

**A STUDY ON NON PERFORMING ASSETS
OF
RASTRIYA BANIJYA BANK & NABIL BANK LIMITED**

Submitted By:

**RAJESWORI SHRESTHA
SHANKER DEV CAMPUS**

Campus Roll No.: 259

T.U. Regd No. 7-2-423-25-2002

Exam Symbol No.392315

A THESIS

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

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

Kathmandu, Nepal

September, 2011

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

RAJESWORI SHRESTHA

Entitled:

**A STUDY ON NON PERFORMING ASSETS OF RASTRIYA BANIJYA
BANK & NABIL BANK LIMITED**

*has been prepared as approved by this Department in the prescribed format of
the Faculty of Management. This thesis is forwarded for examination.*

.....
Asso. Prof. Ruchila Pandey
(Thesis Supervisor)

.....
Prof. Bisheshwor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA – VOCE SHEET

We have conducted the viva– voce of the thesis presented

Submitted by

RAJESWORI SHRESTHA

Entitled:

**A STUDY ON NON PERFORMING ASSETS OF RASTRIYA BANIJYA
BANK & NABIL BANK LIMITED**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of
Master of Business Studies (MBS)

Viva – Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work of reported in this thesis entitled “**A Study On Non Performing Assets Of Rastriya Banijya Bank & Nabil Bank Limited.**” submitted to the office of the Dean, FOM, T.U. is my original work done in the form of partial fulfillment of the Masters in Business Studies under the supervision of **Asso. Prof. Ruchila Pandey of Shanker Dev Campus.**

.....

RAJESWORI SHRESTHA

Researcher

SHANKER DEV CAMPUS

Campus Roll No.: 259-

063/064

T.U. Regd No. 7-2-423-25-2002

Exam Symbol No.392315

ACKNOWLEDGEMENT

This thesis entitled " **A Study On Non Performing Assets of Rastriya Banijya Bank & Nabil Bank Limited**" has been prepared in partial fulfillment for the degree of Masters of Business Studies (MBS).

I extend my deep sense of indebtedness to my respected supervisors **Ruchila Pandey of Shanker Dev Campus** for her precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without her valuable insight, I would not think of accomplishment of this thesis. Nepal Stock Exchange Ltd. and Security Board of Nepal had provided necessary datas for the completion of my research work.

I want to give thanks for the staff members of T.U. Central Library, Shanker Dev Campus Library who provided the reference and reading materials during the period of research.

I also would like to give thanks to the management and staffs of Rastrya Banijya Bank and Nabil Bank for providing me valuable information during the period my research work.

Finally, I would like to express my sincere gratitude to my family members, all my friends for their assistance, timely encouragement in every step.

Thank you.

RAJESWORI SHRESTHA
Shanker Dev Campus

TABLE OF CONTENTS

Recommendations	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

CHAPTER I: INTRODUCTION 1-13

1.1 Background of the study	1
1.1.1 Origin of banking	4
1.1.2 Commercial Bank	8
1.2 Statement of the Problem	9
1.3 Focus of the Study	11
1.4 Objectives of the Study	11
1.5 Limitations of the Study	12
1.6 Organization of the Study	12

CHAPTER II: REVIEW OF LITERATURE 14-44

2.1.1 Performing loan	14
2.1.2 Non-Performing Assets/Loan (NPAs/NPL)	14
2.1.3 Loan Loss Provision	18
2.1.4 Highlight on Performance of Nepalese Commercial Bank	21
2.2 Review of Related Studies	25
2.2.1 Review of Related Articles and Journals	25

2.2.2 Review of the previous Thesis	34
2.3 Research Gap	43

CHAPTER III: RESEARCH DESIGN AND METHODOLOGY 45-50

3.1 Research Design	45
3.2 Sources of Data	45
3.3 Population and Sample	45
3.4 Data Processing Procedures & Analysis	45
3.5 Tools of Data Analysis	46
3.5.1 Financial Tools	46
3.5.1.1 Ratio Analysis	46
3.5.2 Statistical Tools	47

CHAPTER IV: DATA PRESENTATION AND ANALYSIS 51-91

4.1.1 Loans and Advances to Total Assets Ratio	51
4.1.2 Loans and Advances to Total Deposit Ratio	53
4.1.3 Non- Performing Assets to Total Loans and Advances	55
4.1.4 Total Provision to Non-Performing Assets Ratio	57
4.1.5 Non-Performing Assets to Total Assets Ratio	59
4.1.5 Relation between Net Profit and NPA	61.
4.2 Correlation Analysis	64
4.2.1 Correlation Coefficient between Total Deposit and Loans and Advances	64
4.2.2 Co-efficient of Correlation between Loans and Advances and Net Profit	65
4.2.3 Correlation between Loan Loss Provision and Loan & Advances	66
4.2.4 Correlation between Loan Loss Provision and NPA	67
4.2.5 Correlation between Non-Performing Assets and Loans and Advances	68
4.2.6 Correlation between Non-Performing Assets (NPA) and Total Assets	69
4.3 Trend Analysis	72
4.3.1 Trend Analysis of Total Deposit	72
4.3.2 Trend Analysis of Loan & Advances	74

4.3.3 Trend Analysis of Net Profit	76
4.3.4 Trend Analysis of Non- Performing Assets	78
4.3.5 Trend Analysis of Loan Loss Provision	80
4.4 Major Findings of the Study	83

**CHAPTER V: SUMMARY, CONCLUSION AND
RECOMMENDATION**

91-96

5.1 Summary	92
5.3 Conclusions	93
5.3 Recommendations	95

BIBLIOGRAPHY

LIST OF TABLES

TABLE NO		PAGE NO
Table 4.1	Ratio of Loans and Advances to Total Assets	51
Table 4.2	Ratio of Loans and Advances to Total Deposit	53
Table 4.3	Ratio of Non- Performing Assets to Total Loans and Advances	56
Table 4.4	Ratio of Total Provision to Non-Performing Assets Ratio	58
Table 4.5	Ratio of Non-Performing Assets to Total Assets Ratio	60
Table 4.6	Ratio of Return on Total Loans and Advances	63
Table 4.7	Correlation Coefficient between Total Deposit and Loans and Advances	65
Table 4.8	Co-efficient of Correlation between Loans and Advances and Net Profit	66
Table 4.9	Correlation between Loan Loss Provision and Loan & Advances	67
Table 4.10	Correlations between Loan Loss Provision and NPA	68
Table 4.11	Correlation between Non-Performing Assets and Loans and Advance	69
Table 4.12	Correlation between Non-Performing Assets (NPA) and Total Assets	70
Table 4.13	Trend Analysis of Total Deposit	73
Table 4.14	Trend Analysis of Loan & Advances	75
Table 4.15	Trend Analysis of Net Profit	77
Table 4.16	Trend Analysis of Non- Performing Assets	79
Table 4.17	Trend Analysis of Loan Loss Provision Between RBB and NABIL	81

LIST OF FIGURES

FIGURE NO	PAGE NO
Figure 4.1 Loan and Advances to Total Assets Ratio	52
Figure 4.2 Loans and Advances to Total Deposit Ratio	55
Figure 4.3 Non- Performing Assets to Total Loans and Advances	57
Figure 4.4 Total Provision to Non-Performing Assets Ratio	59
Figure 4.5 Non-Performing Assets to Total Assets Ratio	61
Figure 4.6 Return on Total Loans and Advances	63
Figure 4.7 Trend Analysis of Total Deposit	74
Figure 4.8 Trend Analysis of Loan & Advances	76
Figure 4.9 Trend Analysis of Net Profit	78
Figure 4.10 Trend Analysis of Non- Performing Assets	80
Figure 4.11 Trend Analysis of Loan Loss Provision between RBB and NABIL	82

ABBREVIATIONS

%	: Percentage
&	: and
AMC	: Assets Management Company
APEC	: Asia Pacific Economic Cooperation
CA	: Current Assets
CCR	: Cash Reserve Ratio
CD	: Credit Deposit Ratio
CL	: Current Liabilities
CPs	: Commercial Papers
FY	: Fiscal Year
NBA	: Non- Banking Assets
NBL	: Nepal Bank Limited
NPA	: Non-Performing Assets
NPL	: Non-Performing Loans
NRB	: Nepal Rastra Bank
P.A.	: Per Annual
P.M	: Per Month
PE	: Probable error
PEs	: Public Enterprise
Pro.	: Professor
PU	: Pokhara University
R	: Correlation Coefficient
RBB	: Rastriya Banijya Bank
RNPL	: Remaining non performing loan
Rs.	: Rupees
S.D	: Standard deviations
SI	: Suspend Interest
SLR	: Statutory Liquidity Ratio
UA	: Unutilized Assets

CHAPTER-I

INTRODUCTION

1.1 Background of the study

Nepal is a small country sandwiched between two densely populated countries India and china. The level of economic development they have attained over the years and the current pace of their economic growth indicate that they have potential to compete in the international market. But the pace of the economic development of Nepal is still in its infant stage. For the economic growth and development, government has now initiated various economic policies with a hope that these policies will significantly change the industrial and business environment of the country in future. To accelerate economic development various policies like industrial policy, foreign investment policy, and trade policy have been formulated and are being implemented slowly.

The above-mentioned policies have brought about liberalization in Nepalese economy. With its impact various public sector industries are being privatized slowly and various multinational companies, joint venture banks and financial companies have emerged which aim in aiding economic development of the country. Banks and finance companies are the heart of financial system operating in the economy. At present there are various banking and non-banking institutions operating in the country even with their branches outside the valley. It is hoped that these financial institutions would help economic development of the country and even help compete in the international markets.

Any institution offering deposits subjects to withdrawal on demand and making loans of a commercial or business nature is a bank. Banks constitute an important segment of financial infrastructure of any country. Bank came into existence mainly with the objective of collecting the idle fund, and mobilizing them to productive sector causing overall economic development. A bank is the financial departmental store, which render various financial services besides taking deposits and lending loans. Bank is the financial institution, which deals with money by accepting various types of financial

services. In the modern economy, banks are to be not as the dealer of money but as the lender of the economic development. Banks are not just the storehouse of the country's wealth but also are to mobilize of the resources necessary for the economic development.

It cannot be denied that the issue of economic development rests upon the mobilization of resources and banks deals in the process of canalizing the available resources in the needed sector. Commercial banks collect deposits from the public and the largest portion of the deposited money is utilized in disbursing loans and advances. The balance sheets of the commercial banks reflect deposits constitute a major portion of the liabilities and loans and advances constitute a major portion of the assets. Similarly the profit of the bank depends upon the spread that it enjoys between the interest it receives from the borrowers and that to be paid to the borrowers. An average bank generates 60-70% of its revenues through its lending activities. The return that the bank enjoys of deposit mobilization through loans and advances is very attractive but they do not come free of cost and free of risk. There is risk inherent in lending portfolio. Banking sector is exposed to number of risk like interest rate risk, liquidity risk, credit risk, borrower's risk etc. Such risks in excessive form had led many banks to go bankrupt in a number of countries.

Non – Performing assets (NPA) can be defined as those assets that cannot be used productively. In other words, NPA is the outdated loan, and bad and doubtful debts. NPA could wreck banks' profitability both through a loss of interest income and write off the principal loan amount. To start with, performance in terms of profitability is a benchmark for any business enterprises including the banking industry. However, increasing non-performing assets have the direct impacts on banks' profitability, as legally banks are not allowed to book income on such accounts and at the same since banks are forced to make provision on such assets.

Performing assets are those that repay principal and interest to the banks. These assets constitute the primary sources of income to banks. Banks are willing to lend as much as possible. But they have to be very careful about the safety of such loans.

Banking is volatile and sensitive sectors of national economy, which requires effective monitoring and efficient supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of banking activities carried out by the governmental and non-governmental banking and financial institution." Gandhi Pandit, "legal complication (Business age vol.4, no8, Aug 2002.p.31)

“Now a day, the banks are taking different principles for granting loan (i.e. liquidity, profitability, safety & security, social responsibility etc.) but the NPA does not decline. An asset is classified as non-performing assets, if the borrower does not pay dues in the form of principal and interest. If any credit facilities or loan granted by bank to a borrower became non-performing, then the bank will have to treat all the credit facilities or loan granted to that borrower as non-performing assets NPA can also be non-performing loan, non-banking assets, remaining non-performing loan, suspend interest, unutilized assets etc. The notion of non-performing loans or assets is often used as a proxy for asset quality of a particular bank or banking system. Although, there is no uniform definition of nonperforming assets, in many countries, including most G-10 countries, assets are considered to be non-performing when (a) principal or interest is due and unpaid for 90 days or more; (b) interest payment equal to 90 day or more have been capitalized, refinanced or rolled over. The bottom line in the international manuals concerning non-performing loan, seems to be that loans are good unless there is absolute certainty that a loan is not going to be repaid under existing arrangement. The SNA 1993 and other international statistics manuals are silent on defining non-performing loans”. (Dahal, 2004:17)

Due to their central role in the economy, government and central bank try their best to rescue banks from such situations. Hence, to protect the banks from such situation and

protect depositors and shareholders money, central bank issues various directives and guidelines from time to time with modifications and amendments for the sound regulation of the banking system. All the banks have to abide by the rules and regulation issued by the central bank. Of the many directives, there are ten directives relating to the banking prudential regulation/norms to be followed by the banks.

