MONTHLY NEWSLETTER

Vol. 1 || ISSUE 12 JANUARY 2023

Machhapuchpuchhre Capital Limited

Research and Trading Team

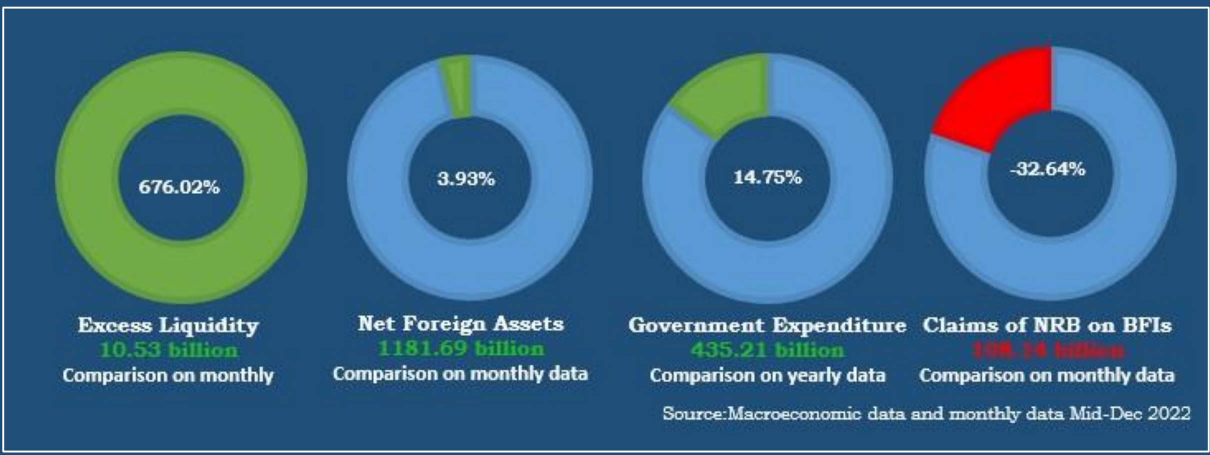
January 2023, Vol 1, Issue 12

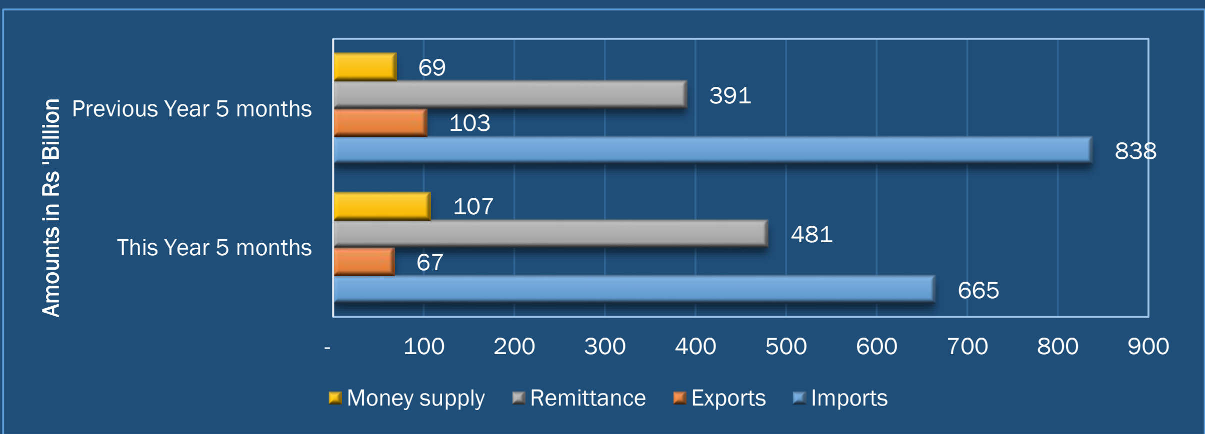
NEPSE HIGHLIGHTS

Particulars	Index	Monthly Gain/(Loss)	Beta	Turnover (Mil)
NEPSE Index	2,111.63	4.07%	1.00	79,816.48
Banking	1,367.41	0.12%	0.41	10,572.58
Hotels and Tourism	3,228.75	12.48%	1.39	1,076.04
Other	1,494.06	-3.82%	1.15	2,902.23
Hydropower	2,639.61	17.07%	1.58	28,540.17
Development Bank	3,681.89	2.29%	1.55	5,351.56
Manufacturing and Processing	5,110.80	-1.83%	1.01	4,445.82
Microfinance	4,641.39	3.45%	1.11	8,481.62
Life Insurance	10,809.06	7.23%	1.00	4,275.05
Investment	65.42	5.43%	1.65	3,072.26
Non-Life Insurance	9,175.92	10.62%	1.39	174.77
Finance	1,739.27	1.42%	1.76	5,069.80
Trading	2,267.48	16.31%	1.74	346.98

Source : NEPSE Data as of 31/01/2023

MARKET LIQUIDITY





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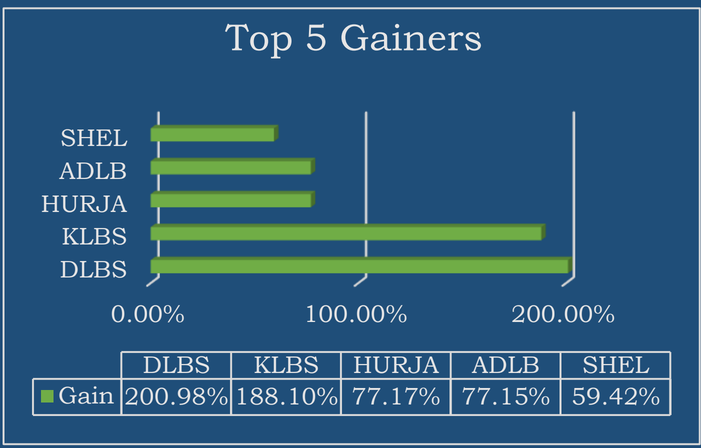
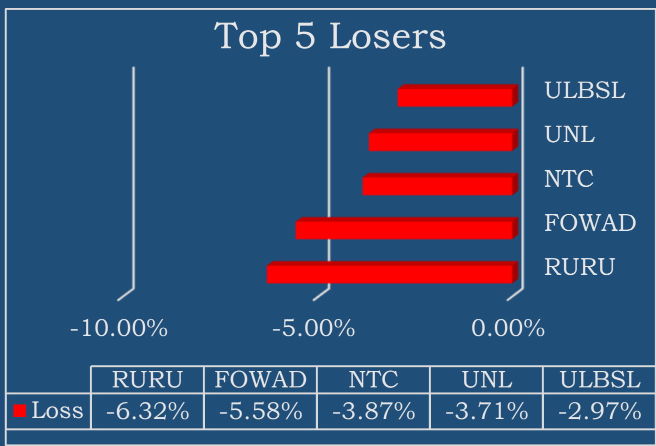
MONTHLY NEPSE OVERVIEW

New Year 2023 began with the continuation of the upward rally started from second half of the December 2022 to rise from the last month's closing index of 2029 up to the Index of 2277 with eight trading days gaining around 12.25%. Relaxation of the provisions of guidelines on working capital loan by the central bank has contributed for the rise of Nepse in the initial days of the month. After a strong protest and intense lobbying by the Business Community, NRB amended the Guidelines on Working Capital Loan 2022 by giving the deadline for borrowers to repay the excess credit mid-July 2025 in five installments. Moreover, the rumour of reduction of interest rate decline for the month of Magh 2079 and the almost confirmation scenario of newly elected Prime Minister Prachanda to get majority vote of confidence in the parliament have also attributed for the staggering rise in the Nepse in initial days.

