for all types of loan and advances. Even performing loan needs to provide loan loss provision at the rate of 1% and 12.5%. This ratio determines the proportion of provision held to non-performing loan. This ratio measures up to what extend of risk inherent in NPL is covered by the total loan loss provision. More than 100% ratio signifies that the bank is safeguard against the future contingencies that may create due to bad loans, where as lower than 100% may create huge provision in coming future due to requirement of high provision to substandard loan advancers

  This ratio is calculated as follows.

  $$\text{Loan Loss Provision to NPL} = \frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$$

- ***Return to Loan and Advances***

  Net profit is the amount recovered after deducting all kinds of liabilities therefore various ratios are calculated in relation with the net profit. Return on loan and advances ratio indicates how efficiently the bank has employed its resources in the forms of loan and advances. Net profit of a bank largely depends upon interest earn from loan and advances and net profit. This ratio measures the bank's profitability with respect to loan and advances. Higher the ratios better the performance of the bank and vice versa. This ratio is calculated as follows.

  $$\text{Return to Loan and Advances} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

### 3.3.2 Statistical Tools

Financial tools are only not enough to analysis the relation between variables therefore statistical tools are also used to have better understanding and interpret the result. Statistical tools are the mathematical technique used to analysis and interpret the result. It is used to describe the relationship between variables and interpret the result. Statistic is also used to test the hypothesis that is set to know the information of population.

Following statistical tools have been used to facilitate the study.

#### 3.3.2.1 Percentage

A percentage is a number of hundredth parts of one number to another. It is simplest statistical tools used to interpret of phenomenon. Percentage is calculated as follows.

$$\text{Percentage (P)} = \frac{B}{A} | 100$$

Where

A= Base used to compare

B= given data to be compared with the base

#### 3.3.2.2 Average /Mean

Average is the simple and mostly used statistical tool to measure the central value. Average is a single figure, which describes the entire distribution. It is the best possible value of a group of variables that singly represents to whole group. In the statistical analysis the central value falls within the approximately middle value of the whole data. Among the several tools of measuring central value, the mean has been used in this analysis where and when necessary. Average is calculated as follows:

$$\text{Average } (\overline{X}) = \frac{\phi X}{N}$$

#### 3.3.2.3 Measurement of Dispersion

Dispersion measures the variation of the data from the central value. The central value alone is not enough to analyze the data. To analyze the deviation of actual value from central value, dispersion is used. Following tools of measuring dispersion has been used in this study.

***(A) Standard Deviation***

Standard Deviation is the most popular and useful measure of dispersion. It indicates the range and size of deviation from the middle of mean. It measures the absolute dispersion. Higher the value of standard deviation, higher is the variability and vice versa.

Standard Deviation is calculated as follows.

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{(X \; Z \bar{X}}{N}}$$

***(B) Coefficient of Variation***

The percentage measures of coefficient of standard deviation is called coefficient of variation. The less is the C.V. the more is the uniformity and consistency and vice versa. Standard deviation gives an absolute measure of dispersion. Hence, where the mean value of the variable is not equal it is not appropriate to compare two pairs of variables based in S.D. only. The coefficient of variation measures the relative measure of dispersion, hence capable to compare two variables independently in terms of their variability.

Coefficient of Variation is calculated as follows.

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{Standard Deviation}}{\text{Mean}}$$

***(C) Correlation Coefficient (r)***

Correlation Analysis is another important tool of statistic. It describes the relationship between variables and shows the degree of dependency of one variable with another variable. Correlation refers the degree of relationship between two or more variable. It determines the association between the variables. Two variables are said to be correlated when the changes in one variable result in change in other variables. Different model for correlation analysis has been formulated and we have used Karl Pearson coefficient of correlation to determine the relationship between variables studied. Karl Pearson coefficient of correlation is calculated as follows.

$$\text{Coefficient of Correlation (r)} = \frac{xy}{N(SD_x \; and SD_y)}$$

Where

$x = X - \overline{X}$

$y = Y - \overline{Y}$

N= No of pairs of observation

### 3.3.3 Trend Analysis

Trend Analysis is an analysis of financial ratio over time used to determine the pattern of growth. Trend Analysis informs about the future expected values of studied variables. The least square method has been used to measure the trend behavior of these selected banks. This method is widely used in practice. The formula of least square method for the straight line is represented as follows.

$Y = a + bx$

Where

Y = Trend Values

a = Y intercept or the computed trend figure of the y variable putting other variable zero.

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

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

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

$Y = Na + b \quad x$ ...........................(i)

$XY = \quad a x + b \quad X$..........(ii)

**3.3.4 Diagrammatic and Graphical Presentation**

Diagrammatic and Graphical Presentation gives bird eye view of a given set of numerical data. They represent the data in simply and readily comprehensive form. Hence, bar diagram, pie charts and graphic presentation has been also analysis.

# CHAPTER - FOUR

## DATA PRESENTATION AND ANALYSIS

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated of the study and also to make the reader easier to understand the findings qualitative data and information has been analyze. Different types of ratios have been calculated to reach in the conclusion of this study.

### 4.1 Ratio Analysis

#### 4.1.1 Loan and advances to Total Assets

Loan and advances is the major portion of the assets of any balance sheet of commercial banks. Loan and advances directly generates incomes to the bank therefore it is essential to analysis the ratio of the loan and advances to total assets. The more the portion of loan and advances in the assets the more the effective utilization of assets of the bank.

Granting loan is the risky decision because each loan carries certain level of risk therefore loan and advances are also known as risky assets. Therefore if loan and advances to total assets ratio is low it indicated low risk to management and low profitability and vise versa.
Total Loan and Advances of listed commercial banks can be seen in the Table 4.1 below.

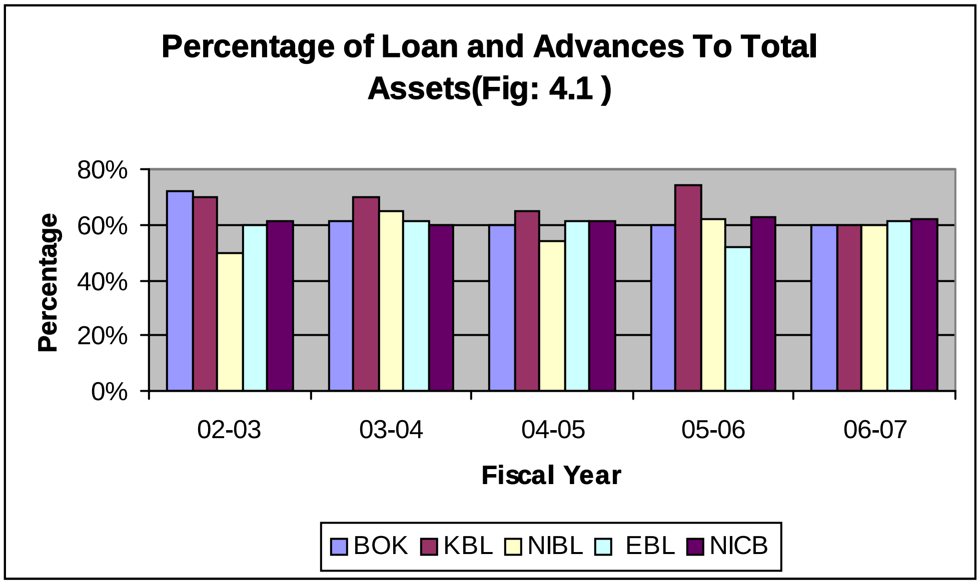
**Table 4.1**

**Loan and Advances to Total Assets**

| | BOK | | | KBL | | | NIBL | | | EBL | | | NICB | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY | L&A | TA | Ratio | L&A | TA | Ratio | L&A | TA | Ratio | L&A | TA | Ratio | L&A | TA | Ratio |
| 02-03 | 4,890 | 6,814 | 72% | 1,127 | 1,612 | 70% | 2,714 | 5,388 | 50% | 4,044 | 6,774 | 60% | 2,369 | 3,863 | 61% |
| 03-04 | 4,856 | 7,966 | 61% | 2,138 | 3,067 | 70% | 5,922 | 9,102 | 65% | 5,050 | 8,260 | 61% | 2,563 | 4,248 | 60% |
| 04-05 | 6,008 | 9,963 | 60% | 3,698 | 5,730 | 65% | 7,339 | 13,565 | 54% | 6,096 | 9,967 | 61% | 3,743 | 6,154 | 61% |
| 05-06 | 6,182 | 10,246 | 60% | 5,618 | 7,696 | 74% | 10,453 | 16,814 | 62% | 7,900 | 15,122 | 52% | 4,909 | 7,748 | 63% |
| 06-07 | 7,543 | 12,661 | 60% | 6,010 | 9,991 | 60% | 13,172 | 22,007 | 60% | 10,155 | 16,715 | 61% | 6,657 | 10,666 | 62% |
| **MEAN** | | | **63%** | | | **68%** | | | **58%** | | | **59%** | | | **62%** |
| **S.D.** | | | **5** | | | **5** | | | **6** | | | **4** | | | **1** |
| **C.V.** | | | **8%** | | | **8%** | | | **10%** | | | **6%** | | | **2%** |

**Figure 4.1**

**Percentage of Loan and Advances to Total Assets**




The above table shows that total loan and advances to total assets of all the sample banks i.e., BOK, bank of Kathmandu, KBL, Kumari Bank Limited, NICBL, Nepal industrial and commerce Bank, EBL, Everest Bank Limited, NIBL, Nepal Investment Bank limited.