1.1.1 Origin of banking

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

However, the development of banking in Nepal is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient time. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a Sundra merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. The establishment of "Tejarath Adda" during the year 1877A.D. was the first step in institutional development of banking sectors in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently, the major parts of the country remain untouched from these limited

banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy .Reviewing this situation, the “Udyog Parishad” was constituted in 1936 A.D. One year after its formulation , it formulated the “Company Act” and “Nepal Bank Act” in 1937 A.D. Nepal bank limited was established under Nepal Bank Act in 1937 A.D. as a first commercial bank of Nepal with 10 million authorized capital.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However, the stand of Nepal Bank Limited alone in total monetary and financial sector was sufficient and satisfactory. Thus Nepal Rastra Bank was set up in 1956 A.D. (2013.01.14) as a central bank under Nepal Rastra Bank Act 1956 A.D. (2012 B.S.) Similarly in 1966(2022.10.10) Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality/competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development Centre was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal Industrial Development Corporation (NIDC) in 1959 A.D. (2016 B.S.) Similarly Agricultural Development Bank (ADB) was established in 1976 A.D. (2024.10.07) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

In 1990 A.D. after the restoration of democracy in Nepal, the government took the liberal policy in banking sector. As an open policy of the HMG’s to get permission to invest in banking sector from private and foreign investor under Commercial Bank Act 1975 A.D. (2013 B.S.), different private banks are getting permission to establish with the joint venture of other countries. Nowadays, there are 29 commercial banks operating in Nepali financial market

Nabil Bank Limited (NABIL)

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 28 points of representation across the nation and over 170 reputed correspondent banks across the globe. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele banking system. The Chairman of Nabil Bank is Satyendra Pyara Shrestha.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Highly qualified and experienced management team manages operations of the bank, including day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATM's, credit cards, state-of-art world-renowned software from Infosys Technologies System, Bangalore, India, and Internet banking system and Tele-banking system.

Rastriya Banijya Bank

Rastriya Banijya Bank (RBB) is fully government owned, and the largest commercial bank in Nepal. RBB was established on January 23, 1966 (2022 Magh 10 BS) under the RBB Act. RBB provides various banking services to a wide range of customers including banks, insurance companies, industrial trading houses, airlines, hotels, and many other sectors. As on fiscal year end 2066/67 the bank's paid-up capital is 1 billion

72 million. RBB has Nepal's most extensive banking network with over 125 branches, covering 51 branches in the mountainous region, 48 in Terai region, and 19 in the Kathmandu Valley. Moreover, The bank has five regional offices in all regions of the country. There are 34 branches in Kathmandu region, 29 branches in Biratnagar region, 15 branches in Birgunj region, 23 branches in Pokhara region and 25 branches in Nepalgunj region. Through its branch network, RBB has been contributing to Nepal's economic development by providing banking services throughout the country.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and inter-bank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks.

In addition RBB runs various programs i.e. banking with the Poor, Micro Credit project for Women etc. to enhance the living standard of people as per the government directives. As well, RBB actively delivers various government programs to people living in remote parts of the country; these programs are intended to raise living standards of the local people.

RBB is committed towards the satisfaction of its customers by providing modern banking facilities. At the same time, the Bank is equally committed to the economic growth and development of the country. The Bank aims to reach every rural and urban corner of Nepal to accommodate the requirement of the people. The government nominates all board members including the Chairman. The executive power is vested in the Chief Executive Officer (CEO). A 5-member Executive Committee oversees the different departments at head office on a day-to-day basis. Ten Chartered Accountants have also been contracted as part of the Management Team to strengthen the financial controls of the Bank. The Bank has 15 departments in its head office and 5 regional offices across the five development regions of the country.

The bank's main objectives are to provide banking services throughout Nepal and contribute in the socio economic development of the country. The bank's major activities include accepting deposits, investment in government securities, lending to productive sectors, dealing with foreign currency, processing domestic and foreign remittances, merchant banking & correspondent banking services etc. The bank has deposit base of with more than 1.2 million depositors. The depositors are individuals, institutions, private organizations, business houses, non-profit organizations, social organizations, industries, finance companies, co-operatives, etc. The bank has more than 300,000 clients who have used the bank's resources for their business and development activities. They vary from big business houses to public sector enterprise, medium and small-scale industries to farmers and individuals.

Banking with Poor is an important development-oriented program to eliminate the absolute poverty of the country. The program is run under the priority sector credit program. Major Activities of the program include; Production Credit for Rural Women, Banking with the poor for the deprived people, Micro credit, Loan to unemployed graduates, Intensive banking program, Mini & microbus/clean Tampo credit program for environment protection, Biogas credit program etc.

1.1.2 Commercial Bank

Commercial bank deals with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets, which are not easily realizable. The depositors' confidence could be secured only if the bank is able to meet the demand for cash promptly and fully.

Commercial Bank Act 1975 A.D. (2031 B.S.) defined, "A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs. Commercial banking functions which are not a bank meant for co-operative, agriculture, industries or for such specific purpose." (Commercial Bank Act 2013 B.S.)

The main function of commercial bank is the accumulation to the temporarily idle money of general public for trade and commerce. Its main function are accepts deposits and grants loan, exchange, and purchase and discount bill for promissory Notes, exchange foreign currency, to provide loan, agency function, overseas trading services, information and other services. Commercial banks earn profit by proper mobilization of their resources .Many commercial banks have been established to provide a suitable service, according to their customers. The list of licensed commercial banks is as follows.

1.2 Statement of the Problem

Financial institution assists the economic development of the country. Commercial bank being the financial institution plays significant role by collecting scattered surplus funds and deploy these fund in the productive sectors as investment. Economic development of the country is directly related to the volume of investment made and return obtained by the bank. Investment problem has become very serious for the least developed country like Nepal. This is due to lack of sound investment policy of commercial bank. Nepalese commercial banks have not formulated their investment policy in an organized manner. The implementation of policy is not effective. The credit extended by the commercial bank to agriculture and industrial sector is not satisfactory to meet the present growing need. Nepotism and political pressure also effects the investment decision of the commercial banks. Granting loan against insufficient deposit, overvaluation of goods pledged, land and building mortgaged, risk-averting decision regarding loan recovery and negligence in recovery of overdue loan is some of the basic loopholes and the result of unsound investment policy sighted in the banks.

As the bank has to meet various challenges, this study will be helpful to the bank to identify and solve some of its weaknesses and problem. In every organization, the resources are scare and out of these scare resources, the objectives of the organizations are to be accomplished. Increase in revenue and control over expenditure significantly contributes to improve the profitability as well as the overall financial performance of an organization highly depends upon the best utilization of resources. Commercial

bank's investment has been found to have lower productivity due to the lack of supervision regarding whether there is proper utilization of their investment or not. Lack of farsightedness in policy formulation and absence of strong commitment towards it properly implemented. The rules and regulations are only the tools of NRB to supervise and monitor the financial institution. NRB need to monitor the concerned authorities in order to ensure that they are being followed.

Currently, the banking sector is facing various problems. One among them is that the banking has been becoming a victim of huge Non-Performing Assets (NPAs). NPAs are one of the serious problems faced by the commercial banks. Due to instable political condition, insecurity and other many factors, industries of Nepal are closing down. Lending carries credit risk, which arises from the failure of borrower to fulfill its contractual obligation during the course of transaction. It is well known fact that the bank and financial institution in Nepal face the problem of swelling non-performing assets (NPAs) and issue is becoming more and more unmanageable. The focus of the statement of the problem is the matter related to the NPAs of the commercial banks.

The success and prosperity of the bank heavily depend upon the successful investment of the collected resources, which develops the economy of the country. Good investment policy of the bank has positive impact on economic development of the country and vice versa. Increasing non-performing loan followed by increasing loans and loan loss provision is one of the challenges faced by commercial banks in the present context. Proper loan provision and loan loss provision helps to get financial strength of the bank. The major research question on the basis of which the researcher made efforts are-

The present issues, latest information and data regarding non-performing loan and loan loss provision.

1. The real picture of the current non-performing assets to its stakeholders.
2. The present level of the non-performing assets of selected Nepalese commercial banks.
3. Identify and analyze the level of NPAs in total assets, total deposits and total lending of these selected banks.

4. Loan loss provision maintained by the selected commercial banks in accordance to NRB's directives or not.
5. Study some of the weakness and problem of these two public and private banks.
6. The factor on which the profitable and performance of banks depends upon.

1.3 Focus of the Study

The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiations of term, documentation, disbursement, administration of outstanding loans. Knowledge of the process awareness of its strengths and weakness are important in setting objectives and goals for lending activities and for allocating available funds.

Increasing non-performing assets is one of the emerging problems of Nepalese commercial banks. This study mainly focused on non-performing loans or assets of selected commercial banks. Several ratios like loan and advances to total assets, loan and advances to total deposit, non-performing loans to total loans and advances, provision held to non-performing assets were used for performance evaluation for comparable forum on non-performing assets. It also tried to show the effects on profitability of commercial banks and related NRB directives, concerning towards the rendering loan and loan loss provision. The total NPA of Nepalese commercial banks are growing rapidly and it is the main cause of failure of bank. In this study, the NPA of commercial banks were presented, analyzed, summarized and drawing findings forwarded and recommendation.

1.4 Objectives of the Study

Each and every of the research study posses a certain objective. Research without any specific objectives will be worthless. This research study entitled “NPA of commercial Bank” was conducted with the following objectives.

- To evaluate the proportion of non-performing loan and the level of NPAs in total assets, total deposit and total lending in the selected commercial banks.

- To evaluate the relationship between loan and loan loss provision and the impact of non-performing assets in the performance in the commercial banks.
- To present the trend line of the non-performing assets, loan and advances, loan loss provision of selected commercial banks.
- To provide suggestions and recommendations for the further improvements.

1.5 Limitations of the Study

The main limitation of this study is that, it is based on secondary data, published books, unpublished reports, public documents, articles of different writers, annual report of the selected banks and so on. The criteria of this study focused mainly on non-performing assets (NPAs) of commercial banks. However this research has the following limitations:

- This study is concerned only with non-performing assets of Nepalese commercial banks. It does not consider other aspects of the banks.
- Only Nepalese commercial banks have considered for the study and two banks have been selected as samples for the study. Hence, the findings may not be applicable to the other banks (i.e. development banks, agriculture banks, finance companies and other companies of Nepal).
- The period of the study is limited from fiscal year from mid July 2004/05 to mid January 2009/10.
- The study is basically based on secondary data, articles, publication, and journals of the respective banks, which may or may not provide exact vision of the field. Hence, the findings will be in accordance of the data besides that personal judgment and sampling were forwarded.

1.6 Organization of the Study:

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study tries to analyze the study in a systematic way. The study report is designed in five chapters.

Chapter – I: Introduction

This chapter describes the basic concept and background of the study, introduction of commercial banks origin of banks in Nepal, statement of the problems, focus of the study, objectives of the study, significance of the study and limitations of the study. It would help orient readers by focusing the perspective they need to understand the detailed information about the subsequent chapters.

Chapter – II: Review of Literature

The second chapter of the study contains the subject matters required to make readers research works carried in similar areas. This chapter includes conceptual review, review of related study, different thesis, and review of journals, articles and research studies published by various author.

Chapter – III: Research Methodology

Research methodology refers to the various sequential steps adopted by researcher in studying a problem with certain objectives in view. It describes various source of data related with the study and various tools techniques such as statistical and financial employed for presenting the data. This chapter includes research design, data collection, methods and analysis and research variables.

Chapter – IV: Presentation and Analysis of Data

This chapter is the main part of the research. This chapter analyses the data related with study and presents the finding of the study. Data processing, data analysis and interpretation are given in this chapter.

Chapter – V: Summary, Conclusions and Recommendations

The last chapter contains the findings of whole study after which major conclusions and a recommendation has been provided. It also contains important suggestions to the concerned organization for the better improvement.

CHAPTER - II

REVIEW OF LITERATURE

2.1.1 Performing loan

Performing loans are those loans that repay principal and interest timely to the bank from the cash flow it generates. In other word, performing loans are the productive assets that generate the profits. Loans have certain time period to return its principal with its interest. If anyone repays loan with its interest on time, it is known as the performing loan. It is the most profitable assets of banks. Its helps to rapid growth of banking sector in this fast pace competitive age. Better performing loan were the symbol of success of banks. But many banks are suffering from the non repayment of loan amount.

2.1.2 Non-Performing Assets/Loan (NPAs/NPL)

One of the most emerging problems of the commercial banks is the management of non-performing assets/loan. Due to the effects of non- performing assets/loan, many banks were already closed down. In this period of competitive age, the banks should have to operate taking in consideration that thing. Those loans, which do not repay principal and interest on time to the banks, are known as non-performing assets (NPAS). If any advances or credit facilities granted by bank to a borrower becomes non-performing, then the bank will have to treat all the advance/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advance/credit facilities having performing status NPAs have a different meaning that varies from country to country. In our country, banks usually classify commercial loans as nonperforming assets which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. In some countries, it means that the loan is impaired, the payment are due but there are significant different among countries how many days a payment should be in arrears before past due status is triggered (Shrestha, 2004:14). According to current banking act, the banks have to make provision for good loan, Sub-standard loan, doubtful and

bad loan. After deducting the bad and doubtful debts from the non-performing assets, net non-performing assets can be achieved.

$$\text{NPA} = (\text{NPL} + \text{NBA} + \text{RNPL} + \text{SI} + \text{UA})$$

Where;

NPA = Non-Performing Assets

NPL = Non-Performing Loan

NBA = Non- Banking Assets

RNPL= Remaining non performing loan

SI = Suspend Interest

UA= Unutilized Assets

Non-Performing loan (NPL) can be defined as the non-productive assets of the banks. In other words, it is the loan or bad and doubtful debts that doesn't repay timely. Generally the loan, which doesn't repay within three months, is known as non-performing loan. The loan amount that doesn't covered by the collateral after selling is known as non-banking assets (NBA). Non-performing assets also includes the suspend interest. The receivable which becomes unutilized assets and those investments which don't generate any cash or incomes to the bank are also non-performing assets (NPAS). The proper management of those assets to generate income is known as management of non-performing assets. Increasing NPAs is the emerging problem of the banks. We know that the some banks had been closed down due to the uncontrollable NPAs. In USA, 1016 commercial banks were declared as unsuccessful (bankruptcy) from 1985 to 1990 and 27 banks from 1995 to 2001. However, Nepalese commercial banks have not faced this type of problem till now but they have to take step towards it. For this, appropriate amount of bad and doubtful debts is made provision from their incomes/profits". (Regmi, 2063:75).

a. Causes of occurring NPA

There are various causes to increase the NPAs. NPAs increase due to;

- Lack of transparent and clear policy to mobilize the assets productively.
- Lack of effective forecasting or deviation between expectation and actual outcomes of the business.