However, following the common saying in the stock market and investment world i.e., "Buy on the rumor, sell on the news" Nepse observed the profit booking reversing its direction towards south on the announcement day of the positive news. On 10th January, Prachanda secured the post of Prime Minister by receiving 268 votes of confidence out of 275 in the House of Representatives indicating political stability scenario in the nation. However, as opposed to the assumption of general investors regarding the rise in Nepse, smart traders used this news for offloading the accumulated shares based on rumors. On the day, Nepse had risen to as high as up to Index of 2277 intraday but due to heavy profit booking, it could not sustain above and closed below 2200 Index. Similarly, on 11th January, as favored by the Investors and Traders, Nepal Bankers' Association decided to reduce the interest rate on deposits by 113 basis points. However, the market continued to witness the profit booking pushing the Nepse further down. Henceforth, Nepse tried to break out psychological barrier of 2200 Index quadruple times but remained failed to sustain above it and continued its downward rally coming to the later days of the month to close at 2111.68 gaining only 4.07% in overall in January. The market capitalization stands as on January end at Rs. 3,047,266.94 million.

In the month of January, the rise of Nepse had been majorly supported by the Hydropower, Trading, Hotels & Tourism, and Non-life Insurance Sector gaining 17.07%, 16.31%, 12.48% and 10.62% respectively. Whereas Other sector and Manufacturing & Processing sector shed around 3.82% and 1.83% respectively. Similarly, Banking, Development Bank, Finance and Microfinance Sectors could not outperform the gain of Nepse Index. While Life Insurance and Investment were able to beat the Nepse return with the gain of 7.23% and 5.43% respectively. Traders seem to be more active in the sectors like Finance, Trading, Investment, Hydropower and Development Bank Sectors as reflected by their beta of more than 1.5 times. Now, everyone involved in the capital market concerns about future direction of the Nepse. The liquidity position in the banking system has been ease to some extent. The macro-economic situation of the nation till the fifth month of fiscal year 2022/23 shows some sign of improvement owing to the import restrictions of luxury items by Government of Nepal and growth in remittance inflow. However, recent decisions of the GoN to lift the ban of import restrictions of luxury items in the 6th of December 2022 and removal of cash margin requirement to open Letter of Credit for importing goods in the January 2023 would somehow adversely affect the improving balance of payment position of the nation. Further, consequence of global recession in Nepal's economy needs to be closely observed. Moreover, half yearly monetary policy review by NRB is also the major event everyone is eyeing for investment decision making.





S.N.	**Symbol**	**Capitalization (Rs. In Million)**	**Weightage in Total market**
1	NABIL	193,186.97	6.23%
2	NTC	156,294.00	5.04%
3	NRIC	102,263.70	3.30%
4	NICA	92,858.96	2.99%
5	CIT	90,333.76	2.91%
6	HDL	66,157.10	2.13%
7	NLIC	60,246.47	1.94%
8	UPPER	57,503.70	1.85%
9	HIDCL	53,165.57	1.71%
10	GBIME	51,568.25	1.66%

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MUTUAL FUND

A mutual fund is a professionally managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities. Currently, there are 31 closed ended mutual funds listed in Nepse and 6 open ended mutual funds. The total fund size of the mutual fund industry stands around Rs 37 billion till date.

The mutual fund index stood at 14.48 at the end of January 2023 and closed by gaining 5.54% in a month. As of January, the index hit 13.63 as the low point and 15.08 as the highest point. In the previous month, the sub index closed by gaining 2.69%. As of mid-January, most of the mutual funds NAVs have increased above Rs 10 per unit. The NAV of most of the mutual funds have shown a positive growth in the current month as compared to that of the previous month. As of Mid-January, GIMES1 has the highest monthly growth in NAV of 15.37% while NSIF2 has the lowest monthly growth in NAV of 2.89%. Similarly, SIGS2, NBF2, SEF, NEF, SAEF, LEMF, NBF3 and SLCF are able to grow their NAV by more than 10% in Mid-January. The NAV of 9 mutual funds are still below the face value of Rs 10. Mutual funds' NAV growth has also been supported by the gain from the IPO shares reserved for them. Mutual Funds in Nepal get the 5% shares of the newly issued IPO of the companies as reservation.

As of the NAV report of January, SAEF has the highest NAV of Rs 13.49 per unit while SSIS has the lowest NAV of Rs 8.62 per unit. SAEF, SFMF, NICGF are the only three mutual funds having NAV more than Rs 12 per unit.

NAV per unit			
Mutual Fund	**15-Dec-22**	**14-Jan-23**	**Change**
GIMES1	9.11	10.51	15.37%
SIGS2	9.53	10.81	13.43%
NBF2	9.43	10.69	13.36%
SEF	9.47	10.69	12.88%
NEF	9.51	10.63	11.78%
SAEF	12.16	13.49	10.94%
LEMF	9.42	10.45	10.93%
NBF3	8.22	9.07	10.34%
SLCF	8.90	9.79	10.00%
SBCF	8.78	9.65	9.91%
SSIS	7.85	8.62	9.81%
MMF1	7.91	8.67	9.61%
NIBLPF	9.81	10.74	9.48%
LUK	9.71	10.63	9.47%
NMBSBF	8.80	9.61	9.20%
NMB50	10.68	11.64	8.99%
SFMF	11.39	12.39	8.78%
KEF	10.25	11.10	8.29%
NICGF	11.20	12.12	8.21%
CMF1	8.93	9.64	7.95%
CMF2	9.69	10.45	7.84%
NIBSF2	8.44	9.05	7.23%
NICBF	10.69	11.46	7.20%
RMF1	8.92	9.55	7.06%
PSF	9.84	10.47	6.40%
GIBF1	9.88	10.51	6.38%
NMBHF1	10.64	11.24	5.64%
NIBLSF	9.95	10.50	5.53%
KDBY	10.15	10.68	5.22%
NADDF	10.33	10.73	3.87%
NICFC	10.09	10.43	3.37%
NICSF	10.00	10.29	2.90%
NSIF2	10.04	10.33	2.89%
Average	**9.69**	**10.50**	**8.42%**

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Mutual Fund	NAV per unit 14-Jan-23	LTP 31-Jan-23	Discount/ Premium
SEF	10.69	8.31	-22.26%
NICBF	11.46	9	-21.47%
NICSF	10.29	8.1	-21.28%
NICFC	10.43	8.24	-21.00%
NICGF	12.12	9.61	-20.71%
GIBF1	10.51	8.34	-20.65%
KEF	11.10	8.81	-20.63%
SFMF	12.39	9.86	-20.42%
SAEF	13.49	10.76	-20.24%
PSF	10.47	8.36	-20.15%
KDBY	10.68	8.56	-19.85%
CMF2	10.45	8.38	-19.81%
LUK	10.63	8.56	-19.47%
SLCF	9.79	7.9	-19.31%
SIGS2	10.81	8.73	-19.24%
NIBLPF	10.74	8.77	-18.34%
NBF2	10.69	8.75	-18.15%
NBF3	9.07	7.57	-16.54%
NEF	10.63	8.95	-15.80%
RMF1	9.55	8.05	-15.71%
NMB50	11.64	9.85	-15.38%
NIBSF2	9.05	7.76	-14.25%
NMBHF1	11.24	9.67	-13.97%
SBCF	9.65	8.31	-13.89%
MMF1	8.67	7.61	-12.23%
LEMF	10.45	9.35	-10.53%
CMF1	9.64	9	-6.64%
GIMES1	10.51	9.99	-4.95%

The table below shows the top 10 stocks held by closed ended Mutual Funds till the end of January 2023. The mutual funds hold six commercial banks in the top 10 holdings in terms of amount. The highest holding of mutual funds is in the stock of NICA, followed by NLICL and CBBL. The mutual funds hold highest value of NLICL from the life insurance sector and highest value of NIL from the non-life insurance sector.