The table depicts that total loan and advances to total assets of BOK, NICB, and KBL is in between 60-70%whereas this ratio of NIBL and EBL has comparatively low risky assets in their portfolio. Higher portion of Loan and advances of BOK, KBL and NICBL provides the opportunity to generate higher interest income with low liquidity whereas lower portion of loan and advances of NIBL and EBL indicates comparatively high level of liquidity but relatively is the opportunity for income generation.

Regarding the standard deviation (S.D.) and coefficient of Variation (C.V.) of the ratio as calculated and displayed in the above table we find that the NIBL has the highest SD and CV of 6 percentage and 10percentagerespectively. This means NIBL has the highest variability in the portion of Loan and advances in total Assets. Whereas BOK, KBL has same SD and CV of 5%and 8percentagerespectively and EBL has SD of 4%and CV of 6%which is moderate among the banks under study. Further NICB has the least SD of 1percentageand CV of 2 percentages which shows the NICB has been most consistent as far the proportion of Loan and Advances to total assets is concerned.

In total we can say that NICB shows the managed trend of loan and advances in total assets, which means, it disburses loan according the size of growth of assets. Likewise NIBL has the most scattered trend of flowing loan. Going through its results we can say that it does not have any policy regarding proportion of loan and advances in total assets. Other banks seem to have moderate consistency.

### 4.1.2 Loan and Advances to Total Deposit

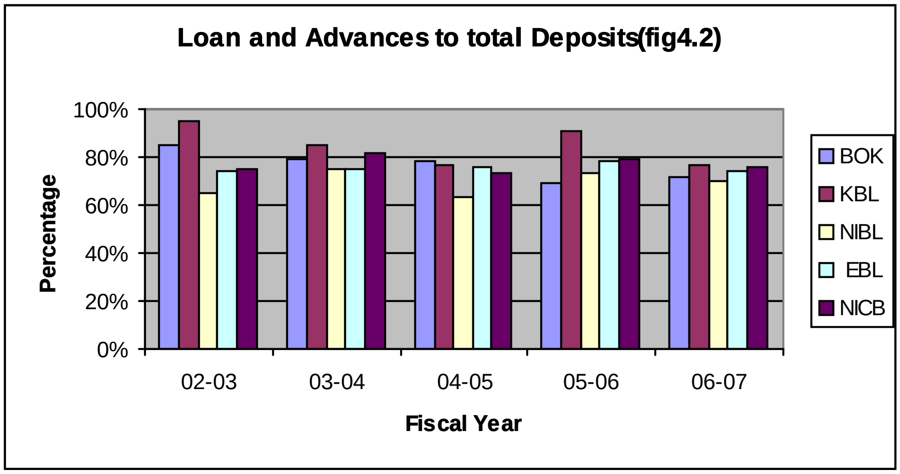
Loan and advances to total deposit ratio indicates the proportion of deposit utilized as lending. This ratio is also called CD ratio. CD ratio is the most important to analyze the banks utilization of their deposits and to know the liquidity position of the bank. The core banking function is to take deposit and channel the funds in the form of loan. For every deposits bank has to pay interest and failing to utilize the deposit may hamper the profitability of the bank. Therefore, Higher CD ratio implies higher utilization of the deposit and low fund available to service the depositors when they come for withdrawal and vise versa. 75 percentage of CD ratio is assumed to be optimal in banking sector but exception can be witnessed, as Nepal Bangladesh Bank possesses more than 100percentageCD ratio in operation.

**Table 4.2**

**Loan and Advances to Total Deposit**

| FY | BOK | | | KBL | | | NIBL | | | EBL | | | NICB | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | L&A | TD | Ratio | L&A | TD | Ratio | L&A | TD | Ratio | L&A | TD | Ratio | L&A | TD | Ratio |
| 02-03 | 4,890 | 5,736 | 85% | 1,127 | 1,180 | 95% | 2,714 | 4,175 | 65% | 4,044 | 5,461 | 74% | 2,369 | 3,165 | 75% |
| 03-04 | 4,856 | 6,170 | 79% | 2,138 | 2,513 | 85% | 5,922 | 7,923 | 75% | 5,050 | 6,695 | 75% | 2,563 | 3,144 | 82% |
| 04-05 | 6,008 | 7,742 | 78% | 3,698 | 3,698 | 77% | 7,339 | 11,706 | 63% | 6,096 | 8,064 | 76% | 3,743 | 5,146 | 73% |
| 05-06 | 6,182 | 8,943 | 69% | 5,618 | 6,270 | 91% | 10,453 | 14,255 | 73% | 7,900 | 10,098 | 78% | 4,909 | 6,243 | 79% |
| 06-07 | 7,543 | 10,429 | 72% | 6,010 | 7,800 | 77% | 13,172 | 18,927 | 70% | 10,155 | 13,803 | 74% | 6,657 | 8,766 | 76% |
| MEAN | | | 77% | | | 85% | | | 69% | | | 75% | | | 77% |
| S.D. | | | 6 | | | 8 | | | 5 | | | 2 | | | 3 |
| C.V. | | | 8% | | | 10% | | | 8% | | | 2% | | | 4% |
| Correlation | | | 0.98 | | | 0.99 | | | 0.99 | | | 1.00 | | | 1.00 |

**Figure 4.2**
**Loan and Advances to total Deposits**




The above table 4.2 exhibits the ratio of loan and advances to total deposit of selected commercial banks for the period of five years. From the above table it is clear that KBL is in the top in utilizing depositor's money. It has highest CD of 85 percentages, which is high in banking industry. Likewise BOK and NICB have also 77 percentage of CD ratio, which is slightly higher than the standard assumed. If we see the CD ratio of NIBL and EBL it is 69 percentage and 75percentage respectively, which indicates enough liquidity available with these banks.

Standard deviation and CV of BOK KBL NIBL and NICB are 6, 8, 5, 2 and 3 respectively. Likewise CV is 8, 10, 8, 2, 4 percentage respectively. This indicates that KBL has highest variability is CD ratio and EBL has the lowest one. Rest of the banks has moderate variability in their CD ratios.

In total we can say that EBL utilizes its depositor money optimally and also maintains the liquidity position of the bank. NIBL has not been able to utilize its deposits optimally.69percentageCD ratio implies that either it has ideal money in the form of cash and bank balance or it has invested high amount in low yield investment portfolio. Likewise other banks can be considered as moderate in utilization of deposit and moderate in liquidity aspect.

### 4.1.3 Loan Loss Provision to loan and advances

Loan loss provision to loan and advances shows percentage of loan is covered against the possible future loss due to non-payment of loan. Since there is risk inherent in the loan and advances, NRB has directed commercial banks to classify its loan and advances into different category and accordingly to make provision for possible losses. Loan loss provision signifies the cushion against the future contingencies crease by the default of borrower in the payment of loan and ensures the continuous solvency of the bank. Since high provision has to be made for non-performing loan, higher provision for loan loss reflects increasing non-performing loan in the volume of total loan.

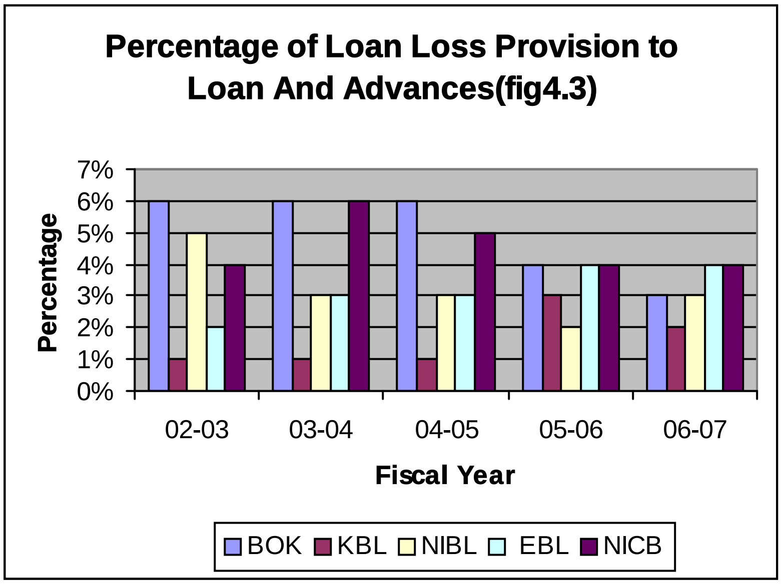
The low ratio signifies the good quality of assets in the volume of total loan. It indicates how efficiently it manages loan and advances and makes efforts to cope with portable loan losses. Higher ratio implies higher portion of NPL in the total loan Portfolio. The ratio is calculated as follows.