- Wrong choose of project and business to lend the fund.
- Lack of supervision, monitoring and control.
- Lack of information and communication between bank and customer.
- Lack of closed relationship between banker and customer.
- Lack of proper information about the situation and transaction of the customer at the time of rendering loan.
- Wrong valuation of accepted collateral by the bank to the loan.
- Lack of step towards the decrease or sell the NPAs, which don't useful to the bank.
- Lack of training and seminars to build the smart human resources.
- Get loss from the operation of the business/project by the customer of the bank.
- Depression of the economy of the country due to the in security and instability of the business environment.
- Lack of proper policy and act to return the expired loan.

b. Effect of NPAs

NPAs affect in the profitability liquidity and competitive functioning of public and private sector banks and finally the psychology of the bankers in respect of their disposition towards, credit delivery and credit expansion. Increasing Non-Performing Assets (NPAs) has the direct effects to banks, investors and customers. It has also negative impact to the economic health and business of country. It has two types of effects (Batra and Dass, 2003:6)

Internal Effects:

In the one hand, the bank for increasing the profitability can't mobilize the non-performing assets. In the other hand, the banks have to make provision doubtful debts from their profits and other sources. That's why the profit of the banks decreases and as a result, capital erosion may occur making capital inadequacy. In the present context, capital adequacy ratio in Nepal, India, UAE, and Indonesia are 11%, 12.6%, 12.7% and 21.4% respectively. The central bank of the country can take action to banks having lower capital or capital adequacy ratio. For example, Nepal Development Bank Ltd.

suffered the same problem (-48.31%) and deprived from taking deposit due to the action of Nepal Rastra Bank. When the non-performing assets increase, the banks have to increase the amount of provision for doubtful debts and when the loan is repaid, then only profit increases. If the provision for doubtful debts crosses 5% of the total loan amount, the bank has to pay income tax out of profit which makes direct effect to the cash flow of bank. As a result, the employment of human resources and profit of the bank are also affected adversely.

External Effect:

The banks accept deposits from the public and provide loan. When the loan does not return with its interest, it becomes non-performing assets and banks will not be able to return the deposited amount to their customer. If the bank is unable to return the deposited amount the banks loses public supports and faiths. Not only that much but also, the banks have to take loan at a higher rate to pay deposit, which directly affects the profitability and which may lead to bankruptcy. It also affects the monetary system and economy of the country.

Impact on Profitability:

NPAs have negative impacts on the profitability of the banks. Non-performing assets are the idle assets of the banks, which do not generate any return for the banks. Thus, we can say that the NPAs reduce the profitability of the banks due to becoming the idle resources. Not only it reduces the profitability of the banks, but also it may be the causes for losing the customer's faiths and supports.

High Cost of Fund Due to NPAs:

Quite often genuine borrowers face the difficulties in raising funds from banks due to mounting NPAs. Either the bank is reluctant in providing the requisite funds to the genuine borrowers or if the funds are provided, come at a very high cost to compensate the lender's losses caused due to high level of NPAs. Therefore, quite often corporate prefer to raise funds through commercial papers (CPs) where the interest rate on working capital charged by banks is higher.

There are various other pressing factors that are relevant from the point of view of Nepalese banking operations with a view to focusing on NPAs and its related effects;

i. Excess liquidity lending default

The banks in Nepal are faced with the problem of increasing liquidity in the system. Further, the Rastriya Banijya Bank (RBB) is increasing the liquidity in the system through various rate cuts. Banks can get rid of its excess liquidity by increasing its lending but, often shy away from such an option due to the high risk of default. In order to promote certain prudential norms for healthy banking practices, most of the developed economics require all banks to maintain minimum liquid and cash reserves broadly classified into Cash Reserve Ratio (CRR) and the statutory liquidity ratio (SLR). A rate cut (for instance, decrease in CRR) results into lesser funds to be locked up in NRB's vaults and further infuses greater funds into a system. However, almost all the banks are facing the problem of bad loans, non-performing assets, thinning margins, etc. as a result of which, banks are little reluctant in granting loans to corporate. As such, though in its monetary policy NRB announces the bankers no longer warmly greet rate cut but such news. (NRB report 2004)

2.1.3 Loan Loss Provision

There is associated risk in every loan. To minimize the risk from possible losses of them loans bank has to allocate some funds as loan loss provision. Loan loss provision is the accumulated funds that are provided as a safeguard to cover possible losses upon classification of risk inherited by individual loans. The level of provisioning is depended upon the level of NPAs and their quality. Increased portion of NPAs generate additional liability of resources to the financial institutions. In other words higher the NPA, higher the provision as downgraded loans need more provision. 1% provision of total credit is minimum requirement as every pass/good loan has to provision by 1%. However, the ratio of provision may differ from nation to nation. In Nepal, NRB has prescribed:

Pass 1%

Substandard 25%

Doubtful 50%

Loss loan 100%

(Loans classification – NRB Directive no 2)

Introduction and Directives of Nepal Rastra Bank

Nepal Rastra Bank is the supreme bank of a country. It is a banker of banks & government's bank. It has monopoly to issue currency. Nepal Rastra Bank as a central bank of Nepal was established in 2013 B.S. Baishak 14(April 26, 1956) NRB Act 2012. Prior to this bank there was no such formal organization who controls and regulates the monetary system in the country. It is an autonomous body & fully owned by the Government of Nepal, who works for the development of banking system in the country. It has also the responsibility to observe, evaluate & regulate the economy of the country. It has also the responsibility & authority to make the monetary policy of the country.

More power & authorities to control & responsibility for supervision over the financial institutions of the country came over after the enactment of the Nepal Rasrta Bank Act, 2058 & Nepal Rasrta Bank Act, 2058(First Amendment, 2063/7/23/5) to the central bank. Currently also the central bank is doing its functions & other related activities standing on this act.

The organizational structure of the bank is just like in other countries. The top body of the bank is its Board of Directors who sets goals & objectives & defines policies. The Board of Directors is comprised of four representatives from the government, two deputy governors and the governor is the chairperson of the board. In order to achieve its goals & objectives, it can develop its own policies.

The central bank, NRB is also in the process of the restructuring for its effective role in the economy of the country with the help of the World Bank under the Financial Sector Reform Program (FSRP).

The financial sector reform of Nepal was initiated in mid 1980s and from then onward Nepal Rastra Bank has been playing pioneer role by issuing guidelines to the financial sector. At Present the number of guidelines issued by Nepal Rastra Bank to commercial bank reaches sixteen which are as follows:

Directive no. 1:

The provision of minimum Capital fund to be maintained by the commercial banks

Directive no.2:

Provision of Loan Classification and loan Loss Provisioning on the Credit

Directive no.3:

The provision relating to single borrower limit

Directive no4:

The provision of accountnngpolicy and the structure of financial statements to be followed by the commercial banks

Directive no 5:

Minimization of risk inherent in the activities of commercial banks

Directive no 6:

The provision of institutional good government to be followed by commercial banks.

Directive no 7:

Time frame for implementation of regulatory directory directives issued in connection with inspection and supervision and supervision of the commercial banks

Directive no. 8:

Investment in share and securities by commercial banks

Directive no. 9:

The provision of submission of statistical data to the Nepal Rastra Bank, Banking Management Division and inspection and supervision Division

Directive no. 10:

The provision of sale and re-registration of foundation shares of commercial banks.

Directive no. 11:

Introduction of stringent blacklisting procedure for loan defaulters

Directive no.12:

Provision made for loan defaulters and blacklisting procedure

Directive no.13:

Provision made for regular cash balance

Directive no.14:

Provision made for branch office

Directive no.15:

Provision made for interest rate

Directive no.16

Provision made for capital resources

2.1.4 Non-Performing Assets in Nepalese Banking Sector.

With marginal improvement, the level of non-performing loans and advances still remained at a significantly high level. The aggregate non-performing loan, which was Rs.27,877.84 in mid-July 2005, in mid-July 2006 it reached to Rs.25,580.50, so on Rs.24,215.85, Rs.18,548.20, in mid-July 2007, 2008 and Rs.18,548.20 million in mid-January 2009. The aggregate non-performing loan as % of total loan was 18.79%, 13.16%, 10.56%, 6.08%, and 5.38% in mid-July 2006, 2007, and 2008 and in mid-January 2009 (going on decreasing trends). (Source: Banking and Financial Statistics, NRB, Volume 52, Table no. 6).

Dr. Tilak Rawal, former governor of Nepal Rastra Bank (NRB), has expressed his concerns over the outstanding level of non-performing assets in the banking sector that currently stands at 30%. "The total NPA in the banking system is about 35 billion, while it is even worse in case of the two largest commercial banks – Rastriya Banijya Bank and Nepal Bank Ltd.", said Dr. Rawal, during the inauguration of a workshop on 'managing non-performing assets' organized by NRB in collaboration with the bank of Korea and Bank Negara Malaysia.

The NPA levels at the state run RBB stands at 52%, while the figure at the NBL reads 62%, which together accounts for 37% of the total deposits of some Rs.200 billion of the banking system. "In order to address this deplorable situation and to make domestic financial players competent enough to utilize the opportunities of the globalization,

various financial reform measure are underway," he added. "The financial sector reform measures undertaken can be broadly grouped under three heads- re-engineering of NRB, restructuring of RBB and NBL, and capacity building of the financial sector. Management of the two ailing banks has been handed over to two teams, consisting of exports from within and outside Nepal."NRB as Central Bank will now concentrate only on core functions and initiate different measure to improve corporate governance in the financial sector. Willful defaulters will not be let off at any cost and NRB will initiate stringent measures to stop depletion of common man's deposits and erosion of common stockholder's capital," Dr. Rawal warned. (www.thehimalayantimes.com)

Non-Performing Assets/Loans (NPAs/Ls) In East Asia

Three years have passed since the financial crisis hit Asian economics in July 1997. As a result, East Asian countries in 1998 recorded negative growth ranging from 5 to 12%. In 1999, however, economics improved in several countries: South Korea in particular recorded a "V" type of recovery. Although the growth process has slowed somewhat in 2000, progress continues and on the basis of the recent rapid recovery, there is optimism that the East Asian financial crisis has ended. On the other hand, there is also the opinion that the situation does not (NPLs) problems in the financial and corporate sectors have not progressed sufficiently. This paper looks into the issues that beset East Asian economics, based on the assessment of the status of NPL restructuring in Malaysia, South Korea, Thailand and Indonesia.

Immediately preceding the Asian financial crisis, Japan was tackling a NPL problem that resulted from the bursting of the so-called bubble economy in 1990. Economic depression has continued for nearly ten years since then, and the Japanese economy has yet to get back to the track of sustainable growth. The chief cause of this crisis, in a nutshell, was that the government did not take measures to deal with NPLs in a timely manner. Cooperative credit purchasing company was launched in 1993 to buy NPLs and the Housing Loans Management Company was set up in 1996 to deal with the problem of housing-related NPLs. These efforts were inadequate and the real solution had to wait for larger-scale public funds that were made available to financial

institutions in March 1998, eight years after the bursting of the bubble economy. The process of resolving NPLs in Japan was indeed too little, too late. Japan adopted the policy of waiting for the economic environment to take a favorable turn, instead of taking swift, decisive action.

On the other hand, many East Asian countries addressed the problem of NPLs rather swiftly. For example, South Korea immediately injected large amounts of public funds into financial institutions. Three years after the financial crisis, the solution to NPLs is progressing relatively well in South Korea and Malaysia, while Thailand and Indonesia are lagging behind. To solve the issue of NPLs, it is necessary to make structural improvements, especially in the financial system and corporate governance that actually caused the NPL problem.

The economic growth rate in each of these countries is projected to register downward trend in 2000, compared to the previous year, and the current account surplus is diminishing. Since East Asian economics depend heavily upon the US economy, its current slowdown will be a damper to these countries recovery. It is therefore necessary to analyze the current status of NPL problem, financial restructuring and corporate governance to make sure they can cope with adversely changing economic environment. (Maximizing Value of non-performing assets Proceedings from the Third Forum for Asian Insolvency Reform – November 2003).

“Problem in Nepalese Financial Sector and NPLs:”

Nepal remained fortunate enough not to facing any major financial crisis, especially, from the influence of the Asian crisis. However, at the beginning of the Asian crisis in 1997, Nepalese currency depreciated by 11.2% against US dollar within a short span of time. Though, this was not so big deal as compared to problems encountered by the East Asian Nations. Manandhar, K.B. (2055) opines that the prime reasons behind these less effects are (i) not opening up capital account and portfolio investment; and (ii) enough foreign currency reserve in the economy. Nevertheless, some sort of financial problems especially, in the banking sector have been noticed for the last few years. In this regard,

In a broader term, states that the large intermediation cost and inefficiencies in the financial system have remained major drawbacks of the Nepalese financial structure. He further emphasizes the challenges and complexities of the Nepalese financial system as below:

- Weak financial position of most of the government owned financial institutions.
- Negative net worth and large accumulated losses of the government owned commercial banks.
- High interest rate differentials between formal and informal financial sector.
- Large interest spread in the formal financial sector.
- Operational inefficiencies, managerial deficiencies and least improvements in financial dealings.
- Active participation of government in the financial system.
- Lack of internationally recognized accounting and auditing practice in the system
- Higher proportion of non-performing assets.
- The use of banking sector as instrument of policy lending under populist schemes.
- Projects financed in the pre-reform era, with high gearing, low promoters stake, with viability based on high tariffs and fiscal concessions.
- Large corporate miss-utilized the credits and delayed payments.
- Lack of vision in appraisal of loan proposals while sanctioning, reviewing or enhancing credits limits.
- Absence of risk management policies.
- Concentration of credits on few groups or sectors
- Lack of initiatives to take timely action against willful defaulters.
- Labor oriented small sized old technology operations.
- Non-transparent accounting policies and poor auditing practices.
- Political patronage and pressure when sanctioning loans
- Aggressive lending.