Investment in the mutual funds at the significant discount, generally provides good return over the period of time.

Top 10 Stock Holdings		
Stocks	Quantity	Sum of Amount
NICA	488,472.00	392,243,016.00
NLICL	566,219.00	365,777,764.70
CBBL	277,125.00	341,140,875.00
NABIL	390,361.00	278,717,754.00
NIL	301,414.00	269,825,812.80
MBL	1,059,005.00	264,221,747.50
SANIMA	982,630.00	255,582,063.00
PRVU	1,123,520.00	237,062,720.00
PIC	349,149.00	229,390,893.00
PCBL	945,898.00	217,556,540.00

Currently, all the mutual funds are trading at a discount where some of the mutual funds are trading at heavy discounted prices. Generally, the higher the discount, the better is the investment opportunity in the mutual funds. The mutual funds including SEF, NICBF and NICSF are trading at the highest discount rates of 22.26%, 21.47% and 21.28% respectively whereas GIMES1 is trading at the lowest discount of 4.95% with maturity date nearing i.e., on 24th March 2023. Similarly, NICGF, GIBF1, KEF, SFMF, SAEF, and PSF are also trading at discount of more than 20%.

Moreover, in the recent time, open-ended mutual funds are offering the Systematic Investment Plan (SIP) to the investors in which they can purchase the units of mutual funds at regular interval of time. SIP encourages the disciplined investment and helps to avoid sentiment-driven decisions.

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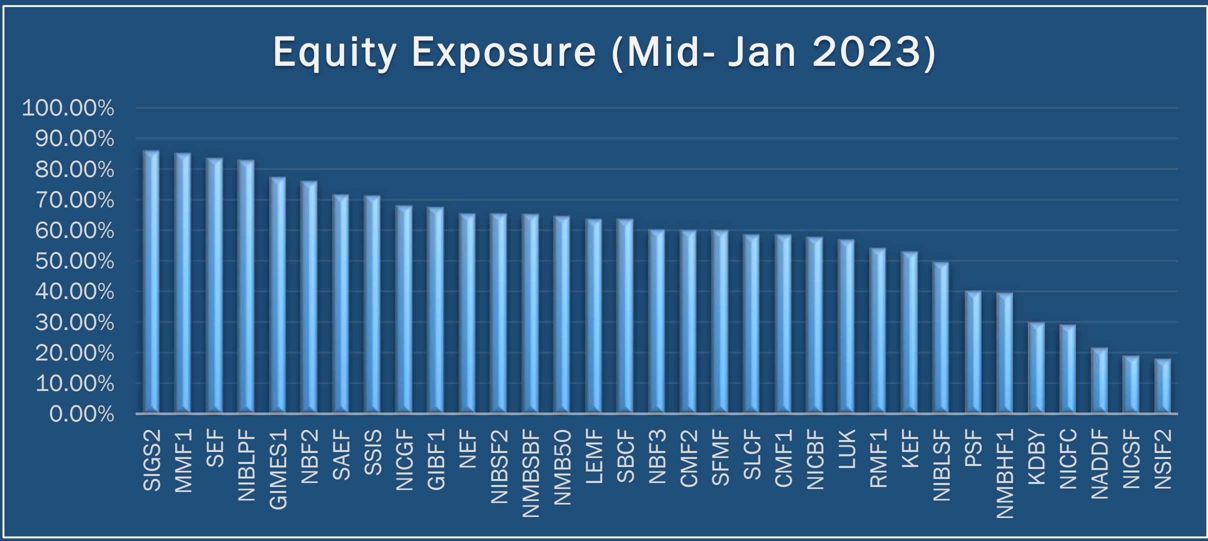
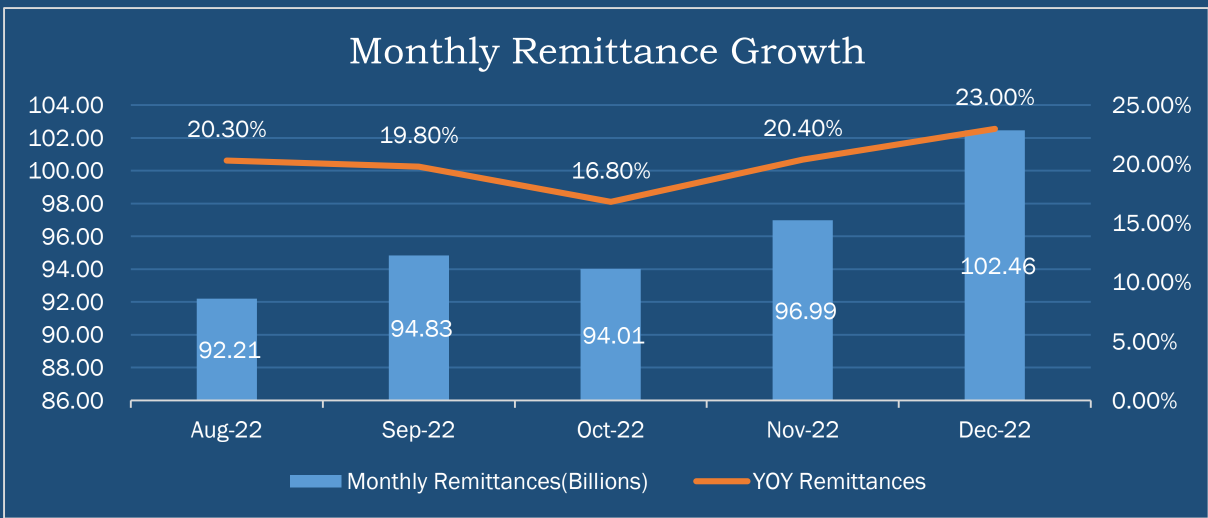
Likewise, the chart below shows the equity exposures of the Mutual Funds. Four mutual funds have the highest equity exposure of more than 80%. SIGS2, MMF1, SEF, and NIBLPF have the highest equity exposures of 85.98%, 85.15%, 83.65% and 82.83% respectively whereas NADDF, NICSF, and NSIF2 have the lowest equity exposure of 21.56%, 19% and 18.02% respectively.