**Table4.3**

**Loan Loss Provision to loan and advances**

| | BOK | | | KBL | | | NIBL | | | EBL | | | NICB | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY | LLP | L&A | Ratio | LLP | L&A | Ratio | LLP | L&A | Ratio | LLP | L&A | Ratio | LLP | L&A | Ratio |
| 02-03 | 276 | 4,890 | 6% | 15 | 1,127 | 1% | 149 | 2,714 | 5% | 96 | 4,044 | 2% | 90 | 2,369 | 4% |
| 03-04 | 313 | 4,856 | 6% | 32 | 2,138 | 1% | 150 | 5,922 | 3% | 141 | 5,050 | 3% | 143 | 2,563 | 6% |
| 04-05 | 362 | 6,008 | 6% | 49 | 3,698 | 1% | 206 | 7,339 | 3% | 212 | 6,096 | 3% | 182 | 3,743 | 5% |
| 05-06 | 270 | 6,182 | 4% | 144 | 5,618 | 3% | 256 | 10,453 | 2% | 318 | 7,900 | 4% | 175 | 4,909 | 4% |
| 06-07 | 236 | 7,543 | 3% | 130 | 6,010 | 2% | 374 | 13,172 | 3% | 356 | 10,155 | 4% | 245 | 6,657 | 4% |
| MEAN | | | 5% | | | 2% | | | 3% | | | 3% | | | 4% |
| S.D. | | | 1 | | | 1 | | | 1 | | | 1 | | | 1 |
| C.V. | | | 27% | | | 31% | | | 40% | | | 20% | | | 21% |
| Correlation | | | (0.46) | | | 0.96 | | | 0.94 | | | 0.97 | | | 0.92 |

**Figure 4.3**
**Percentage of Loan Loss Provision to Loan and Advances**




**Error!**

The above table 4.3 shows the ratio of loan loss provision in total loan and advances of selected banks from 2002- 2007. It is clear to see that BOK and NICB have higher average ratio of loan loss provision in total loan and advances making 5% and 4 percentage respectively. Like wise NIBL and KBL have moderate LLP in total Loan and Advances making 3 % each. Further KBL has the lowest portfolio of LLP of 2 % only.

BOK and NIBL have decreased trend of loan loss provision in total loan, which indicates that these banks have been able to flow quality loan in recent years. Opposite to these rest if the banks have either same level of LLP or the level has increased

If we go through the SD and CV of these ratios it can be seen that all banks have SD of 1. CV of BOK, KBL, NIBL, EBL, and NICB are 27, 31, 40, 20 and 21 respectively. This indicates NIBL has more variability in provision because of the higher growth of Loan flow in this bank. There is a positive correlation between loan loss provision and loan and advances. In every increment of loan and advances loan loss provision automatically increases.

The table shows how wonderfully BOK has done the management of loan and advances. In the one hand it has increased the volume of loan and in the other hand it has decreased the level of provisioning from 6% to 3% implying its well-managed portfolio with good loan in respect to other banks under study.

### 4.1.4 Non Performing Loan to total Loan and Advances

NRB has directed the commercial banks to classify their loan into two categories i.e. performing loan and non-performing loan. Non-performing loan to total loan and advances ratio determines the proportion of nonperforming loan in the total loan portfolio.

Higher ratio Implies the bad quality of the assets of the bank in the form of loan and lower return from the loan portfolio and lower ratio implies good quality of loan. Hence lower NPL to total credit ratio is preferred. The ratio is calculated as follows:

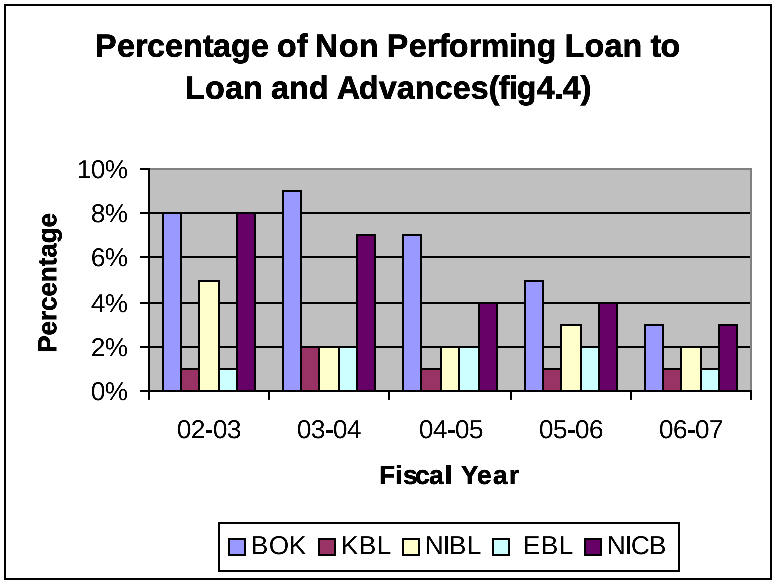
**Table 4.4**

**Non Performing Loan to total Loan and Advances**

| | BOK | | | KBL | | | NIBL | | | EBL | | | NICB | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FY** | **NPL** | **L&A** | **Ratio** | **NPL** | **L&A** | **Ratio** | **NPL** | **L&A** | **Ratio** | **NPL** | **L&A** | **Ratio** | **NPL** | **L&A** | **Ratio** |
| 02-03 | 397 | 4,890 | 8% | 14 | 1,127 | 1% | 130 | 2,714 | 5% | 42 | 4,044 | 1% | 193 | 2,369 | 8% |
| 03-04 | 421 | 4,856 | 9% | 36 | 2,138 | 2% | 117 | 5,922 | 2% | 111 | 5,050 | 2% | 171 | 2,563 | 7% |
| 04-05 | 400 | 6,008 | 7% | 28 | 3,698 | 1% | 181 | 7,339 | 2% | 105 | 6,096 | 2% | 147 | 3,743 | 4% |
| 05-06 | 309 | 6,182 | 5% | 54 | 5,618 | 1% | 281 | 10,453 | 3% | 129 | 7,900 | 2% | 185 | 4,909 | 4% |
| 06-07 | 190 | 7,543 | 3% | 54 | 6,010 | 1% | 272 | 13,172 | 2% | 122 | 10,155 | 1% | 173 | 6,657 | 3% |
| **MEAN** | | | **6%** | | | **1%** | | | **3%** | | | **2%** | | | **5%** |
| **S.D.** | | | **2%** | | | **0.40%** | | | **1%** | | | **0.50%** | | | **2%** |
| **C.V.** | | | **40%** | | | **34%** | | | **41%** | | | **29%** | | | **46%** |

**Figure 4.4**

**Percentage of Non-Performing Loan to Loan and Advances**




The above table 4.4 exhibits the ratio of non-performing loan to total loan and advances of the selected commercial banks for the period of five year from 2002 to 2007. From the above table it is clear that NPL of all commercial banks has been decreasing. BOK and NICB both started from 8% of NPL in total loan and advances in the year 2002/03 and both have successfully decreased their NPL to 3% in the year 2006/07 but still their NPL are high in comparison to other banks.

KBL and EBL both have maintain their NPL level very low making 1percentageand 2percentagerespectively which indicates that these banks have been making contentious effort to maintain their NPL level low. If we compare the NPL with other banks we see that when other banks had above 5 percentage of NPL these banks were able to maintain the NPL at 1 percentage, which is considerably significant.

If we see the standards deviation and coefficient of variation of the ratio it can be noted that SD of BOK, KBL, NIBL, EBL and NICB are 2, 0.4, 1, 0.5, and 2 and CV of 40, 34, 41, 29 and 46 percentage respectively. This indicates that banks have variability in NPL though it is decreasing in all the banks, which is positive indication.

### 4.1.5 Total provision to Non Performing Loan

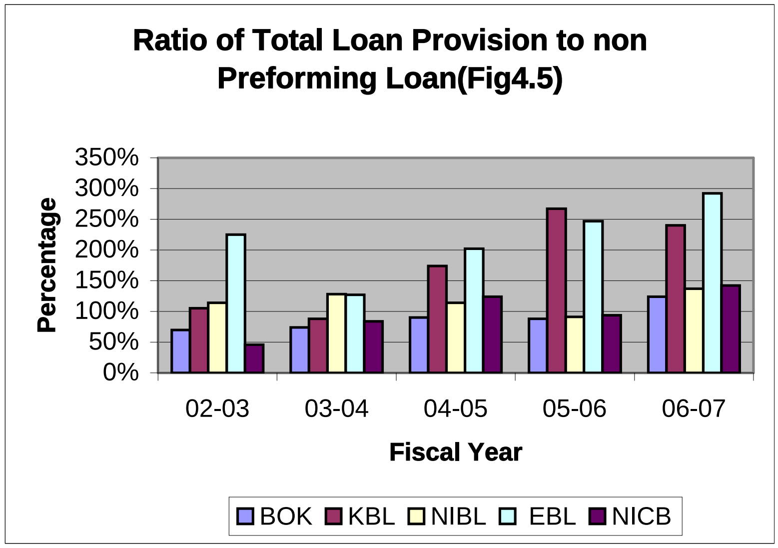
This ratio determines provision held to non-performing loan. NRB had directed all commercial bank to provide provision for all types of loan and advances. This ratio measures up to what extend of risk inherit in NPL is covered by the total loan loss provision. More than 100 percent ratio signifies that the bank is insured against future contingencies that may create due to bad loans, where as lower than 100 percent may create huge provision in coming future due to requirement of high provision to substandard loan and advances.