Besides these, the reasons behind the rise in NPLs could be outlined as the inferior mortgages against the loans, lack of financial information of the loonies, extension of bank branches in the least feasible geographical areas, over staffing in the banks and so on.

2.2 Review of Related Studies

2.2.1 Review of Related Articles and Journals

Chhetri (2057), in his article, "*Non-Performing Assets: A Need for Rationalization*" that to provide connation of the NPA and its potential sources, implication of NPA in financial sector in the South East Asian Resign. He has also given possible measure to contain NPA. "Loan and Advances of financial institution are mean to be serviced either part of principle of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes past dues, the loans becomes non-performing assets. The book of the account with lending institution should be effectively operated by means of real transaction effected on the part of the debtor in order to remain loan performing."

As per his opinion, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months in India, loans thus defaulted are classified into different categories having their differing implication on the assets management of financial institution. He also stated that NPAs are classified according to international practice into three categories namely substandard, doubtful and loss depending upon the temporal. Position of loan default. "Thus the degree of NPA assets depends solely on the length of time. The asset has been in the form of none obliged by the lone. The more time it has elapsed, the worst condition of assts is being perceived and such assets are treated accordingly as none performing."

As per Mr. Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system, credit program sponsored by Government, slowdown in economy/recession, diversion of fund are some of the leading to accumulation of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extend to extra amount that requires by regulation of supervisory authority in the form of provisioning as the amount required for provisioning depends upon the level of NPAs create a psyche of worse environment especially in the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc NPAs can be reduced. Finally he concluded that financial institutions are beset with the burden of mounting level of NPAs in developing countries. Such assets debar the income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPAs can't be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth.

Our Economy is in a Volatile Stage that the banks have not been able to collect their overdue due to the increasing cumulative NPAs in Nepalese commercial banks. There is no additional demand of the investment due to the higher risk and present uncertainty.

He said, Revenue collection is negative and regular expenditure is higher than the revenue. This indicates volatility of the economy. Even before the declaration of emergency, the government didn't have surplus revenue to pay for the remuneration and benefits of retired civil servants. The year 2002 is going to be difficult as major loans are going to mature. Debt servicing will also demand a significant share of the budget. Up to 65% of our development expenditure is being financed by foreign aid. But if we can't meet the regular expenditure (through our revenue), it will be very difficult for us

to convince the donor community. This could push our society toward what is called a 'mass unrest society.'

Pyakuryal, (2001:3), *"The government is about to establish an Assets Management Company to take over the non-performing assets (NPAs) of the government-owned banks"*. On the other hand, it looks like the government's entire concentration on two commercial banks only (Nepal Bank Ltd. and Rastriya Banijya Bank). Due to cumulative growth of the NPAs, the banks haven't been able to collect their overdue. Due to the present uncertainty and higher risks, there is virtually no demand for new investments. That's why many banks are concentrating on conventional areas. We haven't been able to explore potential areas of competitive advantage in the regional context."

After 1990, we have seen that macroeconomic stability could not ensure the reduction of poverty. If the present rate of economic growth and population growth continues, it will take at least 20 years to double our per capital income. It has been proved that macroeconomic stability alone can't ensure economic development in country like Nepal. At the same time, the low-level of inflation at present may not reflect future prospects for Nepalese economy.

'NPAs in Nepalese Financial Institutions' that thinking rationally no one shall be surprised to note two of the giant commercial banks of this country such as Nepal Bank Ltd. and Rastriya Banijya Bank accounting for the highest number and amount of non-performing assets (NPA) among players in the industry. In general and more specifically, in least developed countries like ours, the larger the size of the credit portfolio the larger the amount of NPAs.

Neupane, (2058:1) *"The concept and realization of NPAs in the Nepalese financial sector evolved round about a decade ago along with the notion of prudential accounting norms."* I reckon that ten years time frame should have been more than enough to formulate and implement strategies for identifying and canalizing the ever

accumulating NPAs at Nepalese financial institutions (FIs). However, Nepal Rastra Bank (NRB) seems to have realized the panic only a year ago. As a result, NRB came up with a nineteen-point strategy, primarily pertaining to ways to tackle NPAs. Some of the measures that NRB has envisaged are formation of an assets reconstruction company, credit rating agencies, legal reforms, strengthening administrative/ monitoring/ supervising mechanisms etc, and above all, the recent NRB directive (number 1to7). Although the NRB, the FIs would have been much better off had it come up with all these philosophies some five years ago, better late than never"

He expressed the one major reason that can be attributed for the already prevalent and ever increasing NPA is unhealthy competition among the commercial banks. Since, the size of our economy has remained more or less stagnant over the past half a decade or so, the size of the total pie has not changed much. Every player in the market means business and its primary motto is "making profit". This has enhanced unhealthy competition among the banks through interest rate reduction, issuing loans irrespective of borrowers' credibility and authenticity, etc. in course of making their credit portfolios bigger, all the players have been pouring their investments into the same pie thereby over financing the pie. Given this scenario, there is no surprise to discover a good loan turning into an NPA because of over financing.

There is no denying that no capital market around the world can be termed perfect. However, the capital markets are primarily driven by certain norms, which make lots of sense, and every single movement including stock price fluctuation is guided by prudential norms. By contrast, share prices at the Nepal Stock Exchange (NEPSE) move very surprisingly. Share prices at NEPSE are bound to move upward if a bank registers say Rs.800 million in profit, an accounting profit, even if it does not contribute anything towards shareholders' wealth maximization. The bank, even while accumulating a sizable NPA, can manage to fool the general public in terms of the accounting profit it registers.

Even the most profitable sector of the economy, be it a primary source of foreign currency earning, should not be over financed. There should always be an upper limit for any sector that deserves banks financing. Recently, the NRB came up with a directive to lessen risk concentration on a single borrower/single sector of the economy. The directive states that large sector concentrations constitute a source of risk. Bank managements shall have adequate internal policies and systems in place to monitor the bank's sector exposure. However, if the NRB so directs, judging it necessary, a bank shall have to provide additional capital with a view to providing uniformity in the categorization of various sectors of the economy. NRB's policy of limiting FIs from pouring their lending into a single sector of the economy can be regarded very positive since it is likely to diversify the risk of the total investment evenly and thereby minimize the risk of NPA. NRB shall continue to be more stringent in formulating firm policies in the days ahead too to protect shareholder interests.

At last, even if the banks endeavor to recoup NPAs through the auction of mortgaged property, the legal system and the regulations are so shabby and defaulter friendly that they have to struggle for many years to realize the auction process. Just imagine this process; a borrower, initially, default payment, the bank calls back the loan, six months there on the concerned authority blacklists the borrower, a 35 days' notice goes to the papers for auction and after that a 7 days ultimatum and so on and so forth. Hundreds of cases have been lingering in the courts for many years. Inefficient legal provisions, from the point of view of the bankers, have encouraged borrowers to default and contributed more towards enhancing the quantum of NPA in Nepalese FIs.

Dhugna (2007) in his article "*Why Assets Management Co. is considered the best to solve the non-performing loan problem*" as above has tried to highlight one of the approach mainly Assets Management Company (AMC) for resolving the problem of NPL. As per him, AMC is specialize financial intermediary to manage the non-performing and distress loans of banks and financial institutions who buy the NPL from financial institution and take necessary steps to recover the maximum value from the acquired assets. As per his view, if NPLs are not resolved in time there would be

inherent direct or indirect costs to the economy. As stated by him NPL may arise due to the external factors like decrease in market value of collateral deterioration borrower's repayment capacity, economic slowdown, borrower's misconduct, improper credit appraisal system, lack of risk management practice, ineffective credit monitoring and supervision system. Hence he suggested that, NPL should be kept at minimum level and the specialized institution such as AMC should manage the distressed loans.

He says that both traditional approach and AMC are available to deal with NPL problem. Under traditional approach, bank handles the NPLs in its own way especially through recovery unit who focus on continuing negotiation with the borrower and give top priority to the loan recovery. As opined by the writer, this approach is useful in dealing with small business loans where personal touch is adopted but for big loan this approach does not work. "AMCs seem as the only realistic option when the financial sector recovery is the underlying objective in financial system where the institution fails to resolve the NPL problem through their own efforts." (Dungana, 2058:125).

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

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

Rawal (2007), in "*Measures adopted to overcome the problem of financial sector and the NPLs*" addressed that financial sector reform measures can be broadly grouped under three heads: (i) restructuring of large two state-owned banks (ii) reengineering of the central banks and (iii) capacity building in the financial sector. In this connection, management of two state-owned banks has been handed over to the expert groups comprising the people within and outside of Nepal; the reengineering and restructuring process of the central bank (Nepal Rastra Bank) is in progress. Side by side, the capacity building in the financial sector is smoothly approaching ahead. Enactment of new NRB Act 2002 which, gives greater autonomy in its operation, enforcement of inspection and supervision directives based on international standard, withdrawal of government/ NRB involvement from the financial institutions, adoption of accommodative monetary measures are the efforts made to build up sound financial environment. Moreover, with a view to strengthening legal arrangements, Debt Recovery Act has been approved and the Debt consolidate financial sector through an umbrella act Banks and Financial Institutions Act has recently been approved and for the purpose to resolve the problem of non-performing assets- Asset Management Company Act is in the process of being approved. In addition, establishment of Credit Rating Company, strengthening of Credit Bureau and Bankers' Training Center are some of the tasks progressing ahead. With the arrangement of such a legislative, regulatory, supervisory and institutional framework, the financial sector would, hopefully, take a pace for reviving which, in turn, would help NPLs to be reduced.

Sapkota (2008) has written an article titled "*portion of NPA in commercial Banks – High in Public, Low in Private*" which was published in Rajdhani on 19th May 2004. In this article, Mr. Sapkota has stated that the problem of NPL is seen less in private banks in comparison to public banks. The NPA of two big nationalized banks being about 60% of the total loans are very serious situation. He further mentioned that in order to improve this situation and to make healthy banking environment, financial reform program has been brought as its consequences, the management of two big banks was handed to foreign company on a contract but the ratio of NPL was not reduced.

Even most of the privately owned banks has NPA within international standard, some privately owned bank's NPA is higher than international standard. As per international standard 5% NPA is acceptable. He also states that, Nepal's total NPA of banking sector is 30%, which is very high. (Shapkota, 2004:5)

Adhikari (2009) “*Non-performing Loan and its Management*” states in articles that one of the main functions of a commercial bank is the management of non-performing loans. The main function of a commercial bank and financial institution is accepting deposits and providing loans. In underdeveloped countries like Nepal, providing loans and interest income generated through loans is the main source of revenue for banks and financial institutions. If provided loans become non-performing loans, the bank and financial institution suffer from significant financial scarcity. On one side, unrecovered interest cannot generate income, and on the other side, loans themselves convert into NPLs, which have a huge effect on the financial condition of the bank and financial institution. So, the management of NPLs is a crucial factor for any bank and financial institution. In practice, there may be a default rate in the aggregate banking system. Two commercial banks held by the government, Nepal Bank Ltd. and Rastriya Banijya Bank, are accounting for the highest number and amount of non-performing assets (NPA) among the other commercial banks.

The main causes of loans becoming non-performing loans are as follows

- Lack of proper analysis
- Lack of specific loan policy
- Lack of supervision
- Slump in aggregate economy
- Monopoly in corporate loans and its unsuccessful
- Weak consortium loans
- Less responsibility of borrower
- Inadequate internal control and audit
- Inadequate supervision of central bank

In this way NPAs are generated in banks and financial institutions. In every banking system, there is some level of non-performing loans. So, they should be managed differently. Banks manage their loans and credit if non-performing loans are at an acceptable level. But, if

bank's NPL are more than acceptable level then it impacts on aggregate financial position of bank and market like be worse. In this case bank should manage and treat its NPL differently. A single unit with expert should be assign for proper and appropriate management of huge amount of non-performing loan. For better management of nonperforming loan assets Management Company or corporation (AMC) is required. Proper management of nonperforming loan and recapitalization, these two important improvements are required for better banking system (Adhikari, 2062: 39-43).

In the article by Yogendra Regmi, (2063) titled '*Non-Performing Assets Management*' the writer stated about the management of NPAs in the commercial banks. He writes, the NPAs includes the non-performing loan, non-banking assets, remaining non-performing loan, suspend interest and unutilized assets. The increasing NPA are the emerging problem in commercial banks, which is the main factor for failure of the banks.

He said, NPAs caused by investment of assets in non-productive sectors, lack of future prediction, lack of proper supervision, monitor, control lack of information and failure of recovery of loan and their interest on time. He also added, the low quality of collateral of loans, failure of projects, and lack of appropriate rules and regulations to punished the bad loan takers. He shows the following NPAs in commercial banks: He added that increasing NPAs directly affects to the banks, investors and human resources. Not only that but also it affects the customer, economy of country, and business activities. Increasing NPA has two types of impact on banks: internal impact and external impact. In internal, it affects directly on profitability and human resources and in external, it affects to customers, investors, management and country's economy. (Regmi, 2062:75)

He concludes that it is high level of NPA like a cancer of banks. Thus, it is necessary to control this cancer on time; otherwise, it becomes a big issue for bankruptcy. NPA have to need microanalysis to protect the banks, investors, customers, human resources and country's economy. For that, a clear 'Road Map' is required. To success the laws and policies, all the stakeholders should take responsibilities.

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

2.2.2 Review of the previous Thesis

Previous studies relating to Nepalese banking sector have been most important and relevant for my study. Some of the earlier studies about the non performing assets have been reviewed. Reference of these studies has become very useful for me to complete this dissertation.

Khare (2004) had conducted a research on “*Profit Planning in Commercial Bank in Nepal, A Comparative Study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited*”, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.. His objectives and major findings are as follows

The objectives of the study are as follows:

1. To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
2. To identify the investment priority sector of commercial banks
3. To assess the impact of investment on profitability
4. To analyze and forecast the trend and structure of deposit utilizations.