MACROECONOMIC ANALYSIS

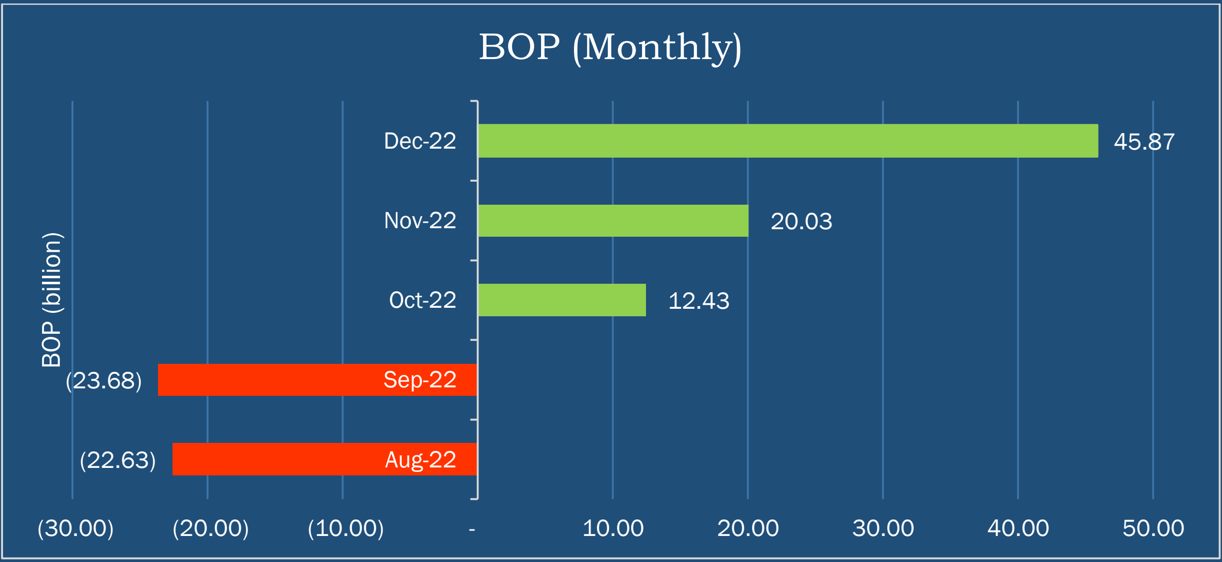
- **Remittance**



Source: NRB Monthly Macroeconomic Report

The remittance has increased by 23% as of Mid-December 2022 on a Y-o-Y basis. The remittance figure increased by 20.40% in the previous month of November 2022. The remittance figure is continuously in an increasing trend on a monthly basis for the current fiscal year corresponding to the increasing number of migrant workers. The remittance figure stands at 480.50 Billion in the first five months of the current fiscal year

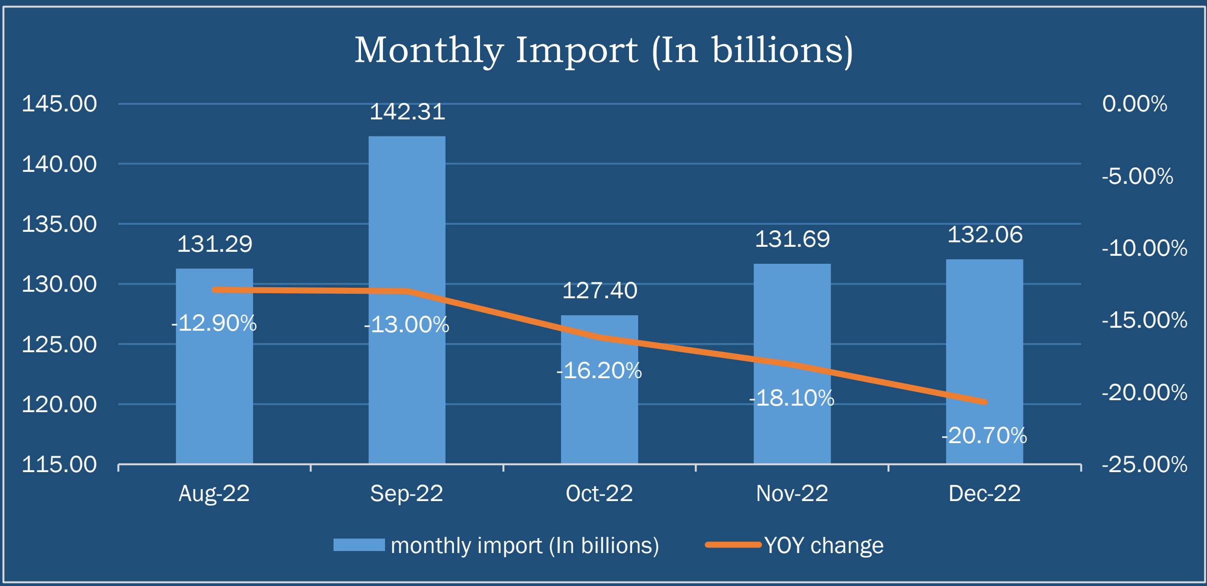
- **Balance of Payment (BOP)**



Source: NRB Monthly Macroeconomic Report

The BOP surplus trend has continued from Mid-October 2022. The import ban imposed on Late April with further increased restrictions in the upcoming months contributed to the low imports of luxury goods, along with increase in remittance reducing the pressure on BOP and trade deficit. This effect is seen on the BOP surplus of Mid-December 2022 as well. However, with the import restrictions being lifted as of early December 2022, it may increase the import figure which could also affect the BOP figure in the upcoming months.

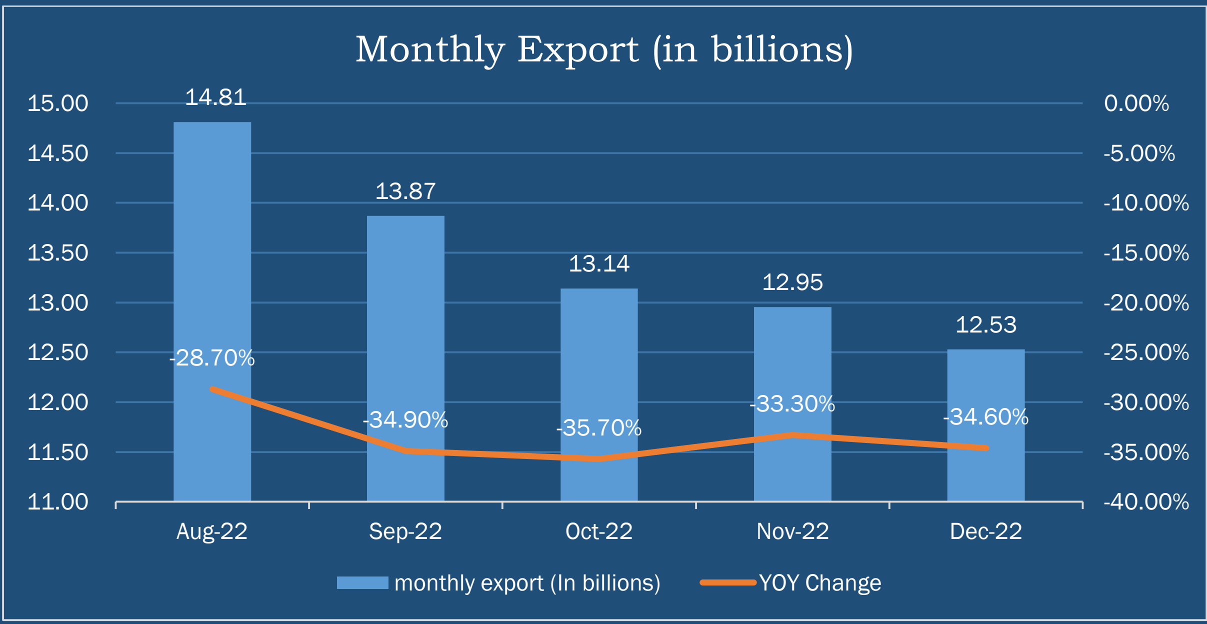
- Imports



Source: NRB Monthly Macroeconomic Report

The import figure has decreased by 20.7% as of Mid-December 2022 on a Y-o-Y basis. The import restrictions placed on late April 2022, has led to a decrease in import figures in the current fiscal year. Destination-wise, imports from India, China and other countries decreased 20.0 percent, 22.6 percent, and 21.4 percent respectively. However, the import restrictions have been lifted early December, hence this may increase the import figure in the upcoming months. Although, total imports have been declined on y-o-y basis, the import of petroleum products (having share of 18.2% in total imports) have increased by 14.1% compared to previous years' same period owing to increase in oil prices in international market. Reduction of the import in this fiscal year is majorly contributed by the decline in the import of the Machinery and Parts with the share of 4.4% in total imports by 20.5% and the import of Transport Equipment, Vehicle and Other Vehicle Spare parts having the share of 4.2% in total imports by massive 57%.