**Table 4.5**

**Total Loan Loss provisions to Non Performing Loan**

| | BOK | | | KBL | | | NIBL | | | EBL | | | NICB | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FY** | **LLP** | **NPL** | **Ratio** | **LLP** | **NPL** | **Ratio** | **LLP** | **NPL** | **Ratio** | **LLP** | **NPL** | **Ratio** | **LLP** | **NPL** | **Ratio** |
| **02-03** | 276 | 397 | 70% | 15 | 14 | 105% | 149 | 130 | 114% | 96 | 42 | 225% | 90 | 193 | 46% |
| **03-04** | 313 | 421 | 74% | 32 | 36 | 88% | 150 | 117 | 128% | 141 | 111 | 127% | 143 | 171 | 84% |
| **04-05** | 362 | 400 | 90% | 49 | 28 | 174% | 206 | 181 | 114% | 212 | 105 | 202% | 182 | 147 | 124% |
| **05-06** | 270 | 309 | 88% | 144 | 54 | 267% | 256 | 281 | 91% | 318 | 129 | 247% | 175 | 185 | 94% |
| **06-07** | 236 | 190 | 124% | 130 | 54 | 240% | 374 | 272 | 137% | 356 | 122 | 292% | 245 | 173 | 142% |
| **MEAN** | | | **89%** | | | **175%** | | | **117%** | | | **219%** | | | **98%** |
| **S.D.** | | | **21%** | | | **79%** | | | **17%** | | | **61%** | | | **37%** |
| **C.V.** | | | **24%** | | | **45%** | | | **15%** | | | **28%** | | | **38%** |
| **Correlation** | | | **0.77** | | | **0.92** | | | **0.87** | | | **0.78** | | | **(0.45)** |

**Figure 4.5**
**Ratio of Total Loan Provision to non Performing Loan**




The above table 4.5 shows the ratio of provision to NPL of selected commercial bank for five year starting from2002 to 2007. From the above table it can be seen that the total provision of all banks are increasing and about almost all commercial banks are safe against the future contingencies that may be created due to non payment of loan.

EBL, KBL and NIBL have higher average total provision of 219, 175 and 117 and NICB and BOK have comparatively low average total provision of 98 and 89, which indicates first three banks are prepared against the future possible loss and latter two banks need to increase.

### 4.1.6 Return on loan and Advances

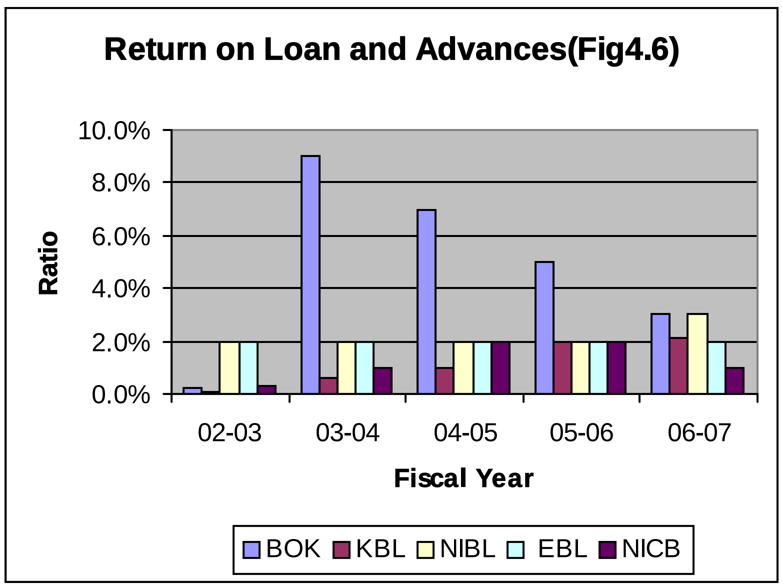
Return on loan and advances ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. Net profit of a bank largely depends upon interest earn from loan and advances and there is positive correlation between effective utilization of loan and advances and net profit. This ratio measures the bank's profitability with respect to loan and advances. Higher the ratios better the performance of the bank.

**Table 4.6**

**Return on loan and Advances**

| | BOK | | | KBL | | | NIBL | | | EBL | | | NICB | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY | NP | L&A | Ratio | NP | L&A | Ratio | NP | L&A | Ratio | NP | L&A | Ratio | NP | L&A | Ratio |
| 02-03 | 9 | 4,890 | 0.2% | 1.34 | 1,127 | 0.10% | 57 | 2,714 | 2% | 85 | 4,044 | 2% | 7 | 2,369 | 0.3% |
| 03-04 | 82 | 4,856 | 9% | 12.5 | 2,138 | 0.60% | 117 | 5,922 | 2% | 94 | 5,050 | 2% | 26 | 2,563 | 1% |
| 04-05 | 127 | 6,008 | 7% | 48.7 | 3,698 | 1% | 153 | 7,339 | 2% | 144 | 6,096 | 2% | 68 | 3,743 | 2% |
| 05-06 | 140 | 6,182 | 5% | 87.9 | 5,618 | 2% | 232 | 10,453 | 2% | 171 | 7,900 | 2% | 114 | 4,909 | 2% |
| 06-07 | 202 | 7,543 | 3% | 127 | 6,010 | 2.1% | 351 | 13,172 | 3% | 237 | 10,155 | 2% | 97 | 6,657 | 1% |
| **MEAN** | | | **2%** | | | **1%** | | | **2%** | | | **2%** | | | **1%** |
| **S.D.** | | | **1%** | | | **1%** | | | **0.3%** | | | **0.20%** | | | **1%** |
| **C.V.** | | | **54%** | | | **70%** | | | **12%** | | | **9%** | | | **6%** |

**Figure 4.6**
**Return on Loan and Advances**




The above table 4.6 shows the ratio of Return on loan and Advances of selected commercial bank for five year starting from 2002 to 2007. From the above table it can be seen that the Net profit of all the banks are increasing and the percentage of net profit in respect of loan is also increasing except of BOK.BOK and NICB have a fluctuating trend in return on loan and advances. They started from 0.2 to 0.3 % in the year 2002/2003 and showed growth in return on loan and advances resulting 9% of BOK and 2% of NICB but it again reduced and reached at 3% of BOK and 1% NICB in the year 2007 which indicates that in the early year they invested high portion of their assets in loan in advances but due to lower quality of loan they switched their portfolio from loan and advances to other less risky investment like treasury bills and government bank.

Like wise KBL is in growing trend in its return on loan and advances KBL is a growing bank and it is showing the trend like BOK in its early years. Therefore KBL should focus on quality loans otherwise coming days would be harder for them because bad loan starts its effect after two or three years of disbursement.

NIBL and EBL show the most consistent trend of return on loan and advances. They both have been able to manage their return at 2% through out the year. This indicates that these banks are very much efficient to manage their loan portfolio.

**Major findings of Ratio analysis**

As we analyzed various ratios and Loan and Advances to total assets we found that more than 60 % of total assets of all the banks are in the form of loan and advances and they have less deviation throughout the period and lesser CV in ratio.

Likewise the analysis of ratio of loan and advances to total deposits has cleared that KBL is in the top in utilization of depositor's money. It has the highest average CD ratio of 85% Likewise BOK and NICB have also 77% of average CD ratio which is slightly high than recommended of 75%. CD ratio of NIBL and EBL is comparatively low which indicates enough liquidity available with these banks.

Other analyses of loan loss provision in total loan and advances clarifies that BOK and NICB have higher ratio of loan loss provision in total loan and advances making 5% and 4% respectively but they are in decreasing trend, further NIBL and KBL have moderate loan loss provision 3% each. KBL is the lowest in the list with loan loss provision of 2% only.

Non-Performing loan to total loan and advances of all commercial banks have been decreasing. BOK and NICB both have reduce the level of heir NPL from 8% to 3% but still their NPL level is high among other banks.

KBL and EBL both have maintain their NPL level very low making 1% and 2% respectively which indicates that these banks have been making continuous efforts to maintain their NPL level very low.

Ratio of provision to Non-performing loan of bank shows that the level of provision of all banks are increasing and almost all commercial banks have created provision greater than the amount of non performing loan which shows that all banks are safe against the future contingencies that may be created due to non payment of loan.

Return of loan and advances of bank shows that NIBL and EBL have most consistent return through out the period where as the ratio of KBL is growing likewise return on loan and advances of BOK and NICB are in decreasing trend.

**4.2 Correlation Analysis**

Correlation is a statistical tool that can be used to describe the degree of linear relationship of one variable to other variables. Correlation analysis is another important tool of statistics. It describes the relationship between variables and degree of dependency of one variable with another variable. Two variables are said to be correlated when the change in one variable results the change in another variables. Different model for correlation analysis has been formulated and we have used Karl Pearson Coefficient of correlation to determine the relationship between variables studied. Karl Pearson coefficient of correlation is calculated as follows:

**4.2.1 Correlation between loan loss provision and loan and advances**

This relationship shows the likely pattern of loan loss provision if loan changes. In other words, correlation of loan loss provision and loan and advances indicates the degree of linear relationship between these two variables, which helps us to take decision regarding loan and advances.

Following table no. 4.7 exhibits the correlation between Loan Loss Provision to Loan and Advances.