The major findings of the study are as follows:

1. The liquidity position of Everest Bank Limited is comparatively better than that of Nabil and Bank of Kathmandu
2. The Everest bank has invested highestst in government securities
3. Nabil sufferes less from loan loss provision.
4. The return on loan and advances ratio and resturn on assety of Everest Bank Limited is lowest of all.

Shrestha (2006) has conducted a research entitled “*Investment Analysis of Commercial Banks*” (A Comparative Study of Nepal Bank Limited and Nepal State Bank of India Limited).

The objectives of the study are as follows:

- To analyze investment trend, deposit trend and total income and there to analyze percentage of investment made by HBL and NSBIL in total investment made by commercial banks.
- Projection for next five year of HBL and compare them with that of NSBIL.
- To identify investment sector of HBL and NSBIL.
- To evaluate the liquidity, assets management efficiency, profitability and risk position of HBL in comparison to that of NSBIL.
- To study the relationship between investment and deposit of bank.

The major findings of the study are as follows

- Percentage of HBL’s investment to total commercial banks investment in extremely higher than NSBIL.
- Both HBL and NSBIL have invested mostly on government securities but HBL has invested in NRB bonds also as well as in other productive sector.
- NSBIL is better than HBL from liquidity point of view.
- HBL has higher profitability position than NSBIL.
- HBL is exposed to more risk than NSBIL.
- HBL has maintained higher growth rate in net profit in comparison to NSBIL.

Shrestha, (2007) in her thesis “*Comparative Analysis of Non-Performing Assets of Nepalese Commercial Banks*” is aimed of studying the non-performing assets of private commercial banks. For this purpose, descriptive and analytical research design was adopted out of total population 18 commercial bank, four private banks were taken as sample using judgment sampling method, and they are Lumbini, NCC, NBBL and SCBNL. In this study secondary data are used. Besides this, newspaper, relevant thesis, journals, articles, related website etc. are also taken for this research. The data collected from various sources are recorded systematically and presented in appropriate forms of

table and charts and appropriate mathematical, statistical, financial and graphical tools have been applied to analyze the collected data in suitable manner. The data of five consecutive yrs of the four banks have been analyzed to meet the objective of the study. The major objective of this research is to examine the level of non-performing assets (NPAs).

The objectives of the study are as follows:

- To evaluate the proportion of non-performing loan and the level of NPAs in total assets, total deposit and total lending in the selected commercial banks.
- To evaluate the relationship between loan and loan loss provision in the commercial banks.
- To present the trend line of the non-performing assets, loan and advances, loan loss provision of selected commercial banks.
- To analyze the impact of non-performing assets in the performance of commercial banks.
- To provide suggestions and recommendations for the further important.

Lumbini Bank has the highest proportion of loan and advances to total assets of bank but the SCBNL has the lowest proportion of loan and advances during the study period. It indicates the risk averse attitude of the management of SCBNL, NBBL and NCC have moderate ratio. Same thing can be known on the basis of loan and advances to total deposit ratio. The Lumbini has the highest proportion among where as SCBNL show the lowest ratio. From this ratio Lumbini, NCC, NBBL are the higher loan provider. They are rendering an average of 89.156, 81.738, and 77.78 of their total deposit funds.

It is found that the NCC has the highest NPA to total loan & advance secondly the Lumbini has the NPA to total loan & advance. They are generating most of their assets in loan and advance but they are in loss. SCBNL invest least amount of their resources in loan and advances even NBBL invest the lesser amount of their resources in loan and advances comparing with NCC and Lumbini. That's why their profits show the positive during the study period. Among them SCBNL is the best bank and also it can be said

that the NBBL are quite satisfactory banks according to their return on loan and advances. As a sample drawn from private sector, we can see the different between their transactions. Among this private bank SCBNL is less interested in lending loan and advances. Thus it may be caused to get less NPA and LLP and vice-versa to the other banks.

In conclusion, improper credit policy political pressure to lend, lack of supervision and monitoring, economic (slow down, overvaluations of collateral are the major causes of occurring NPAs. In recent yr, not only the private sectors banks but also public sector's banks are trying to maintain their loan & advances to control over becoming the NPA.

Gunaker Bhatta (2008), has made research on "*Profit planning a case study of Nepal Electricity Authority;*" an unpublished master level thesis submmited to Central Department of Management, Faculty of Management T.U. In this study Mr. Bhatta has pointed out following measure objectives, finding and recommendation, which are as follows:

The objectives of the study are as follows:

- To analyze the various functional budget of Nepal Electricity Authority
- To analyze the true picture of managerial budgeting adopted by Nepal Electricity Authority
- To analyze the variance between the budget and actual achievement of the authority

The major findings of this study are as follows:

- Operating profit of NEA is in negative figure. The authority has shown profit after the transfer from evaluation surplus.
- The authority fails to maintain its periodic performance report systematically. Goal and objective are limited only to the high ranking officials.
- Specific goal and objective are not conveyed to lower level staff and it denotes the absence of MBO principal of management.

- Achievements of the authority are more variable than budgeted.
- Even the authority is not less from the last few years; the profit is shown only after the transfer from evaluation surplus.

Thapa (2009) entitled “*A study of Non-Performance Assets of Nepalese Commercial Banks in Nepal*” of the period from FY 2002 to FY 2008.

The objectives of the study are as follows:

- a) To highlight loans and Advances trend in commercial banks.
- b) To point out the amount of NPAs in Nepalese commercial banks

The major findings of this study are as follows:

- The status of non-performing loan of commercial banks shows that, they are making positive improvement over it. By the end of mid July 2007, ratio of non-performing loans to total loan and advances declined to 9.65 percent. Total amount of non-performing loan remained to Rs.22182.9 million in the same year. In the last year the percent and amount of non-performing loan were 14.22 percent and Rs. 26770.42 million respectively
- Loan and advances, the major component of assets, constituted the 46.66 percent of total assets in mid July 2006. Similarly, investment and liquid funds, another component of assets, registered the 19.06 percent and 8.98 percent of total assets in the same year. In the preceding year the respective share of loan and advances, investment and liquid funds were 40.44 percent, 19.15 percent and 9.06 percent. In the current year the loan and advances increased by higher rate of 32.05 percent compare to 8.61 percent in the last year. By the end of mid July 2006, the total outstanding amount of loan and advances of commercial bank reached to Rs.228951.9 million. It was Rs. 173383.4 million in mid July 2005.
- In the current fiscal year, deposit mobilization of commercial bank marginally increased by 15.88 percent compared to 15.39 percent growth in the previous year. By the end of mid July, 2006, it reached to Rs.337497.2 million from Rs.

291245.6 in the last year. Of all the components of deposit, current deposit celebrated growth by a higher rate of 20.45 percent compared to 7.91 percent in the last year. Fixed deposit increased slightly up to 13.89 percent compared to 13.75 percent in the previous year. However, saving and call deposit growth rate slipped to 15.23 percent and 18.62 percent compared to 16.65 percent and 28.51percent respectively.

- Liquid funds increased by 14.45 percent and reached to Rs.44089.7 million in mid July, 2006 from Rs.38842.1 million in mid July 2005.
- In the current fiscal year the net profit of the banking system grew by slower rate of 10.20 percent compared to 53.38 percent in the last fiscal year. By the end of mid July, 2007 the net profit was Rs. 8797.9 million against Rs. 7983.5 in mid July, 2006.

Yadav (2009) conducted a study on “*A Study on Comparative Financial Performance of Joint Venture banks in Nepal*”.

The objectives of the study are as follows:

- To find out comparative and competitive position of two JVBs banks.
- To rank the Nabil and NBBL in terms of financial operational profitability, productivity position.
- To show the trend of total deposits, investments, total income, total expenses and total net income.
- Measuring financial risk of Nabil and NBBL.
- To Provide package of recommendation and possible guidelines to improve banking business based on the findings of the study.

The major findings of the study are as follows:

- Capital structure ratios of both banks are low. Debt portion is more used in NBBL but profitability position in lower than Nabil.

- Both banks should be developed separately research and training department so they would be able to study different aspect of management and supply practical suggestion to develop as an innovative approach in bank management and bank operation.
- The trend of total deposits, total investment, total expenses, total net income, interest expenses and Interest earning of NBBL is exceptionally higher than Nabil.
- NBBL is more risky bank. Researchers recommended that portfolio situation should be carefully examined from time to time. The varied rate of return should be verified in such a way that balances the conflicting goal of maximum yield and minimum risk.
- it should be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and its customers. Comparatively Nabila profitability position better than NBBL.

Shah (2009) carried out a research on “*Cash Dividend Practice and its Impact on Share Price in Nepal*”. It covered 5years period (2004-2008) including commercial banks, manufacturing companies, development banks, insurance companies, and financial institutions and hotels sectors.

The objectives of the study are as follows:

- Its basic objectives were to evaluate the trend of cash dividend forecasting and payment by the Nepalese financial institution and to see and examine the impact of cash dividend on market price per share.
- To achieve these objectives, the information are interpreted and analyzed by using regression model and hypothesis test.

The Major findings of the study are as follows:

- Commercial banks of Nepal are seen the regular dividend paying financial institution.
- In average 90% companies pay less than 50% cash dividend. The company having good earning only have been paying regular cash dividend.
- The lack of financial knowledge and the market inefficiency has affected the

market price of the share in all the firms. But it is theoretically argued.

Shrestha (2010) conducted a study on “*SWOT Analysis of Nepal Bank Limited*”

The objectives of the study are as follows:

- a) Reviewing strength and weakness of Nepal Bank Limited in its major areas of operation.
- b) Exploring areas of opportunities and threats to Nepal Bank Limited prevailing in the changing context.
- c) To show a suggestive package based on the findings of the study for the improvement of the financial performance of Nepal Bank Limited.

The major findings of the study are as follows:

- a) Liquidity Position of sample bank seems quite near or on an average. It is obvious that in the present situation of the country, investment potentiality is not favourable, so the liquidity in the commercial banks is sufficient.
- b) The sample commercial bank has high volume of non-performing assets with respect to the total assets, that is, 0.30.
- c) There is a situation of continuously negative profit in Nepal Bank Limited until the FY 2059/60. Therefore, all the indicators of profitability of Nepal Bank are negative. NBL is generating interest income from its credit on an average of 7.0% and the net volume of net profit in NBL is 1323 million in the FY 2061/62.
- d) As a result of the negative profit until 2059/60, NBL has a negative earning per share, but from the FY 2060/61, it could earn profit and their earnings per share is positive. However, the average EPS of NBL is Rs.307 during the study period.
- e) Credit and Investment to total deposit ratio of NBL is 78% on an average during the study period. Similarly, correlation between deposit and loan and advance during the study period is negative. This indicates that the trend of deposit utilization of RBB is poor.

- f) Nepal Bank Limited was not being able to maintain the preferred provision except for pass loan. Similarly, NBL had a high provision for non-performing loan. As far as directive credit is concerned, NBL could not provide any kind of figure for the directive credits.

Tapol (2011) conducted a study on “*Investment Practice of Commercial Banks in Nepal*”.

The objectives of the study are as follows:

- To measure the financial performance.
- To find out comparative and competitive position of two JVBs banks of Nepal
- Measuring risk of NABIL & NIBL bank.
- To find out the relationship between different variables like investment, deposits loan and advances, net profit & compare them between NABIL & NIBL.
- To recommended measure for the improvement of the financial performance and efficiency on the basis of the conclusion drawn from the research.

The major findings of the study are as follows:

- The mean ratio of return on loan and advances of NIBL is lower than that of NABIL. On the other hand, NIBL's variability between ratios is lower than that of NABIL.
- The mean ratio of credit risk ratio of NIBL is higher than that of NABIL and NIBL's ratios are more homogenous than that of NABIL
- From the analysis of growth ratio, NABIL has lower growth rate on total deposits, loan & advances, total investment and net profit than NIBL. Therefore NIBL has successfully collected and utilized fund amount of its customer than NABIL.
- Banks are recommended to activate foreign technology and investment in Nepal by means of their wide international banking sector and make Nepalese personnel capable of operating these banks as efficiency as international banks.
- Complain boxes should be kept in each and every branch and bank personnel try to eliminate those deficits which are in the complaint box in order to maintain better relation with its customers.

2.3 Research Gap

Nepalese banks have to remark focused in their efforts to recover their spiraling bad loans, or non-performing assets, to sustain the positive trend of improving assets quality. Better risk management techniques, compliance with core principles for effective banking supervision skill building and training and transparency in transaction could be the solution. Removal of non-performing loan from the banking system even through government or quasi government funds at times, is essential. But official assistance should be so structured as to avoid moral hazard to conclude with, till recent past, corporate borrowers even after defaulting continuously never had any real fear of banks taking any action to recover their dues despite the fact that their entire assets were hypothecated to the banks. This is because there was no legal Act formed to safeguard the real interest of banks. NPA can't be eliminated, but can only be contained; it has to be done not at a heavy cost of provisioning and increasing the portfolio of credit. Along with recovery fresh inflow of NPA should be brought down at a level much less than the quantum of its exit. If this specific goal is reached, there is an eventual solution for this problem. Good governance is essential for the success in NPA management. In this study of non-performing assets of commercial bank of Nepal with reference to Rastriya Banijya Bank ltd and Nabil Bank ltd. has been explored by using various asset ratios, trend analysis and various statistical tools as well and financial tools for analyzing relevant data. The researchers have used data of six fiscal years. The previous thesis of Non-Performing Assets of Nepalese Commercial Banks Credit management of Commercial bank with reference to was done by using all tools and technique. Unlike that this study made analysis of non-performing assets of commercial Bank by applying and analyzing various financial tools as well as different statistical tools like coefficient of correlation and trend analysis. Probably this would be the appropriate research in the non-performing assets of commercial Bank and financial institutions.