- **Exports**

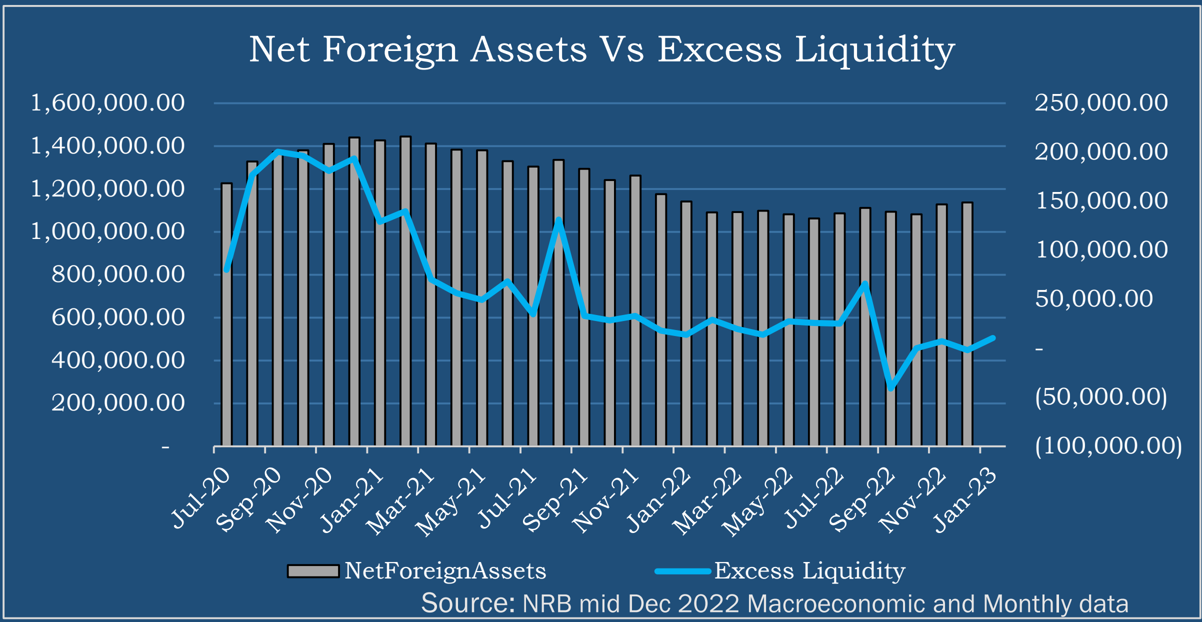


Source: NRB Monthly Macroeconomic Report

The exports figure has decreased by 34.6% as of Mid-December 2022 on a Y-o-Y basis. Destination wise, exports to India and China decreased 43.7 percent and 35.9 percent respectively whereas exports to other countries increased 7.1 percent. Significant reduction in the exports is majorly due to the massive decline in the export of Palm Oil and Soyabean Oil (having combined share of more than 25% in total export) by 60% and 77% respectively compared to last years' same period. Whereas the export of woolen carpet with 7.1% share in total export has increased by 28.1% in the review period. Similarly, Nepal has exported the electricity worth Rs 7.5 billion in the first five months of current fiscal year against 77 crore in the last years' same period. With both import and export decreasing, the primary reason in BOP surplus is due to increase in the inflow of remittance.

Total trade deficit decreased 18.8 percent to Rs.597.44 billion during the five months of 2022/23. Such a deficit had increased 54.7 percent in the corresponding period of the previous year. The export-import ratio decreased to 10.1 percent in the review period from 12.3 percent in the corresponding period of the previous year.

- **Market Liquidity**



The position of excess liquidity stood at around 10.53 billion in surplus figure (As of Mid-December 2022). The excess liquidity stood at around 200.43 billion as of Mid-August 2020. The position of excess liquidity currently indicates that liquidity has been extremely exhausted as the result of the persisting credit crisis in the Nepalese economy which arose as a result of excessive lending during the post-COVID period and the rising import figure. However, in comparison to the excess liquidity figure of Mid-September 2022 which stood at 41.27 billion in deficit, the liquidity situation in the current month has improved significantly. This may be attributed to the import restrictions placed and the discouragement of loans flowing into unproductive sectors. The import figure has decreased by 20.7% (As of Mid-December 2022) on a Y-o-Y basis. The import restrictions placed late April have been lifted as of 6th December, hence we can expect the import to increase in the upcoming months which may directly affect the liquidity position of the economy. Remittance has increased by 23% (As of Mid December 2022) on a Y-o-Y basis. Export however has decreased by 34.6% as of Mid-December 2022 on a Y-o-Y basis. The net foreign assets of the country have increased by 3.93% in the current month from that of previous month which was at 0.73%. The deposit and credit have increased by 4.23% and 1.51% in the fiscal year 2022/23 as of Mid-December,2022.

- **Weighted Average Interbank Rate**

With the recent improvement in the deposit collection and lending growth being below the deposit growth, the weighted average interbank rate which had been hovering close to upper band of Interest rate corridor set by Nepal Rastra Bank for more than a year has now been gradually decreasing and come down to the range of 4.15% as on 31st Jan 2023. It indicates some initial signal for the ease in the liquidity in economy.