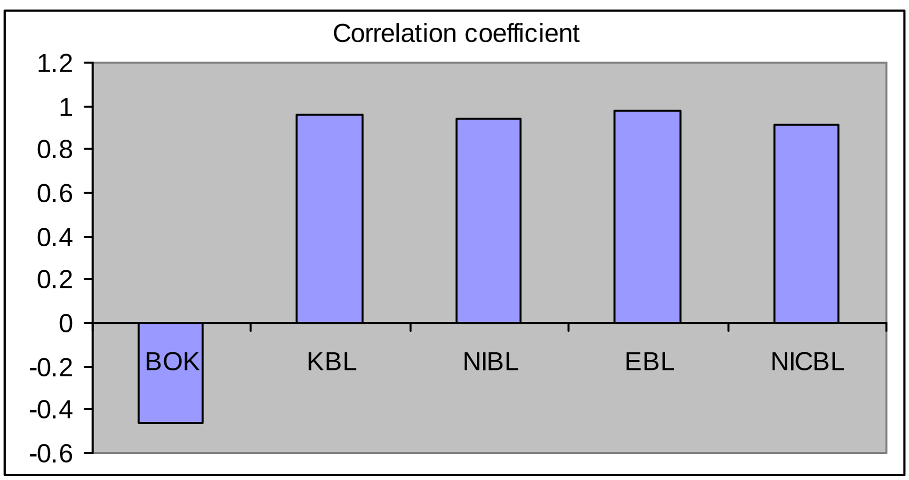
**Table 4.7**

**Correlation between loan loss provision and loan and advances**

| Banks | Correlation coefficient | Probable Error (P.E.) | σ* (P.E.) |
|---|---|---|---|
| BOK | (0.45850) | 0.23823 | 1.42936 |
| KBL | 0.96190 | 0.02254 | 0.13521 |
| NIBL | 0.93800 | 0.03622 | 0.21734 |
| EBL | 0.97470 | 0.01506 | 0.09037 |
| NICBL | 0.91680 | 0.48100 | 0.28863 |

**Figure 4.7**

**Correlation between Loan Loss Provision and Advances**




Above table no. 4.7 shows the relationship between LLP and Loan and advances for the selected commercial Banks. It is clear to see that almost all banks have perfect positive correlation between loan loss provision and loan and advances except BOK.

BOK has a negative correlation of 0.4585, which indicates that the provision amount does not follow the trend of loan and advances. The cause of negative correlation is that the bank has write off its huge amount of bad loan during 2006 and 2007 which has decreased the loan loss provision amount but loan is still increasing which results negative correlation between loan loss provisions. It has 6 P.E. of 1.42936, which shows the correlation is insignificant.

KBL, NIBL, EBL and NICB have perfect positive correlation of 0.9619, 0.9380, 0.9747 and 0.9168

Respectively which indicates that loan loss provision follows the pattern of loan and advances which means if loan and advances increases loan loss provision also increases in the same ratio and vice versa. Likewise correlations of these banks are higher than the six times of its P.E., which proves the above claim.

### 4.2.2 Correlation between loan loss provision and non-performing loan

This relationship shows the degree of linear relationship between these Non-performing loan and Loan Loss Provision. Following table no. 2.2 exhibits the correlation between Loan Loss Provision and Non-performing loan

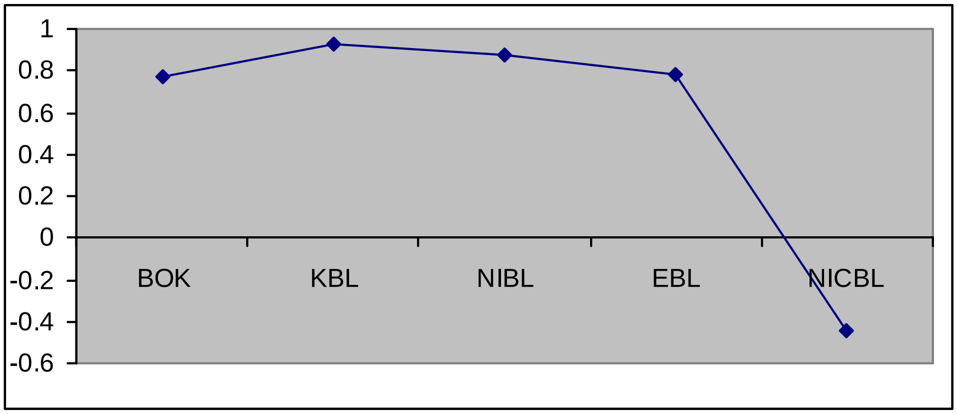
**Table 4.8**

**Correlation between loan loss provision and non-performing loan**

| Banks | Correlation coefficient | Probable Error (P.E.) | σ*(P.E.) |
|---|---|---|---|
| BOK | 0.76870 | 0.12340 | 0.74037 |
| KBL | 0.92410 | 0.04402 | 0.26415 |
| NIBL | 0.87460 | 0.07091 | 0.42548 |
| EBL | 0.77960 | 0.11830 | 0.70981 |
| NICBL | (0.44570) | 0.24172 | 1.45034 |

**Figure 4.8**

**Correlation between loan loss provision and non-performing loan**




Above table 4.8 shows the relationship between LLP and NPL for selected commercial Banks. It is clear to see that almost all banks have perfect positive correlation between loan loss provision and non-performing loan except NICB.

BOK, KBL, NIBL and EBL have perfect positive correlation of 0.7687, 0.9241, 0.8746 and 0.7796 respectively which indicates that loan loss provision is perfectly correlated with the non performing loan level which means if non performing loan increases, loan loss provision also increases in same ratio and vice versa. In other words, it can be said that if these bank will to decrease the level of their Loan loss provision they have to focus to increase quality loan portfolio and reduce the level of non-performing loan. Likewise, correlations of these banks are higher than the six times of its P.E., which proves the above claim.

NICB has a negative correlation of 0.4457, which indicates that the loan loss provision of NICB is not affected, by the non-performing loan level. The reason for negative correlation between LLP and NPL is loan loss provision is increasing even non-performing loan level is decreasing. It has 1.45034 of P.E. this shows the correlation is insignificant.

### 4.2.3 Correlation between loan and advances to deposit

Accepting deposit and granting loan are the major function of commercial banks. The relationship of deposit and loan and advances should always be perfect positive.

Following table no. 4.9 exhibits the correlation between deposit and loan and advances.

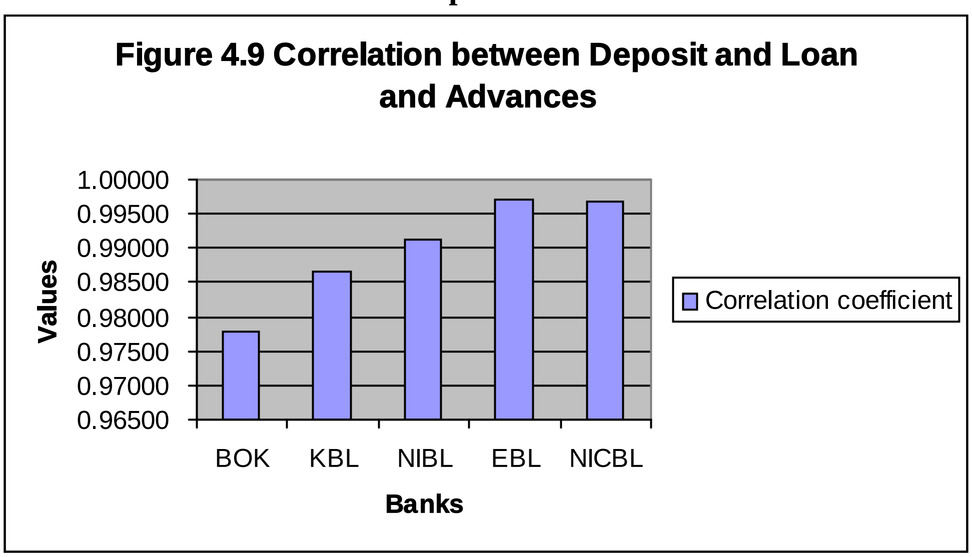
**Table 4.9**

**Correlation between Deposit and Loan and Advances**

| Banks | Correlation coefficient | Probable Error (P.E.) | σ *(P.E.) |
|---|---|---|---|
| BOK | 0.97780 | 0.01324 | 0.07943 |
| KBL | 0.98650 | 0.00808 | 0.04847 |
| NIBL | 0.99130 | 0.00520 | 0.03120 |
| EBL | 0.99700 | 0.00181 | 0.01086 |
| NICBL | 0.99670 | 0.00197 | 0.01182 |

**Figure 4.9**

**Correlation between Deposit and Loan and Advances**



Above table 4.9 shows the relationship between Total Deposit and Loan and Advances for five commercial banks. It is clear to see that all banks have perfect positive correlation between Deposit and Loan and Advances for review period.

Perfect positive correlation between Deposit and Loan indicates that loan and advances largely depends on deposit volume of these banks, which means if one want to increase loan and advances, it has to accept the additional deposit. Likewise, correlations of these banks are higher than the six times of its P.E., which proves that the correlation calculated above, are highly significant and reliable. NICB has a negative correlation of 0.4457, which indicates that the non-performing loan level does not affect the loan loss provision of NICB. The reason for negative correlation between LLP and NPL is loan loss provision is increasing even non-performing loan level is decreasing. It has 1.45034 of P.E. This shows the correlation is insignificant.

**Major findings of statistical analysis**

In this segment we have used Karl Pearson Correlation to analyze the data and interpret the result. Relationship between LLP and Loan and Advances has cleared that almost all banks have perfect positive correlation between loan loss provision and loan and advances except BOK. This has proved that loan loss provision increases in relation to loan. If loan and advances increases the LLP also tends to increase.

Correlation between LLP and NPL shows that almost all the banks have perfect positive correlation between loan loss provision and nonperforming loan except NICB, BOK, KBL, NIBL and EBL have perfect positive correlation of 0.7687, 0.9241, 0.8746 and 0.7796 respectively which indicated that if these banks will to decrease the level of their Loan Loss Provision the have to focus to increase quality of loan portfolio and reduce the level of nonperforming loan.

Correlation between Total Deposit and Total loan and advances indicates perfect positive correlation between deposit and Loan and advance for the review period. Perfect positive correlation between Deposit and loan indicates that loan and advance largely depend on deposit volume of these banks.