The review of the above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are so many various researchers conducted on investment policy, Non-performing loan, credit policy, financial performance etc in various topics. The

past researches in measuring investment policy of bank have focused on the limited ratios, which are incapable of solving the problems. In this research various ratios has been systematically analyzed and generalized. The ratios were not categorized according to their nature. Here in this research all ratios are categorized according to their area and nature.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

This research is aimed at studying the non-performing assets of commercial banks. This study followed analytical and descriptive research design. And it also analyzed the composition of trend of non-performing assets, loans recovery and profitability condition of commercial banks. This research collected necessary information from different sources and using various financial statistical tools.

3.2 Sources of Data

Making study more reliable and justifiable are the top priority given. This study used secondary data. Published articles, books, newspaper, websites and annual reports of concerned banks are the secondary sources of data. In this study, secondary data were taken from annual reports of related banks, annual reports of Nepal Rastra Bank Samachar, Bank Supervision Report, news papers and magazines, different web sites, libraries, unpublished thesis and journals.

3.3 Population and Sample

For the purpose of study, the random sampling has been used. Total numbers of 31 commercial banks are taken as population. Among them one public and one private bank has been taken as sample bank for study. They are:

- a) Rastriya Banijya Bank
- b) Nabil Bank Limited

3.4 Data Processing Procedures & Analysis

Data collected from various sources are in raw form. They are classified and tabulated as per the nature of the study and in accordance of the data. Applying different financial and statistical tool made data analysis. Further to represent the data in simple form bar diagrams and graphs have also been used.

3.5 Tools of Data Analysis

3.5.1 Financial Tools

"Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of balance sheet and profit & loss account." (Pandey, 2000:108) while adopting financial tools, a ratio is used as benchmark for evaluating the financial position and performance of any firm.

"Financial analysis is the use of financial statement to analyze a company's financial position and performance and to assess future financial performance." (Wild, Subramanian and Halsey, 2003:13)

3.5.1.1 Ratio Analysis

A ratio simply shows the relationship between the two variables or one another. It presents the relative strengths and weakness of any firms or organization. It also shows the financial growth of the organization and financial performances of the organization. It summaries the financial figure and make quantitative judgment about the financial performances and positions. The relationship between two accounting figures expressed mathematically is known as financial ratio. (Pandey, 2000:108) To make analysis, we can use various ratios. But only those ratios have been calculated which are related to the subject matter

i. Loans & Advances to Total Assets Ratio

The loans and advances to total assets ratio measures the amount of loans and advances in total assets.

$$\text{Loans \& Advances to Total Assets Ratio} = \frac{\text{Loans and advances}}{\text{Total Asset}}$$

ii. Loans and Advances to Total Deposit Ratio

It shows how much fund of deposit is provided as loans and advances.

$$\text{Loans and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total deposits}}$$

iii. Non-Performing Assets to total Loans and Advances Ratio:

This ratio determines the non-performing assets in the total loans and advances portfolio.

$$\text{NPA to Total loans and Advances Ratio} = \frac{\text{Total non - performing loans}}{\text{Total loans \& advances}}$$

iv. Provision Held to Non-Performing Assets Ratio:

This ratio measures up to what extent of risk inherent in NPA is covered by the total loans provision.

$$\text{Pr ovision held to NPA} = \frac{\text{Total Pr ovision}}{\text{Nonperfor min g}}$$

v. Non-Performing Assets to Total Assets

This ratio indicates the ratio between the non-performing assets and total assets.

$$\text{NPA to Total Assets} = \frac{\text{Total Nonperforming Asset}}{\text{Total Assets}}$$

vi. Return on loans and Advances

This ratio indicates the proportion of the return over total loans and advances. It describes how efficiently the bank has employed its resources in the form of loans and advances of the bank.

$$\text{Return on Loans and Advances} = \frac{\text{Net Profit}}{\text{Total loans \& advances}}$$

3.5.2 Statistical Tools

It is the mathematical technique used to facilitate the analysis and interpretation of the performances of the organization. It helps to compare the performance, strengthen, weakness of the organization. It also helps to present the data, show the relation and deviations or differences of variables of organizations. In this study, the following statistical tools are used:

i. Arithmetic Means (average):

Arithmetic mean is also called ‘the mean’ or ‘average’ as most popular and widely used measure of central tendency. Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the birds’ eye view of the huge mass of a widely numerical data. It is calculated as:

$$\bar{X} = \frac{1}{n} \sum_{i=1}^n X_i$$

Where:

\bar{X} = mean value or arithmetic mean

$\sum_{i=1}^n X_i$ = sum of the observation

N = number of observation

ii. Standard Deviation:

The standard deviation is the absolute measure of dispersion in which the drawback present in other measure of dispersion as it satisfied most of the requisites of a good measure of dispersion. (Bajaracharya, 1996:177). Standard deviation is defined as the positive square root of the mean of square of the deviation take from the arithmetic mean. It indicates the ranger and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the standard deviation higher will be the variability and vice versa. Dispersion measures the variation of the data from the central value. In other words, it helps to analyze the quality of data regarding its variability. It can be:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(x - \bar{x})^2}{n}}$$

iii. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple

correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

$$r_{x_1x_2} = \frac{N\sum X_1X_2 - (\sum X_1)(\sum X_2)}{\sqrt{[N\sum X_1^2 - (\sum X_1)^2]} \sqrt{[N\sum X_2^2 - (\sum X_2)^2]}}$$

Whereas,

$r_{x_1x_2}$ = Correlation between X_1 and X_2

$N\sum X_1X_2$ = No. of Product observation and Sum of product X_1 and X_2

$\sum X_1\sum X_2$ = Sum of Product X_1 and sum of Product X_2

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation of coefficient in -1 signifies the negative correlation and in +1 signifies the positive correlation coefficient.

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

If $r < 0$ there is negative relationship between the variable

If $r > 0$ there is positive relationship between the variable

If $r = -1$ the relationship is perfectly negative between the variable.

If $r = +1$ the relationship is perfectly positive between the variable

iv. Coefficient of Variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion, hence capable to compare two variables independently in term of variability.

$$c. v. = \frac{\sigma}{x} * 100$$

σ = Standard deviation

x = sum of the observation

v. Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$\text{P.E.} = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

Here, r = Correlation coefficient

N = Number of pairs of observations

If the value of ' r ' is less than the probable error, there is no evidence of correlation, i.e., the value of ' r ' is not at all significant. Then, if the value of ' r ' is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of ' r ' is significant.

vi. Times Series Analysis (Trend Analysis)

Time series is used to measure the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Here,

Y is the dependent variable, a is y intercept or value of Y when $x = 0$, b is the slope of the trend line or amount of change that comes in y for a unit change in x .

Where,

Y = Trend value

a = y intercept

b = slope of trend line of the amount of change in y variable that is an associate with change in 1 unit in X variable.

X = Time variable

vii. Diagrammatic and Graphical Representation:

Picture speaks itself, no need to explain. It is also one of the tools that helps to interpretation of the data and present the findings of the study. The various bars, charts, and graphs are also used to present the data and data analysis in this study.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1.1 Loans and Advances to Total Assets Ratio

The loans and advances to total assets ratio measures the amount of loans and advances in relation to total assets. It means that it shows the proportion of loans and advances to total assets. High degree of loans and advances indicates the good position of the organization indicating good mobilization of deposits of funds. Low degree of loan indicates no use of fund properly. Loan is the risky assets. Thus, higher loans and advances to total assets ratio shows high risk and inversely low loans and advances to total assets ratio shows low risk.

The following table shows loan & advances to total assets of RBB and NABIL as follows.

Table: 4.1
Ratio of Loans and Advances to Total Assets

(Rs in Millions)

Year	RBB			NABIL		
	Loans and Advances (a)	Total Assets(b)	Ratio $\frac{a}{b}$	Loans and Advances (a)	Total Assets(b)	Ratio $\frac{a}{b}$
2004/05	28,919.8	77,594.1	0.3727	11,222.7	18,614.9	0.6028
2005/06	27,164.7	81,087.1	0.3350	13,239.4	24,134.6	0.5485
2006/07	25,422.3	72,041.3	0.3528	15,878.3	29,660.4	0.5353
2007/08	27,491.2	84,686.2	0.3246	21,769.7	38,478.6	0.5657
2008/09	28,209.9	86,517.7	0.3260	27,589.9	43,867.3	0.6289
2009/10	31,464.1	99,662.6	0.3157	32,268.8	52,150.2	0.6187
Total	168,672	501,589	0.3362	121,968.8	206,906	0.5894
Mean	28,112	83,598.17	0.3362	20,328.1	34,484.3	0.5894
S.D			2.12			3.04
C.V			6.28			5.28

Source: Banking and Financial statistics-NRB, 2010

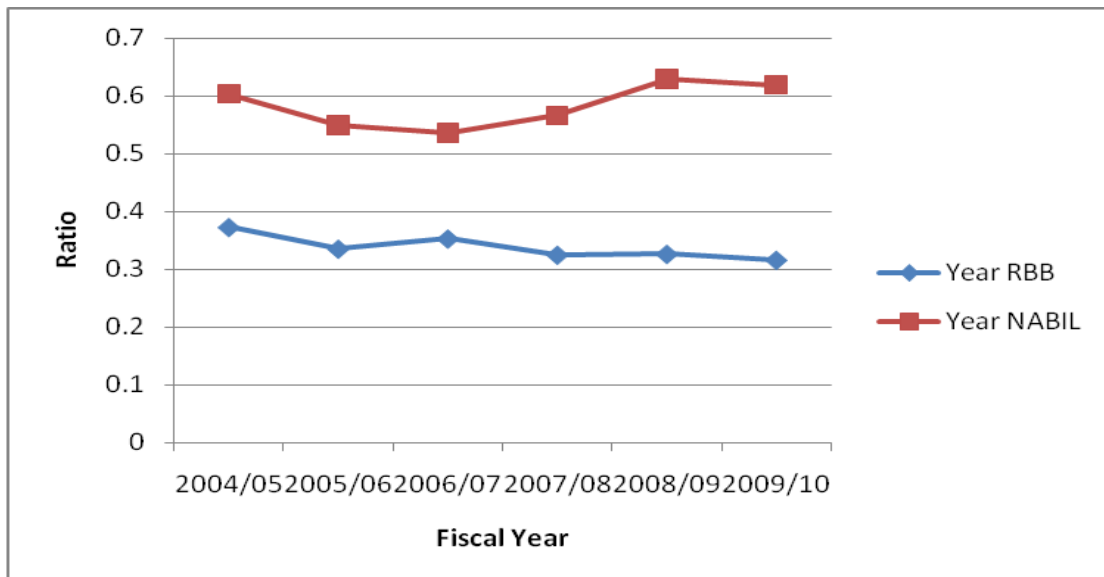
Table 4.1 shows the loans and advances to total assets ratio of RBB and NABIL banks for last five consecutive years. The loan & advances to total assets ratio of RBB and NABIL are in fluctuating trend during the study period. While observing their ratios NABIL is better mobilizing of fund as loans and advances and it seems quite successful in generating higher ratio in each year in comparison of RBB.

The highest ratio of RBB is 37.27% in the year 2004/05 and the lowest ratio is 31.57% year 2009/10, whereas the highest ratio is 62.89% in the year 2008/09 and the lowest ratio is 53.53% year 2006/07 of NABIL. The mean of RBB and NABIL are 33.62% and 58.94% respectively. So NABIL has higher ratio than that of RBB. It reveals that in total assets, NABIL has high proportion of loans and advances. NABIL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of RBB states that it has less uniformity in these ratios throughout the study period than that of NABIL. S.D. and C.V. of RBB and NABIL have 2.12 & 6.28 and 3.04 & 5.28 respectively.

The above loans and advances to total assets ratio can be presented in a diagram also which is as follows

Figure: 4.1

Ratio of Loan and Advances to Total Assets



4.1.2 Loans and Advances to Total Deposit Ratio

The loans and advances to total deposit ratio is also known as credit deposit ratio (CD ratio). This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. It is the proportion between the total loan lanching and the total deposit in the banks. It can be calculated by dividing the total loans and advances by the total deposit amount. This ratio shows how successfully the banks are utilizing their deposited funds as credit or loan for profit generating purpose as loans and advances yield high rate of return. Greater CD ratio implies that better utilization of total deposit of banks and higher earnings from that loans and advances with the higher risk. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks Thus, 70%-80% CD ratio is assumed as more suitable for the banks.