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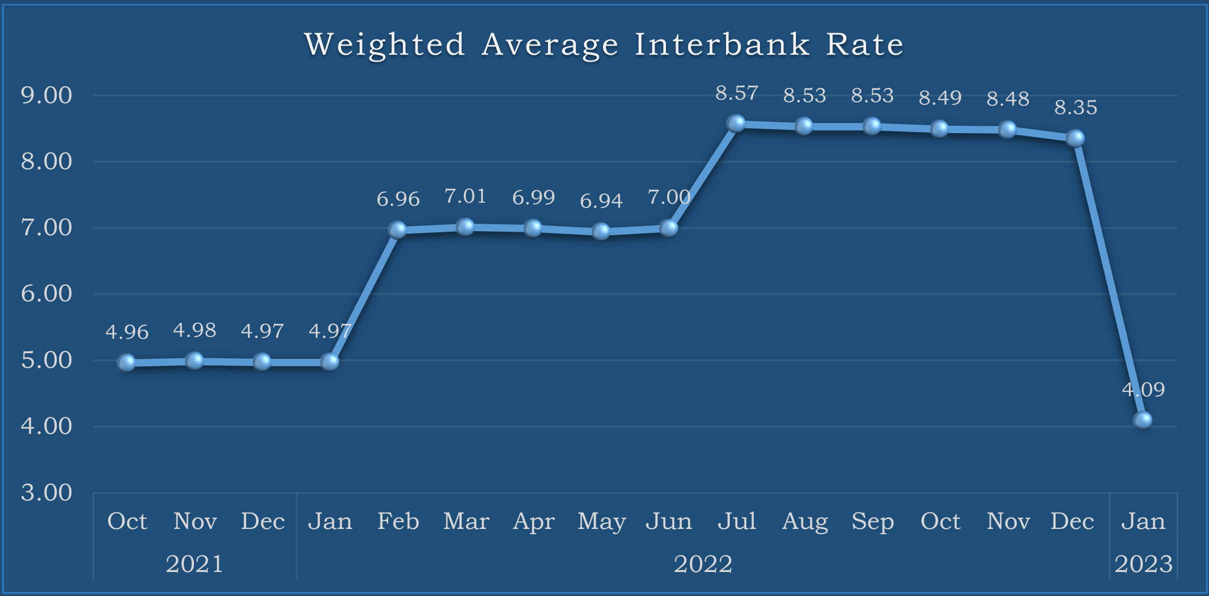
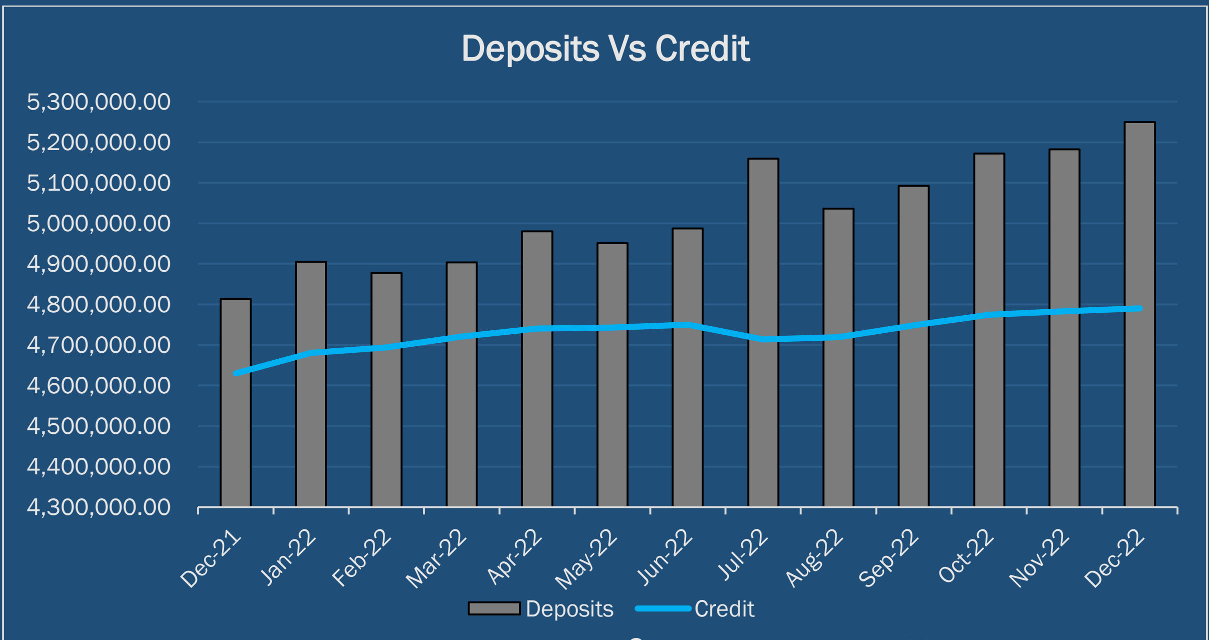


Source: NRB Website

- **Total Deposits and Lending**



Source: NRB mid May 2022 Monthly data

The total deposits and lending increased by 1.29% and 0.14% respectively as of Mid-December 2022 compared to that of the previous month. The total deposits stand at 5249.17 billion and the total credit stands at 4790 billion as of Mid- December 2022. In the current month, deposits have increased in higher percentage than credit which indicates a slight decrease in loan demand in the present time.

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As on 31st Jan 2023, the total deposit has further increased to 5353 billion and the total lending has increased to 4817 billion with the improvement in the CD ratio and weighted average interbank rate being at 86.54% and 4.15% respectively.

FUNDAMENTAL ANALYSIS

- **Sector wise P/E Ratio**

Sector	22-Dec	23-Jan	Change %
Commercial Bank	15.58	17.56	12.71%
Development Bank	32.81	28.72	-12.47%
Finance	81.63	101.39	24.21%
Microfinance	53.00	54.13	2.13%
Life Insurance	46.13	47.66	3.32%
Non-life Insurance	43.74	46.49	6.29%
Investment	47.60	50.22	5.50%
Hydropower	33.17	38.26	15.35%
Manufacturing	26.15	25.65	-1.91%
Others	26.55	25.50	-3.95%
Hotel	75.12	84.75	12.82%
Trading	396.07	470.18	18.71%
Nepse	**24.82**	**26.79**	**7.94%**

P/E ratio is the most widely used ratio by the investors to ascertain whether the stock is undervalued or overvalued. As a general principle, lower the PE ratio, better the company to invest in. The average PE Ratio of all the sectors has increased in the month of January except that of Development Bank, Manufacturing and Others Sector. The average EPS of the Development Bank Sector for the second quarter of FY 2079-80 has slightly increased compared to the first quarter resulting decline in the average P/E ratio whereas the reason for the decline in the P/E ratios of Manufacturing and Others sector is decline of the prices of the stocks of those sectors.

As of January end, the banking sector is trading at the lowest P/E ratio of 17.56 times, which is generally assumed to be relatively safer for investment from the PE perspective. After the banking sector, the manufacturing and the other sectors have the lowest P/E ratio of 25.65 times and 25.50 times respectively. Whereas the trading sector is trading at the highest P/E multiple of 470.18 times. Majority of the sectors are trading at the relatively higher P/E multiple in Nepse. But PE ratio can also be misleading if growth factor is not taken into consideration. Higher PE ratio if supported by growth factors can also be beneficial for the investment. Overall Nepse is trading at the P/E ratio of 26.79 times.