## 4.3 Trend analysis

Trend analysis is an analysis of financial ratio over time used to determine the patterns of growth. Trend analysis informs about the future expected values of studied variables. It gives a glimpse of future expected value if the same growth rate level is achieved. This information is crucial for management to make decision regarding future. This method is widely used in practice. The least square method has been used to measure the trend behavior of these selected banks

### 4.3.1 Trend analysis of Loan and Advances

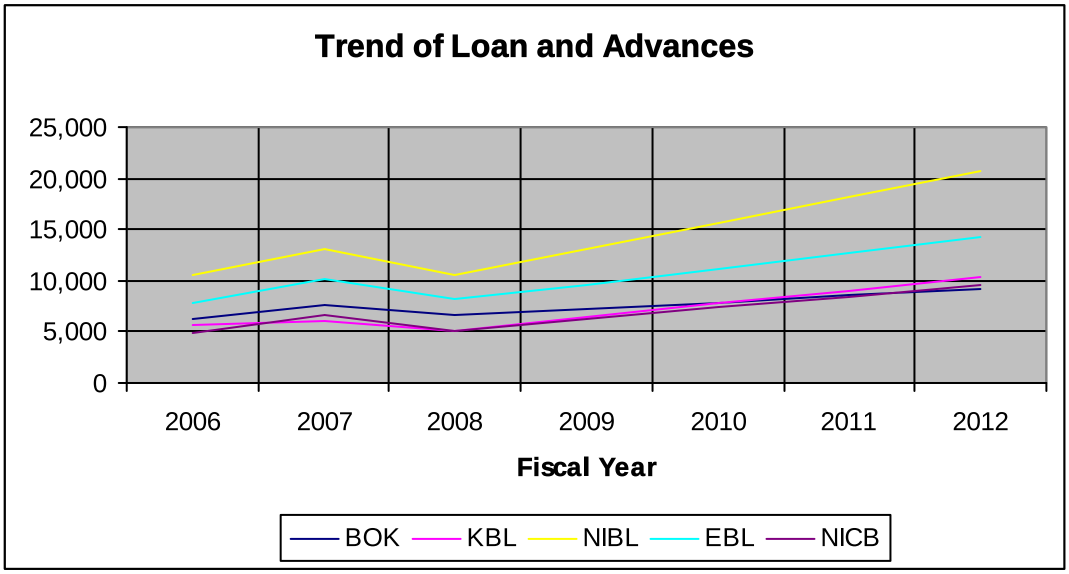
Trend analysis of loan and advances show the pattern of loan growth. It may be positive of Negative. Trend helps the management to estimate the future volume of their loan and if required volume of loan is high then the trend then management can either increase their marketing efforts to achieve the required loan volume or review their target. Therefore it is most commonly used statistical tools of management. Following table no 4.10 shows the pattern of loan and advances of listed commercial banks.

**Table 4.10**

**Trend analysis of Loan and Advances**

| | | | **Forecasted loan and advances** | | | | |
|---|---|---|---|---|---|---|---|
| **Banks** | **a** | **b** | **2008** | **2009** | **2010** | **2011** | **2012** |
| BOK | 5,896 | 663 | 6,559 | 7,222 | 7,885 | 8,548 | 9,212 |
| KBL | 3,731 | 1,331 | 5,062 | 6,393 | 7,724 | 9,055 | 10,386 |
| NIBL | 7,920 | 2,545 | 10,464 | 13,009 | 15,554 | 18,099 | 20,643 |
| EBL | 6,649 | 1,507 | 8,156 | 9,663 | 11,170 | 12,678 | 14,185 |
| NICB | 4,048 | 1,092 | 5,141 | 6,233 | 7,325 | 8,418 | 9,510 |

**Figure 4.10**
**Trend of Loan and Advances**




Above table 4.10 shows the trend of loan and advances of selected commercial banks of coming five years. It is clear that all the banks have increasing trend of loan and advances. NIBL and KBL show the highest increasing trend of loan and advances. If it continues the same trend of increment in the loan and advances it will become around three times greater than the current average loan of 7.9 billion 3.7 billion respectively. Increasing loan and advances in one hand increases the net interest income of banks but in the other hand there is high chance of flowing bad loan in the race of increasing loan and advances. Therefore management should be sure about the quality than the quantity of loan.

Similarly BOK shows the lowest growth of loan and advances, it has current average loan of 5.9 billion and expected to increase to 9.2 billion by coming 5 years. Other banks have a moderate growth in their loan and advances and if they continue the same trend their loan portfolio will become slightly more than double of their current position. The trend of loan and advances has been presented to have bird eye on future trend.

### 4.3.2 Trend analysis of Loan Loss Provision

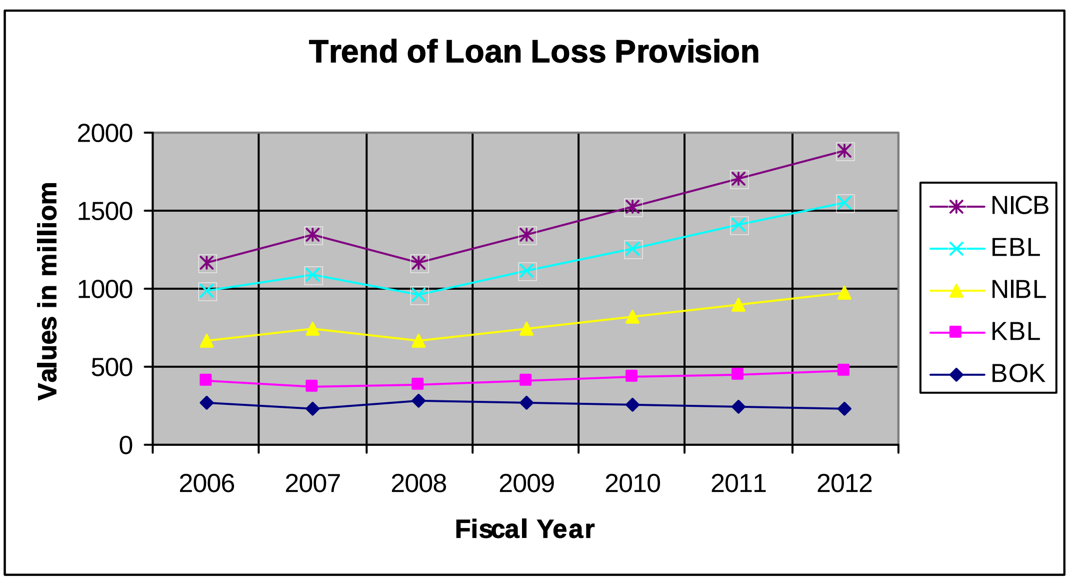
Trend analysis of loan loss provision helps the management to estimate the future volume of loan loss provision. Following table no 4.11 illustrate the pattern of loan and advances of listed commercial banks.

**Table 4.11**

**Trend analysis of Loan Loss Provision**

| Banks | a | b | Forecasted loan Loss Provision | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2008 | 2009 | 2010 | 2011 | 2012 |
| BOK | 291 | (12) | 279 | 267 | 254 | 242 | 229 |
| KBL | 74 | 34 | 108 | 142 | 177 | 211 | 245 |
| NIBL | 227 | 56 | 283 | 338 | 394 | 449 | 505 |
| EBL | 225 | 70 | 294 | 364 | 434 | 503 | 573 |
| NICB | 167 | 34 | 201 | 235 | 270 | 304 | 338 |

**Figure 4.11**
**Trend of Loan Loss Provision**




Above table 4.11 shows the trend of loan loss provision of selected commercial banks for the coming five years. Table clears that loan loss provision of all the banks except BOK is increasing.

BOK has been able to decrease the level of provision through out the year, which is good sign. BOK has written off huge amount of its bad loan during 2006 and 2007, which has reduced the total loan loss provision of this bank. If BOK continues the trend then its provision is expected to decrease to 229 by the year 2012.

KBL, NIBL, EBL, NICB have growing trend of loan loss provision. Among them KBL has shown the highest growth rate in LLP which indicates future pressure on profit and loss account of this bank due to additional loan loss provision. If KBL fails to switch their loan portfolio with good loan it may create future losses. Likewise other banks have growing trend in their provision which increases the loan loss provision by almost double of all the banks. Therefore, these banks also need to manage their loan portfolio.

The trend of loan Loss Provision has been presented to have bird eye view on future.

### 4.3.3 Trend analysis Non-performing Loan

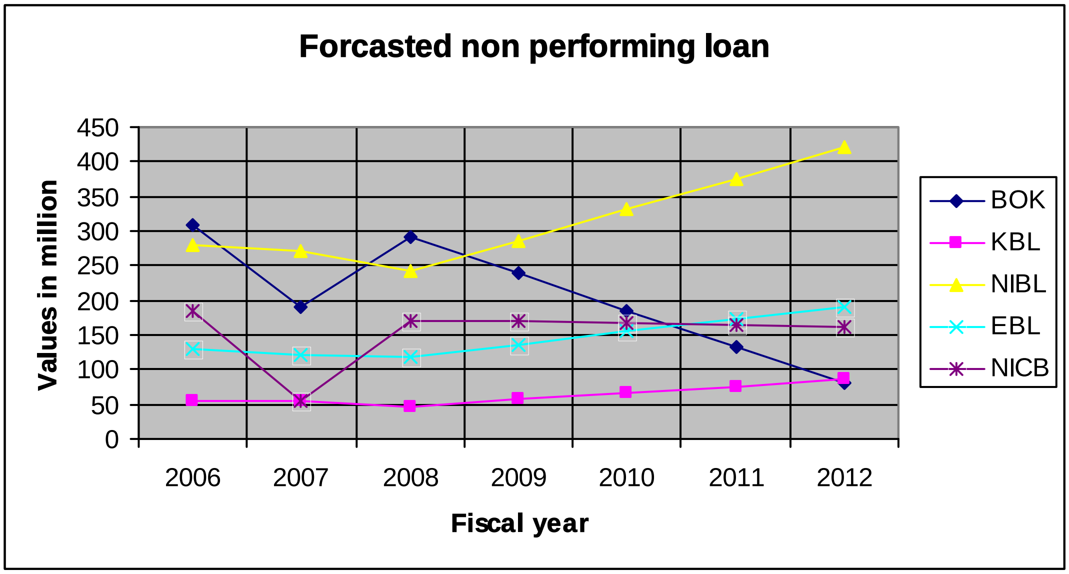
Trend analysis of Non- performing Loan helps the management to control the level of Non-performing Loan in their future portfolio. Following table no 4.12 illustrate the pattern of Non-performing Loan of listed commercial banks.