Table: 4.2

Ratio of Loans and Advances to Total Deposit

(Rs in Millions)

Year	RBB			NABIL		
	Loans and Advances (a)	Total Assets(b)	Ratio $\frac{a}{b}$	Loans and Advances (a)	Total Assets(b)	Ratio $\frac{a}{b}$
2004/05	28,919.8	43,489.2	0.6649	11222.7	14586.8	0.7693
2005/06	27,164.7	45,700.7	0.5944	13239.4	19348.4	0.6842
2006/07	25,422.3	50,192.6	0.5064	15878.3	23342.4	0.6802
2007/08	27,491.2	57,990.8	0.4740	21769.7	31915.0	0.6821
2008/09	28,209.9	61,944.3	0.4554	27,589.9	37,348.2	0.7387
2009/10	31,464.1	67,976.3	0.4628	32,268.8	46,410.7	0.6952
Total	168,672	327,293.9	0.5153	121,968.8	172,951.5	0.7052
Mean	28,112	545,48.98	0.5153	20,328.1	28,825.2	0.7052
S.D			8.49			4.08
C.V			16.13			5.68

Source; Banking and Financial statistics-52 January 2009

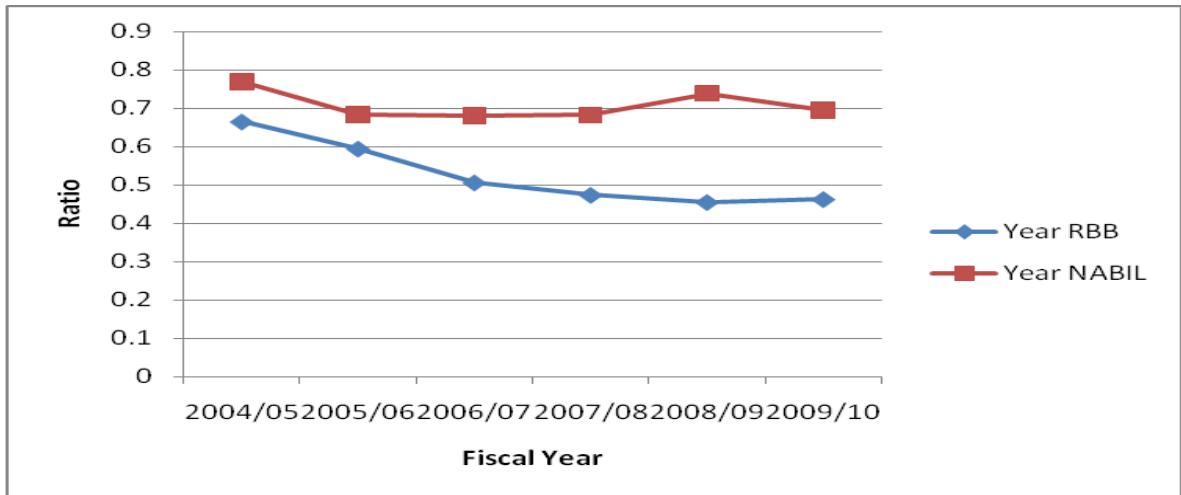
Table 4.2 shows that the loan & advances to total deposit ratio of RBB and NABIL is fluctuating trends. NABIL has higher ratio than that of RBB in each year and mean too. It indicates the better mobilization of deposit by NABIL. The mean of RBB and NABIL are 51.53% and 70.52% respectively. The highest ratio of RBB is 66.49% in Fiscal year 2004/05 and lowest ratio is 45.54% in 2008/09. Similarly highest ratio of NABIL is 76.93% in 2004/05 and lowest ratio is 68.02% in Fiscal year 2006/07. So NABIL has higher ratio than that of RBB. It reveals that the deposit of NABIL is quickly converted into loans and advances to earn income. . NABIL has the greater ratio mean, which signifies that the NABIL lend higher amount in the form of loans and advances to earn better returns. The RBB has the lower mean ratio among them. It provides lower amount in the form of loan. Thus, it can be said that the management of RBB is risk averse as compare to NABIL. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loans and advances to total deposit according to NRB. So in all of the year, NABIL has met the NRB requirement or it has utilized its deposit to provide loan. But, RBB has not met the NRB requirement or it has not utilized its deposit to provide loan properly.

The S.D. and C.V of RBB is 8.49 & 16.13, similarly NABIL has 4.08 & 5.68. Thus, it signifies that RBB has higher deviation. The higher C.V. of RBB shows the more inconsistency in the ratios with compare to NABIL.

The above loans and advances to total deposit ratio can be presented in a diagram also which is as follows.

Figure: 4.2

Loans and Advances to Total Deposit Ratio



4.1.3 Non- Performing Assets to Total Loans and Advances

This ratio determines the proportion of non-performing assets in the total loans and advances portfolio. As per NRB directives, the loan falling under category of substandard, doubtful and loss are regarded as non-performing assets or loan. The higher ratio implies the bad quality of loan or assets of banks in the form of loans and advances whereas lower ratio implies the better quality of assets of banks in the form of loans and advances. Hence, lower ratio is preferable as per international standard only 5% NPAs is allowed but in the case of Nepal, maximum 10% NPAs is acceptable:

Table presented below, exhibits the ratio of non-performing assets to loans and advances of RBB and NABIL from five consecutive years.

Table: 4.3
Ratio of Non- Performing Assets to Total Loans and Advances

(Rs in Millions)

Year	RBB			NABIL		
	Nonperforming Assets	Loans and Advances	Ratio in %	Nonperforming Assets	Loans and Advances	Ratio in %
2004/05	13,689.3	28,919.8	0.4733	144.51	11,222.7	0.0128
2005/06	8,045.5	27,164.7	0.2961	182.6	13,239.4	0.0137
2006/07	6,876.5	25,422.3	0.2704	178.3	15,878.3	0.0112
2007/08	5,951.8	27,491.2	0.2164	171.4	21,769.7	0.0078
2008/09	5,281.8	28,209.9	0.1872	224.8	27,589.9	0.0081
2009/10	4,995.9	31,464.1	0.1575	486.2	32,268.8	0.0150
Total	44,800.8	168,672	0.2656	1,387.8	121,968.8	0.0113
Mean	7466.8	28,112	0.2656	231.3	20,328.1	0.0113
S.D			11.34			0.26
C.V			42.50			25.95

Source; Banking and Financial statistics-52 January 2010

Table 4.3 shows that the RBB has the highest ratio throughout the study period and also shows the fluctuating trend of NPA. The highest ratio of RBB is 47.33% in year 2004/05 and lowest ratio is 15.75% in year 2009/10. The average mean ratio of RBB is 26.56. The S.D is 11.34 and C.V. is 42.50. Similarly, NABIL shows the least ratio during period. Mean ratio of NABIL is 1.13 which is much lower than RBB. The highest ratio is 1.50 in 2009/10 and lowest ratio is 0.78 in 2007/08. It can be said that RBB NPA to loans and advances is going on decreasing trend that is RBB performance is improving year by year.

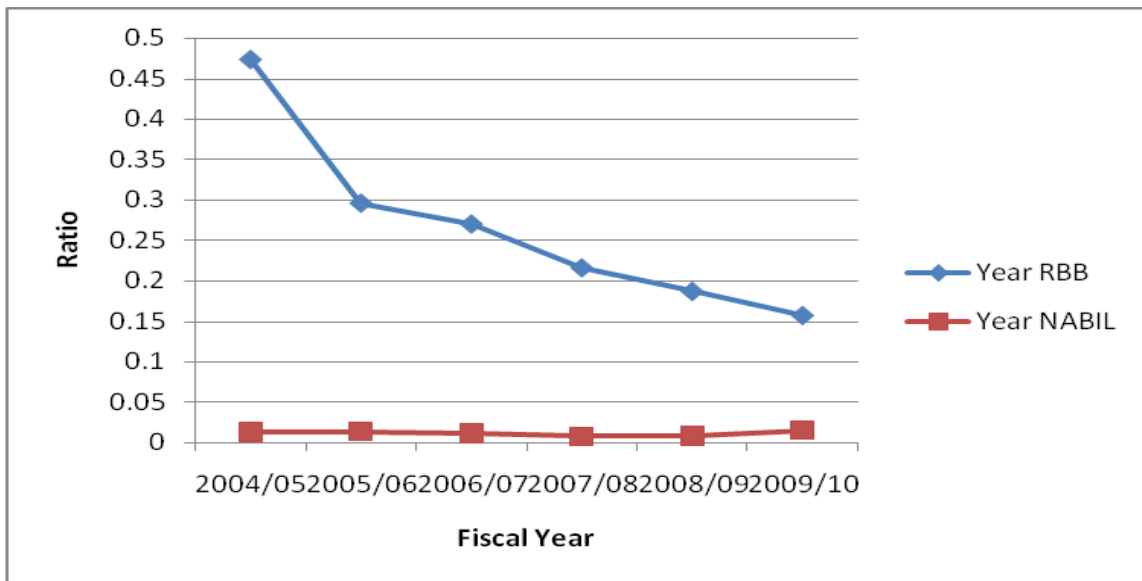
The NABIL has the lower ratio, which indicates better quality of assets of banks in the form of loans and advances. It can be said that they are performing well or maintaining their NPAs perfectly. But the RBB has the high degree of NPL. The higher ratio implies the bad quality of loan or assets of banks in the form of loans and advances. The mean ratio of RBB is significantly high in comparisons to NABIL and it has critical condition. It is higher than the acceptable standard of 10%. The S.D of RBB is higher

which signifies the high variation in ratio. Among all, NPA is one of the main causes, which decreases the profit and fund would allocate for provision and it cause to become bank failure. Thus, they have to pay attention towards these matters.

The above non-performing assets to loans and advances ratio can be presented in diagram also which is as follows;

Figure: 4.3

Non- Performing Assets to Total Loans and Advances Ratio



4.1.4 Total Provision to Non-Performing Assets Ratio

The provision held to non-performing assets ratio shows the proportion of loan loss provision to non-performing assets of the banks. Every bank should have to make provision for the loan to minimize the risk of not recovering the loan from the customer on time. Thus, this ratio measures up to what extent of risk inherent in NPL is covered by the total loan loss provision. From this ratio it can be concluded that which banks make safeguard for the future contingencies. Higher ratio indicates that the banks are safeguard against future contingencies that may create due to non-performing loan. Thus, higher ratio shows better financial position of banks and lower ratio shows weak in financial position.

Table: 4.4
Ratio of Provision Held to Non-Performing Assets

(Rs in Millions)

Year	RBB			NABIL		
	Total Provision	Nonperforming Assets	Ratio in %	Total Provision	Nonperforming Assets	Ratio%
2004/05	15,214.4	13,689.3	111.14	392	144.51	271.26
2005/06	13,593.1	8,045.5	168.95	352.9	182.6	193.26
2006/07	89,67.5	6,876.5	130.40	356.3	178.3	199.83
2007/08	7,709.4	5,951.8	129.53	404.6	171.4	236.05
2008/09	7,407.3	5,281.8	140.24	409.1	224.8	181.98
2009/10	7,212.4	4,955.9	145.53	762.1	486.2	156.75
Total	52,891.7	44,800.8	825.80	2,677	1,387.8	192.89
Mean	10,578.34	7,466.8	137.63	446.17	231.3	192.89
S.D			19.33			28.02
C.V			14.05			12.51

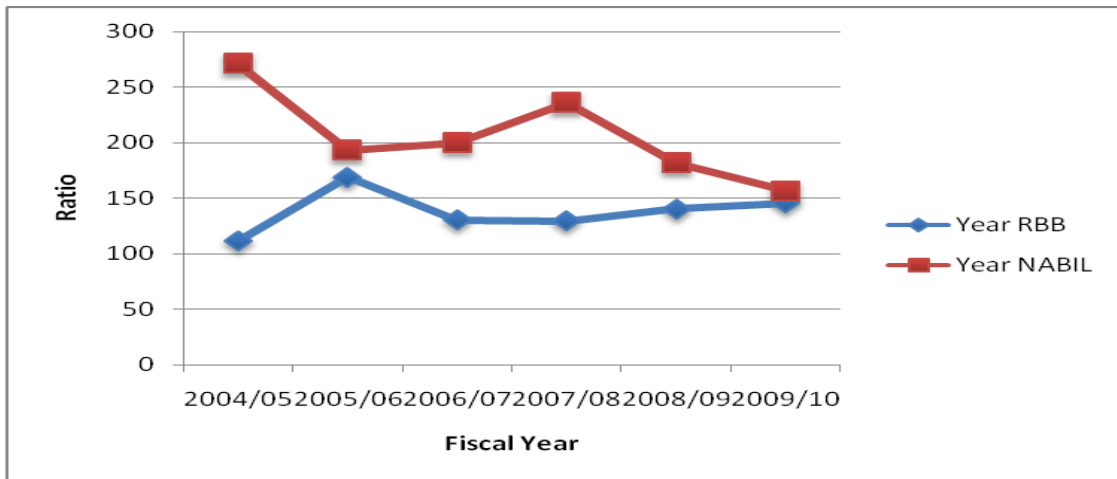
Source; Banking and Financial statistics-52 January 2009

Table 4.4 presents the ratio of provision held to total non-performing assets of RBB and NABIL for 6 consecutive years. Throughout the study period, the RBB has the highest ratio than the NABIL. The highest ratio is 168.95 in 2005/06 and lowest ratio is 111.14 in year 2004/05. The average mean ratio of RBB is 137.63. The standard deviation is 19.33 and C.V. is 14.05. Similarly, the mean ratio of NABIL is 192.89 respectively. The highest provision i.e. ratio is 271.26 in 2004/05 and lowest ratio is 156.75 in 2009/10. The S.D of NABIL is 28.02 and coefficient of variation is 12.51. It indicates NABIL Bank has appropriate provision for non-performing assets. The ratio of RBB has significantly high in comparison with NABIL banks and it's portraying that the bank has adequate provision against non-performing loan. RBB has high ratio of NPL as so bank has make high provision as well. It means that both banks try to maintain the

higher ratio for the safeguard of loan loss. The above provision held to non-performing assets ratio can be presented in a diagram also, which is as follows;

Figure: 4.4

Provision Held to Non-Performing Assets Ratio



4.1.5 Non-Performing Assets to Total Assets Ratio

This ratio represents the proportion between the non-performing assets and total assets of banks. It shows that how many Assets are non-performing or idle in the total assets of banks. Higher NPA, to total assets ratio indicates the works performance, which reduces the profitability of the banks. Lower ratio indicates the better performance and higher profitability of the banks. Thus, lower NPA to total assets ratio is better for the banks that exhibits the better profitability.

Table 4.5 presented below, exhibits the non-performing assets to total assets ratio of RBB and NABIL for six consecutive periods. Although, RBB has the approximately highest ratio than the NABIL, the ratio of RBB is decreasing year by year. The ratio of NABIL is continuously decreasing. It indicates those banks has properly utiliz and invest the Assets. However, the ratio in the FY 2009/10 for NABIL has increased slightly. The S.D of NABIL 0.14 and coefficient of variation is 24.59. The NABIL has the lowest and decreasing ratio all over the period that indicates the greater profitability and the better performance to recover the loan and its interest during the study period

The average mean ratio of RBB is 9.20. The highest ratio is 17.64 in 2004/05 and lowest ratio is 4.97 in year 2009/10. The S.D of RBB 4.56 and coefficient of variation is 49.57. RBB has the highest ratio, which shows the bad performances and lower profitability on its Assets.