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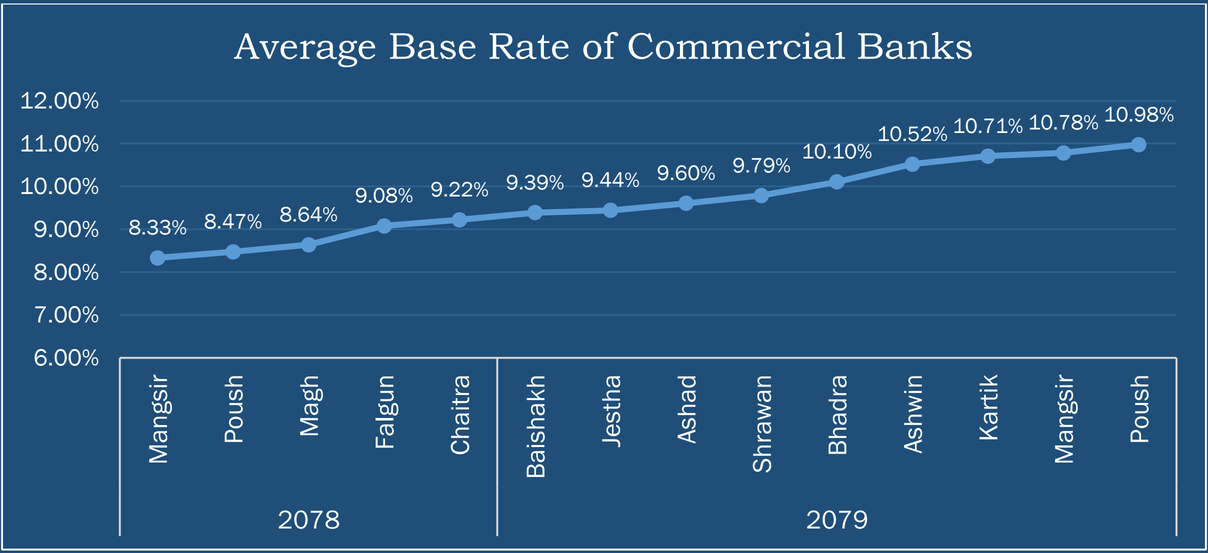
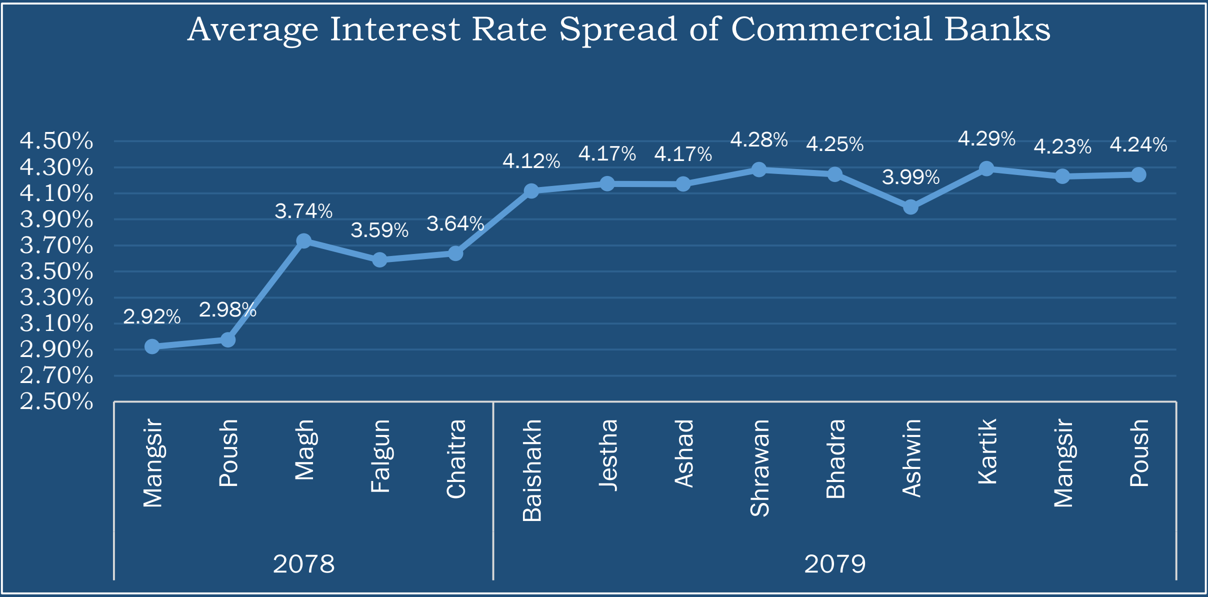
- **Average Base Rate of Commercial Banks**



Source: Compiled data from Banks' respective websites

The average base rate of the commercial banks is in the increasing trend as of Poush 2079. It has nominally increased to 10.98% in Poush 2079 from 10.78% in Mangsir 2079. The base rate was 8.47% as compared to the same period of previous year. To discourage excessive lending and control the inflation, NRB has increased the bank rates which ultimately led to an increase in the interest rate on saving accounts in the banking industry causing the base rate to rise. The situation of credit crunch aroused due to the excessive credit disbursement in the unproductive sectors as compared to the deposit collection in the post covid-period. Among the banks who have published the monthly base rate, CBL has the highest base rate of 12.13% whereas SCB has the lowest base rate of 9.67%.

- **Average Interest Spread Rate of Commercial Banks**



- Source: Compiled data from Banks' respective websites

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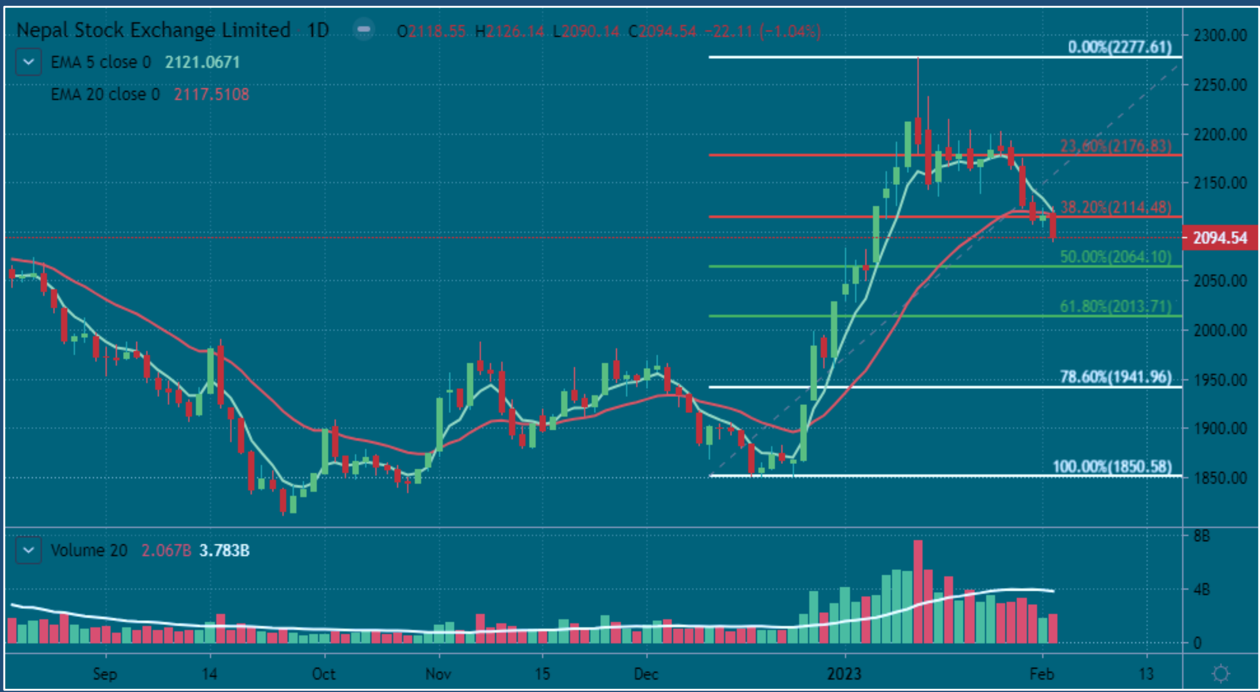
The average interest rate spread of the commercial banks has slightly decreased to 4.24% in the month of Poush 2079 as compared to 4.29% in the month of Kartik 2079. As per the amended guideline of NRB, the interest spread rate for the commercial banks cannot exceed 4.2% from the month of Chaitra 2079. Likewise, from the month of Asadh 2079, spread rate should not exceed 4.0% for the commercial banks. The amended guideline for the spread rate will affect the profitability of the commercial banks in the upcoming period as lower spread rate generally implies lower profitability for the commercial banks. Among the banks who have published the monthly spread rate of Poush, NABIL, KBL and SBI have maintained the highest spread rate of 4.48%, 4.42% and 4.40% respectively whereas ADBL, SCB and CBL have the lowest spread rate of 3.74%,3.93%, and 4% respectively.