**Table 4.12**

**Trend analysis Non-performing Loan**

| | | | **Forecasted non performing loan** | | | | |
|---|---|---|---|---|---|---|---|
| **Banks** | **a** | **b** | **2008** | **2009** | **2010** | **2011** | **2012** |
| BOK | 343 | (53) | 291 | 238 | 186 | 133 | 81 |
| KBL | 37 | 10 | 47 | 57 | 67 | 76 | 86 |
| NIBL | 196 | 45 | 241 | 286 | 331 | 376 | 421 |
| EBL | 102 | 18 | 119 | 137 | 155 | 172 | 190 |
| NICB | 174 | (3) | 171 | 169 | 166 | 164 | 161 |

**Figure 4.12**
**Forecasted non performing loan**




Above table 4.12 shows the trend of Non- performing Loan of selected commercial banks for the coming 5 years. It is clear to see that Non- performing Loan of KBL, NIBL and EBL is increasing and that of BOK and NICB is decreasing. BOK and NICB have been doing well in respect of quality Loan. We can see that these banks have been very conservative regarding flowing loan which in the one hand blocked their loan growth but in the other hand it has enable them to maintain a better portfolio and made them able to decrease the level of provision. KBL, NIBL and EBL have increasing level of NPL. These banks have reported higher growth in loan and advances and due to positive correlation between loan and advances and NPL, the NPL of these banks are also increasing. These banks needs to review the relation ship of loan and advances and NPL and should make decision regarding flowing loan accordingly.

The trend of nonperforming loan has been presented to have bird eye view on future.

**Major findings of Trend analysis**

In this segment we have used least square method to find out the growth patterns and predicted the future expected values. All the banks have increasing trend of loan and advances. NIBL and KBL show the highest growth rate of Loan and advances. Similarly BOK shows the lowest growth rate of loan and advances. Other banks have moderate growth rate in their loan and advances and if they continue the same trend their loan portfolio will be slightly more than double of current average loan. Loan Loss Provision of commercial banks has in increasing trend except BOK. BOK has been able to decrease the provision throughout the year. If BOK continues the trend its provision is except to decrease to 229 by the year 2012.KBL, NIBL, EBL, NICB have growing trend of loan loss provision. Among them KBL has shown the highest growth rate in LLP. Likewise other banks have growing trend in their provision which increases the loan loss provision by almost double of all the banks. Therefore, these banks also need to manage their loan portfolio. Non- performing Loan of KBL, NIBL and EBL are increasing and that of BOK and NICB is decreasing. BOK and NICB have been conservative regarding flowing loan, which has made them able to flow quality loan and decrease the level of provision. KBL, NIBL, and EBL have increasing level of NPL.

# CHAPTER-FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This segment includes the major findings and conclusion of the study. This chapter deals about the main themes of the study and gives recommendations for improvement non-performing loan.

## 5.1 Summary and Conclusion

Development of a country always depends upon the economic development of that country. Financial institutions play vital role for economic development. Basically it works as financial intermediary by taking deposit and lending that money to deficit group of society. Loan and advances reflected in assets side of balance sheet of commercial banks. Loan and advances is direct contributor to banks income. Loan can be divided into two categories namely performing loan and non-performing loan.

Performing loan are those loan and advances, which service the banks on time. Which means the loan, which pays its installment and interest within the time, is known as performing loan. Performing loan is the contributor of bank's growth and prosperity. Non-performing loan is such loan, which fails to pay its interest to bank within stipulated time. Non-performing loan is the major concern of management because non-performing loan needs to make provision and it hampers the profitability of bank.

This study mainly focuses on analyzing the non-performing loan issue of Nepalese commercial banks. Among total banks, five banks have been selected as sample. Required data have been collected either from the annual report of the bank or from the website of Nepal Rastra Bank.

From the study following conclusion has been drawn.

- Loan and advances are the major determinant of earning of commercial banks and major portion of their earning assets. The study of loan and advances to total assets has sighted that most of the banks have maintained sixty per cent of their total assets in the form of loan and advances which obviously indicate high attention of management towards of loan and advances.

- Loan and advances largely depends upon the level of deposit. The banks having more deposit have higher portion of loan and advances and vice versa. The study has revealed that most of the banks has maintained CD ratio around 70 per cent. Among them KBL has highest CD ratio of 85 per cent which indicates high liquidity risk in KBL in comparison with the other banks studied. Likewise BOK and NICB has also 77 per cent of average CD ratio which is slightly high than ideal CD ratio of 75 per cent. NIBL and EBL are comparatively low risky regarding liquidity.

- Loan loss provision is a safeguard against future contingencies, which NRB has made mandatory to all type of loan and advances. Higher portion of LLP indicates high portion of NPL in total loan Portfolio and bad conditions of banks too. Our analysis of loan loss provision in total loan and advances has cleared that BOK and NICB are the banks who have high loan loss provision of around per cent in respect of total loan but they are in decreasing trend. Likewise NIBL and KBL have moderate LLP 3 per cent each. KBL has the lowest portion of LLP of 2 per cent only. This indicated that NIBL, KBL are doing well in respect of quality loan management whereas BOK and NICB were poor in loan management but now they are managing their loan perfectly.

- NRB has directed to divide the total loan onto two parts- performing loans and non-performing loan. Non-performing loan are those loans which fails to service in time and it is bad for financial health of any bank therefore, we have analyzed the portion of non performing loan in total loan and advances which reveals that non performing loan of commercial banks have been decreasing. Due to strict NRB regulations regarding loan loss provision, all banks have been focusing on quality loan, which has resultant lower non-performing loan ratio. Among them KBL and EBL have maintained their NPL level very low making 1 per cent and 2 per cent respectively which indicates that these banks have been making continuous effort to maintain their NPL level low.

- Provision to non performing loan of bank shows that the level of provision of all banks are increasing and almost all commercial banks have created provision greater than the amount of non performing loan which shows that all banks are safe against the future contingencies that may be created due to non payment of loan.

- Correlation between LLP and NPL of almost all banks are perfect positive which shows that increment in loan increases the non-performing loan due to poor loan disbursement decision of commercial banks. The perfect positive correlation shows that there is still lack of experts in analyzing loan in commercial banks of Nepal.

- Correlation between total deposit and total loan and advances indicates perfect positive correlation between deposit and loan and advance for review period. Perfect positive correlation between deposit and loan indicates that loan and advance largely depends on deposit volume of these banks.

- All banks have increasing trend of loan and advances. NIBL and KBL show the highest growth rate of loan and advances. Other banks have a moderate growth in their loan and advances and if they continue same trend, their portfolio will become slightly more than the double of current average loan.

- Loan loss provisions of commercial banks have increasing trend except BOK. BOK has been able to decrease the level of provision throughout the year. If BOK continues the trend, its provision is expected to decrease in coming year. KBL, NIBL, EBL and NICB have growing trend of loan loss provision. Among them KBL has shown the highest growth rate in LLP. Likewise, other banks also have growing trend in their provision which increases the loan loss provision by almost double of all banks. Therefore, these banks also need to manage their loan portfolio.

- Non-performing loan of KBL, NIBL and EBL is in increasing trend and that of BOK and NICB is decreasing. BOK and NICB have been very conservative regarding flowing loan, which has made them able to flow quality loan and decrease the level of provision. KBL< NIBL and EBL have increasing level of NPL.

## 5.2 Recommendations

Based on the findings of the study and taking into consideration, the relevant issues, the appropriate recommendations are made as far as possible to make the study useful.

- Commercial banks should follow a policy regarding loan disbursement. Loan and advances are risky assets. In the one hand, it generates high return to banks. On the other hand, it may become the cause of bank collapse. Therefore a tread off between risk and return should be maintained and the portion of loan in total assets should be monitored closely.

- The major job of bank is to collect deposit and invest that money in profit making projects. For every rupee, banks have to pay interest. Therefore banks should be conscious to utilize the depositor's money. Banks should be ready to pay depositor's money on demand. This increases the creditability of banks. Therefore banks should not invest its all money in loan and advances. Banks should maintain certain level of CD ratio. Some banks have been found to have very high CD ratio and some have very low. High CD ratio generated more earning and less liquidity available with bank and vice versa. Therefore, banks have to utilize the depositor's money optimally.

- Non-performing loan of all banks have been found to have decreased. It is good symptom. Banks should focus on quality loan in coming days and maintain their loan portfolio more productive.

- Most of the banks have been maintaining the level of loan loss provision above the level of non-performing. Still some banks are not maintaining loan loss provision for their entire non-performing loan. Uncovered non-performing loan may create future loss to banks and certainly hampers the profitability of banks. Therefore banks having uncovered non-performing loan should make adequate provision. In other word the ratio of provision to non-performing loan should be higher than 100 per cent.

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Table NO.56
List of Class A Licensed Financial Institution (Commercial Banks)
Mid-Janaury,2008

| Names | Operation Date (A.D.) | Head Office | Telephone No |
|---|---|---|---|
| 1. Nepal Bank Limited | 1937/11/15 | Dharmapath, Kathmandu | 4221185 |
| 2. Rastriya Banijya Bank | 1966/01/23 | inghdarbarplaza, Kathmand | 4246022/42683 |
| 3. NABIL Bank Limited | 1984/07/16 | Kantipath, Kathmandu | 4429546 |
| 4. Nepal Investment Bank Limited | 1986/02/27 | Durbar Marg, Kathmandu | 4228229/42252 |
| 5. Standard Chartered Bank Nepal Limited. | 1987/01/30 | laya Baneshwar, Kathmand | 4781469 |
| 6. Himalayan Bank Limited | 1993/01/18 | Thamel, Kathmandu | 4227749 |
| 7. Nepal SBI Bank Limited | 1993/07/07 | Hattisar, Kathmandu | 4435516 |
| 8. Nepal Bangladesh Bank Limited | 1993/06/05 | laya Baneshwar, Kathmand | 4783972/75 |
| 9. Everest Bank Limited | 1994/10/18 | Lazimpat, Kathmandu | 4443377 |
| 10. Bank of Kathmandu Limited | 1995/03/12 | Kamaladi, Kathmandu | 4414541 |
| 11.Nepal Credit and Commerce Bank Limited | 1996/10/14 | Siddharthanagar, Rupandeh | 071-521921/4246 |
| 12. Lumbini Bank Limited | 1998/07/17 | Narayangadh, Chitawan | 056524150/4243 |
| 13. Nepal Industrial & Commercial Bank Limited | 1998/07/21 | Biaratnagar, Morang | 021-521921/4262 |
| 14. Machhapuchhre Bank Limited | 2000/10/03 | Prithvichowk, Pokhara | 061-530900/4443 |
| 15. Kumari Bank Limited | 2001/04/03 | Putali Sadak, Kathmandu | 4232112 |
| 16. Laxmi Bank Limited | 2002/04/03 | Adarshanagar, Birgunj | 011-663425/2 |
| 17. Siddhartha Bank Limited | 2002/12/24 | Kamaladi, Kathmandu | 4442919/920 |
| 18. Agriculture Development Bank Ltd. | 2006/03/16 | Ramshahapath, Kathmandu | 4252358 |
| 19. Global Bank Ltd. | 2007/01/02 | Birgunj, Parsa | 4231198 |
| 20. Citizens Bank International Ltd. | 2007/06/21 | Kamaladi, Kathmandu | 4262699, 42217 |
| 21. Prime Commercial Bank Ltd. | 2007/09/24 | New Road, Kathmandu | 4233388 |
| 22. Sun Rise BANK Ltd. | 2007/10/12 | iridhara Crossing, Kathman | 4420612, 44250 |
| 23. Bank of Asia Ltd. | 2007/10/12 | Tripureswor, Kathmandu | 4263212, 42632 |

Table No. 6

**Non Performing Loan Status of Commercial Banks**

| Banks | Mid-July | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | | 2007 | | |
| | Total Gross Loan | NPL | NPL to Total Gross Loan (In%) | Total Gross Loan | NPL | NPL to Total Gross Loan (In%) | Total Gross Loan | NPL | NPL to Total Gross Loan (In%) | Total Gross Loan | NPL | NPL to Total Gross Loan (In%) | Total Gross Loan | NPL | NPL to Total Gross Loan (In%) |
| 1. Nepal Bank Limited | 18132.33 | 10964.91 | 60.47 | 17937.66 | 9640.08 | 53.74 | 16866.50 | 8372.00 | 49.64 | 12441.59 | 2262.18 | 18.18 | 13756.60 | 1856.00 | 13.49 |
| 2. Rastriya Banijya Bank | 26608.83 | 16005.32 | 60.15 | 25105.68 | 14470.52 | 57.64 | 27000.90 | 13689.30 | 50.70 | 23246.50 | 8622.20 | 37.09 | 24871.36 | 6876.50 | 27.65 |
| 3. NABIL Bank Limited | 8113.68 | 449.63 | 5.54 | 8548.66 | 285.68 | 3.35 | 10946.74 | 144.51 | 1.32 | 13278.78 | 182.50 | 1.38 | 15903.00 | 178.30 | 1.12 |
| 4. Nepal Investment Bank Limited | 5921.79 | 117.09 | 1.98 | 7338.57 | 181.44 | 2.47 | 10453.16 | 280.87 | 2.69 | 13171.54 | 272.49 | 2.07 | 17769.00 | 421.97 | 2.37 |
| 5. Standard Chartered Bank Nepal Limited. | 6000.16 | 247.95 | 4.13 | 6693.86 | 252.20 | 3.77 | 8420.87 | 226.31 | 2.69 | 9206.28 | 195.90 | 2.13 | 10790.10 | 197.10 | 1.83 |
| 6. Himalayan Bank Limited | 10844.60 | 1092.84 | 10.08 | 12919.63 | 1147.46 | 8.88 | 13451.17 | 1001.35 | 7.44 | 15761.97 | 1040.75 | 6.60 | 17793.70 | 641.60 | 3.61 |
| 7. Nepal SBI Bank Limited | 4795.84 | 426.90 | 8.90 | 5531.83 | 345.82 | 6.25 | 6739.35 | 441.02 | 6.54 | 6241.45 | 505.30 | 8.10 | 10065.00 | 45.60 | 4.68 |
| 8. Nepal Bangladesh Bank Limited | 7961.51 | 1013.28 | 12.73 | 9644.70 | 1042.18 | 10.81 | 9626.91 | 1832.94 | 19.04 | 9796.38 | 2927.00 | 29.88 | 9169.40 | 3645.90 | 39.76 |
| 9. Everest Bank Limited | 5049.58 | 111.19 | 2.20 | 6095.84 | 104.76 | 1.72 | 7900.09 | 128.81 | 1.63 | 10136.25 | 129.30 | 1.27 | 14082.58 | 113.17 | 0.80 |
| 10. Bank of Kathmandu Limited | 4856.03 | 420.87 | 8.67 | 6008.31 | 399.94 | 6.66 | 6182.05 | 308.51 | 4.99 | 7488.70 | 203.60 | 2.72 | 9694.00 | 243.29 | 2.51 |
| 11. Nepal Credit and Commerce Bank Limited | 3396.41 | 700.83 | 20.63 | 4717.30 | 600.05 | 12.72 | 6011.90 | 519.26 | 8.64 | 5899.16 | 1289.90 | 21.87 | 5122.20 | 1606.87 | 31.37 |
| 12. Lumbini Bank Limited | 2622.36 | 306.77 | 11.70 | 3222.75 | 237.30 | 7.36 | 3686.13 | 561.13 | 15.23 | 4321.58 | 1339.20 | 30.99 | 4944.60 | 1007.00 | 20.37 |
| 13. Nepal Industrial & Commercial Bank Limited | 2562.86 | 170.69 | 6.66 | 3743.09 | 146.59 | 3.92 | 4906.36 | 185.43 | 3.78 | 6902.10 | 179.55 | 2.60 | 9128.70 | 1001.10 | 1.11 |
| 14. Machhapuchhre Bank Limited | 1495.86 | 31.10 | 2.08 | 2540.79 | 24.98 | 0.98 | 5130.22 | 19.86 | 0.39 | 6146.57 | 16.32 | 0.26 | 7319.90 | 85.16 | 1.16 |
| 15. Kumari Bank Limited | 2137.59 | 36.32 | 1.70 | 3697.99 | 28.19 | 0.76 | 5681.01 | 53.99 | 0.95 | 7007.78 | 64.35 | 0.92 | 9062.50 | 66.20 | 0.73 |
| 16. Laxmi Bank Limited | 775.94 | 0.00 | 0.00 | 1750.93 | 0.00 | 0.00 | 2726.14 | 44.49 | 1.63 | 4279.80 | 33.50 | 0.78 | 6529.20 | 23.10 | 0.35 |
| 17. Siddhartha Bank Limited | 629.03 | 0.00 | 0.00 | 1567.83 | 25.22 | 1.61 | 2634.93 | 67.93 | 2.58 | 3869.27 | 33.57 | 0.87 | 6319.90 | 21.50 | 0.34 |
| 18. Global Bank Ltd | | | | | | | | | | | | | 2601.70 | 0.00 | 0.00 |
| 19. Agriculture Development Bank Ltd. | | | | | | | | | | 33310.75 | 6858.39 | 20.59 | 34440.37 | 6185.29 | 17.96 |
| 20. Citizens Bank International Ltd.* | | | | | | | | | | | | | | | |
| 21. Prime Commercial Bank Ltd. | | | | | | | | | | | | | | | |
| 22. Sun Rise BANK Ltd. | | | | | | | | | | | | | | | |
| 23. Bank of Asia Ltd. | | | | | | | | | | | | | | | |
| Total | 111904.40 | 32095.69 | 28.68 | 127065.40 | 28933.41 | 22.77 | 148366.43 | 27877.70 | 18.79 | 194506.45 | 26157.30 | 13.45 | 229363.91 | 24215.85 | 10.56 |

* Data not available.