NEPSE TECHNICAL ANALYSIS



Current Index (02-02-2023): 2094.54

As per Fibonacci Retracement

Support 1: 2064 (-1.43%)

Support 2: 2013 (-3.87%)

Resistance 1: 2114 (0.96%)

Resistance 2: 2176 (3.92 %)

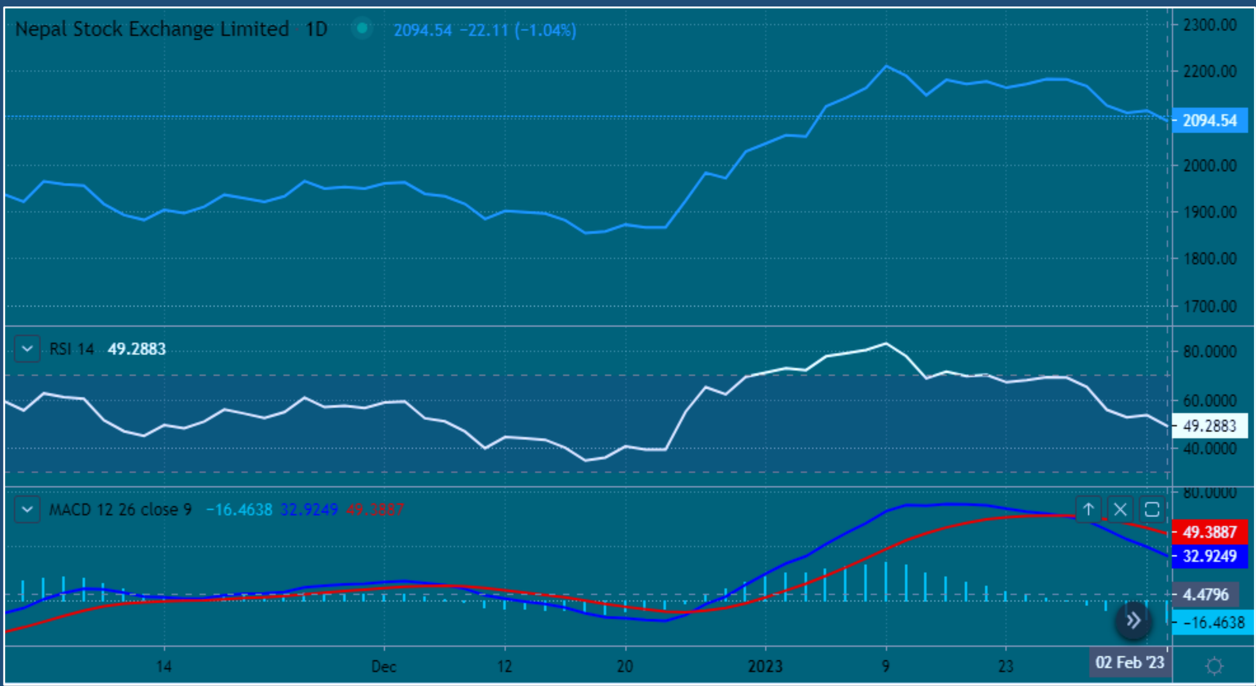
Candlesticks:

As per daily Analysis of 2nd Feb, 2023 NEPSE daily index closed on 2094.54 index with -1.04% decline from previous day, with volume of 2.096 Billion forming Big Red Candle. In this month, the market continued to incline from the beginning and made intra-day high of 2277 index, then followed by the correction as suggested by profit booking supply volume. With immediate support around 2064-2013 index and resistance around 2114 to 2176, the direction of the market will be determined in the coming month.

Exponential Moving Average (EMA):

EMA 5 and EMA 20 is seeming to form Dead Crossover pattern as EMA 5 is about to cross over EMA 20 from above with less volume support. If the rally continues with same pace it will turn the market sentiment towards bearish trend for short term.

RSI & MACD:



RSI:

In the NEPSE daily chart, the RSI indicator has declined to the neutral zone at 49.28 level from the overbought zone. Both the NEPSE line chart and RSI indicator is moving in the same downward direction looking for the support zone.

MACD:

The MACD indicator has suggested the bearish sentiment as MACD line has crossed Signal Line from above conforming dead crossover or bearish crossover in the MACD indicator which is also supported by the negative histogram.

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MCL KNOWLEDGE CENTER

Non-Performing Loan

1. **Non-Performing Loans**
   Non-Performing Loan (NPL) is the type of loan in which a borrower has failed to make scheduled payments for a certain period of time. NPL is usually considered to be loan on default and is a risk to the lender which is unlikely to be fully repaid.

2. **Non-Performing Loans to Total Loans Ratio**
   Banks are required by law to report their ratio of non-performing loans to total loans as a measure of the bank's level of credit risk and quality of outstanding loans. A high ratio means that the bank is at a greater risk of loss if it does not recover the owed loan amounts, whereas a small ratio means that the outstanding loans present a low risk to the bank. The ideal NPL to Total Loan Ratio is considered to be 4%.

3. **Provisions Regarding NPL in Nepal**
   The provision regarding NPL in Nepal has been stated in the Unified Directives No. 2 and has been detailed as follows:

Unified Directives No. 2:

This particular directive is concerned with the classification of loans and its provisioning. NRB has formulated directive no. 2 in order for every bank to uniformly classify and age the loans and prepare their particular provisions.

Therefore, on the basis of the payment period, there are two distinctions made, **Performing Loans** and **Non-Performing Loans**. Further, each of the two distinctions have their own sub classification as per certain criteria as mentioned in the directive.

Loan Classification	Due Period	Provision	Loan Category
Pass Loan	Up to 1 months	1 percent	Performing Loan
Watch-List Loan	Less than 3 months	5 percent	
Substandard Loan	3 to 6 months	25 percent	Non-Performing Loan
Doubtful Loan	6 to 12 months	50 percent	
Bad Debt	More than 12 months	100 percent	

A. Performing Loans and its provisioning:

i. Pass Loan

Those loans where, the payment time has exceeded up to 1 month.

ii. Watch list

Those loans where, the payment time has exceeded by 1 month but not exceeded by 3 months

As per the Unified Directive, general loan loss provision to be made for performing loans range from 1.3% (previously 1%, pre-COVID) for pass loans and 5% for watch list loans.

B. Non- performing Loans and its provisioning:

i. Substandard

Those loans where the payment time has exceeded by 3 months but not exceeded by 6 months. As per the directive, the loan loss provision to be made for the substandard loan must range from 25%.

ii. Doubtful

Those loans where the payment time has exceeded by 6 months but not exceeded by 12 months. As per the directive, the loan loss provision to be made for the doubtful loan must range from 50%.

iii. Loss

Those loans where the payment time has exceeded by 12 months. As per the directive, the loan loss provision to be made for the loss loan must range from 100%.

C. Restructured Loans

Loan restructuring is a process used by companies, individuals, and even countries to avoid the risk of defaulting on their existing debts, such as by negotiating lower interest rates, rescheduling payment periods. Restructured and rescheduled loans i.e., new loans that replace the older loans. and their provisions are also included in this particular directive. Such new loans are classified as non-performing loans and if these new loans are made against performing loans, 12.5% provision should be allocated and but in case of the new loans made against non-performing loans, no adjustment shall be made in the previous loan loss provision. However, in the case of non-performing loans for two consecutive years, the loan loss provision can be adjusted accordingly.

However, if these restructured and rescheduled loans fall under government priority project sectors like, hydropower, cable, cement then the provision is to be maintained at 1%.

3. NPL Status for the BFIs in Nepal

BFIs	Average NPL as of Q2 2079/80
Commercial Banks	2.33
Development Banks	4.07
Finance Companies	5.84

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