Table 4.5
Ratio of Non-Performing Assets to Total Assets

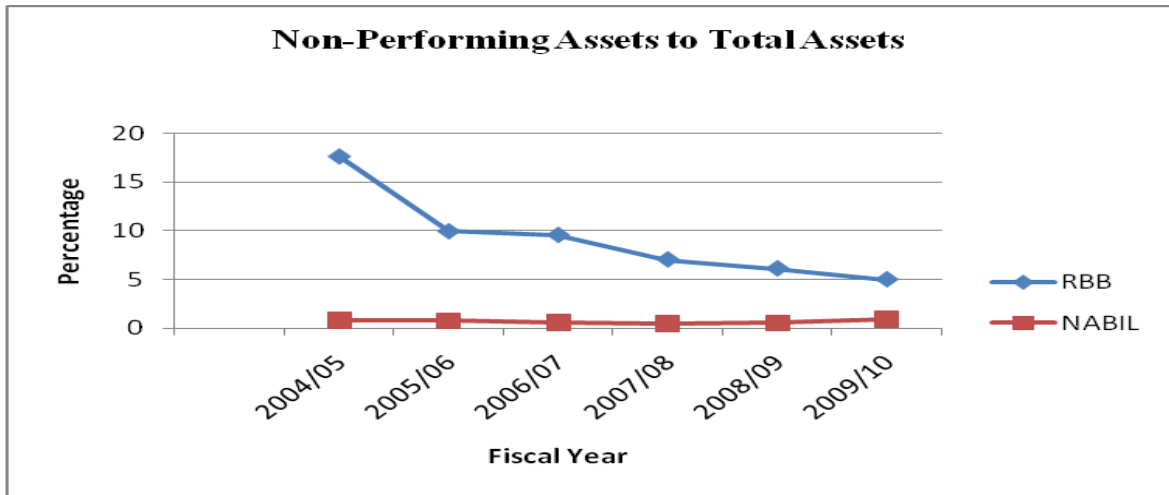
(Rs in Millions)

Year	RBB			NABIL		
	Nonperforming Assets	Total Assets	Ratio in %	Nonperforming Assets	Total Assets	Ratio in %
2004/05	13689.3	77594.1	17.64	144.51	18,614.9	0.77
2005/06	8045.5	81087.1	9.92	182.6	24,134.6	0.75
2006/07	6876.5	72041.3	9.54	178.3	29,660.4	0.60
2007/08	5951.8	84686.2	7.02	171.4	38,478.6	0.44
2008/09	5281.8	86517.7	6.10	224.8	43,867.3	0.51
2009/10	4955.9	99662.6	4.97	486.2	52,150.2	0.93
Total	44800.8	501589	55.21	1,387.8	206,906	0.67
Mean	7466.8	83598.17	9.20	231.3	34,484.3	0.67
S.D			4.56			0.14
C.V			49.57			24.59

Source; Banking and Financial statistics-52 January 2009

Thus, NABIL has the lowest ratio all over the period that indicates the greater profitability and the better performance to recover the loan and its interest during the period. RBB has the highest ratio, which shows the bad performances and lower profitability on its Assets. RBB has the highest deviation which signifies the greater variability in this ratio. The above non-performing assets to total assets ratio can be presented in diagram as;

Figure: 4.5
Non Performing Assets to Total Assets



4.1.6 Relation between Net Profit and NPA

The many risk that the bank faces one of the most critical is the borrower's risk- the risk of non-payment of the disbursed loans and advances. It is called Non-Performing assets or non performing loan. Failure to collect money disbursed may sometimes results in the bank's inability to make repayment of the money to the depositors and return to the shareholders. The risk involved is so high that it can bring bank to a verge of bankruptcy. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. If a bank behaves irresponsibly, the cost born by the economy is enormous.

Non – Performing assets (NPA) can be defined as those assets that cannot be used productively. In other words, NPA is the outdated loan, and bad and doubtful debts. NPA could wreck banks' profitability both through a loss of interest income and write off the principal loan amount. To start with, performance in terms of profitability is a benchmark for any business enterprises including the banking industry. However, increasing non-performing assets have the direct impacts on banks' profitability, as legally banks are not allowed to book income on such accounts and at the same since banks are forced to make provision on such assets.

Performing assets are those that repay principal and interest to the banks. These assets constitute the primary sources of income to banks. Banks are willing to lend as much as possible. But they have to be very careful about the safety of such loans.

Banking is volatile and sensitive sectors of national economy, which requires effective monitoring and efficient supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of banking activities carried out by the governmental and non-governmental banking and financial institution.

Now a day, the banks are taking different principles for granting loan (i.e. liquidity, profitability, safety & security, social responsibility etc.) but the NPA does not decline. An asset is classified as non-performing assets, if the borrower does not pay dues in the form of principal and interest. If any credit facilities or loan granted by bank to a borrower became non-performing, then the bank will have to treat all the credit facilities or loan granted to that borrower as non-performing assets NPA can also be non-performing loan, non-banking assets, remaining non-performing loan, suspend interest, unutilized assets etc. The notion of non-performing loans or assets is often used as a proxy for asset quality of a particular bank or banking system. Although, there is no uniform definition of nonperforming assets, in many countries, including most G-10 countries, assets are considered to be non-performing when (a) principal or interest is due and unpaid for 90 days or more; (b) interest payment equal to 90 day or more have been capitalized, refinanced or rolled over. The bottom line in the international manuals concerning non-performing loan, seems to be that loans are good unless there is absolute certainty that a loan is not going to be repaid under existing arrangement.

The major attention in the Nepalese banking sector, more attention should be done in the credit policy by the central bank, NRB. Regarding loan policy, it should make clear to its policy & view. In fact the CBs should follow the credit policy, which would match the economic policy of the NRB or country to gain more & more profit. For this purpose, & as per the performance level of the credit of the CBs, the central bank, NRB,

they are classified as PA & NPA. As discussed earlier, the PA is also divided as Pass (Good) Loan & Restructured Loan. And similarly, the NPA is also divided as Sub-standard Loan, Doubtful Loan & Bad Loan (Loss).

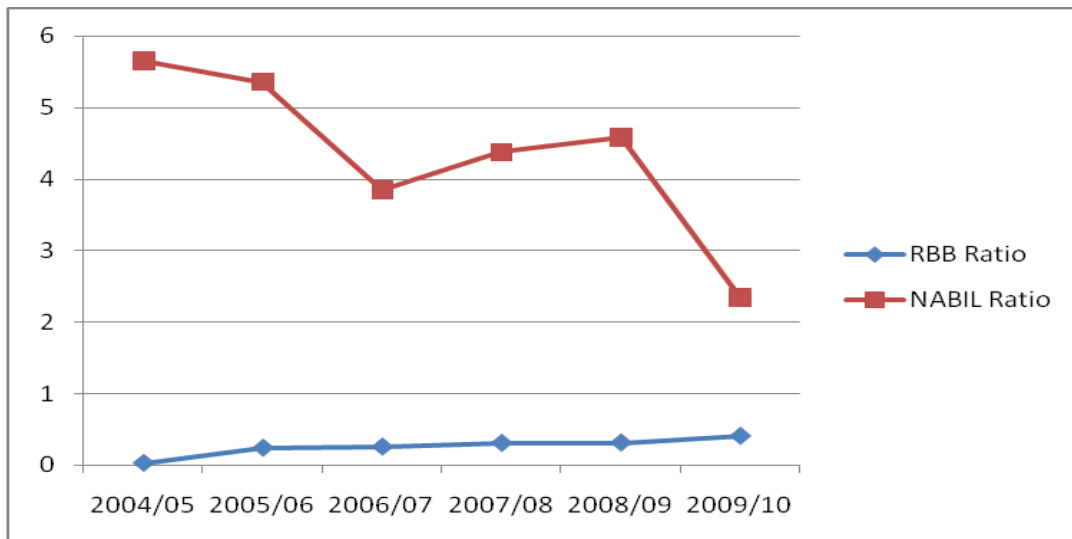
Table: 4.6
Relation between net profit and Nonperforming Assets

(Rs in Millions)

Year	RBB			NABIL		
	Net Profit	Nonperforming Assets	Ratio	Net profit	Nonperforming Assets	Ratio
2004/05	388.4	13689.3	0.028	817.9	144.51	5.659
2005/06	1,949.7	8045.5	0.242	979.1	182.6	5.361
2006/07	1,777.1	6876.5	0.258	685.6	178.3	3.845
2007/08	1,846.9	5951.8	0.310	750.4	171.4	4.378
2008/09	1,178.8	5281.8	0.317	1,031.1	224.8	4.586
2009/10	2,032.1	4955.9	0.410	1,138.5	486.2	2.341
Total	9173.00	44800.80	1.471			26.17
Mean			0.245			4.362
S.D			0.126			1.190
C.V			51.33			27.287

Source; Banking and Financial statistics-52 January 2009

Figure: 4.6
Relation between net profit and NPA



As from the table and figure 4.7, it is concluded that the net profit and nonperformance assets ratio of RBB and NABIL are in fluctuating trend during the study period. The mean of RBB and NABIL are 0.245 and 4.362 respectively. While observing their ratios NABIL is better mobilizing of fund as net profit and nonperformance assets ratio and it seems quite successful in generating higher ratio in each year in comparison of NABIL.

The net profit and nonperformance assets ratio of RBB and NABIL is fluctuating trends. The mean of RBB and NABIL are 0.245 and 4.362 respectively. So NABIL has higher ratio than that of RBB. It indicates the better mobilization of net profit by NABIL. The S.D. and C.V of RBB is 0.162, 51.33 similarly NABIL has 1.190, 27.287. Thus, it signifies that NABIL has higher deviation. The higher C.V. of RBB shows the more inconsistency in the ratios with compare to NABIL. Thus, it signifies that along with the lower return and high degree of variation in this ratio.

4.2 Correlation Analysis

4.2.1 Coefficient of Correlation between Total Deposit and Loans and Advances

Deposit have played very important role in performance of a commercial banks and similarly loans & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loans & advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

Table: 4.7
Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criteria			
	r	R ²	P.Er.	6 P.Er.
RBB	0.018028776	0.00032504	0.296207	1.777242
NABIL	0.984895492	0.97001913	0.003061	0.018366

Source: BY SPSS Data Editor

From the above table 4.8 it is found that coefficient of correlation between deposits and loan & advances of RBB and NABIL is 0.018 and 0.984. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan & advances of RBB and NABIL move together very closely. RBB have also low degree positive correlation Moreover, the coefficient of determination of RBB is 0.000325. It means 0.035 % of variation in loan & advances has been explained by deposit. The relationship is insignificant because the coefficient of correlation is less than 6 P.Er. Similarly, value of coefficient of determination of NABIL is 0.97 it refers that 97.00% variance in loan & advances are affected by total deposit. The coefficient of determination NABIL banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

4.2.2 Co-efficient of Correlation between Loans and Advances and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. loans and advances and net profit of RBB and NABIL during the study period. Where loans and advances are independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loans and advances through the coefficient of determination. The following table shows the ‘r’, R², P.Er. and 6 P. Er. between the variables of RBB and NABIL for the study period.

Table: 4.8
Correlation between Loans and Advances and Net profit

Name of Banks	Evaluation Criteria			
	r	R ²	P.Er.	6 P.Er.
RBB	-0.742107952	0.55072421	0.135522	0.813132
NABIL	-0.642280726	0.41252453	0.177209	1.063254

Source: BY SPSS Data Editor

Table 4.9 shows correlation coefficient between, loans and advances and net profit. The correlation coefficient between, loans and advances and net profit is -0.7421 of RBB. It refers that there is negative correlation between these two variables. Here, 55.07% of net profit is contribute by loans and advances as its coefficient of determination of 0.5507 shows. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P.Er. Likewise, RBB has also low negative correlation i.e. -0.6422 between loans and advances and net profit. The coefficient of determination R² is 0.4125 which indicates that 41.25% variability in net profit is explained by loans and advances. Less correlation coefficient than 6P.Er. Shows that the relationship between loans and advances and net profit is insignificant for NABIL. In conclusion, RBB and NABIL have insignificant relationship between loans and advances and net profit.

4.2.3 Correlation between Loan Loss Provision and Loan & Advances

The correlation between loan loss provision (LLP) and loan & advances show the degree of relationship between these two items. How a unit increment in loans and advances affect the loan loss provision is measured by this correlation. Here loan & advances is independent variable and loan loss provision is dependent variable

Table: 4.9

Correlation between Loan loss Provision and Loans and Advances

Name of Banks	Evaluation Criteria			
	r	R ²	P.Er.	6 P.Er.
RBB	0.354325972	0.12554689	0.263775	1.58265
NABIL	0.791697099	0.6267843	0.112579	0.675474

Source: BY SPSS Data Editor

Table 4.10 shows correlation coefficient between, loan loss provision and loans and advances. The correlation coefficient between, loan loss provision and loans and advances is 0.3543 of RBB. It refers that there is positive correlation between these two variables. Here, 12.55% of provision is contributed by as loans and advances its coefficient of determination of 0.1255 shows. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P.Er. Likewise NABIL has also positive correlation i.e. 0.7916 between loan loss provisions and loans and advances. The coefficient of determination R² is 0.6267, which indicates that 62.67% variability in Provision is explained by loans and advances. NABIL bank has more correlation coefficient than 6P.Er. Shows that the relationship between loan loss provision and loans and advances is significant.

4.2.4 Correlation between Loan Loss Provision and NPA

The correlation between LLP and NPA shows the relationship of them. How a unit of LLP effect the NPA is exhibited by this correlation. In this case, NPA is the independent variable and LLP is the dependent variable. As earlier mentioned NPA are the loan falling on the category of substandard, doubtful and loss loan and the respectively provisioning requirement is 25%, 50% and 100% respectively. Higher the NPL higher will be the provisioning amount.

Table: 4.10

Correlation between Loan Loss Provision and Non-Performing Assets

Name of Banks	Evaluation Criterions			
	R	R ²	P.Er.	6 P.Er.
RBB	0.887689234	0.78799218	0.063951	0.383706
NABIL	0.44917308	0.20175646	0.240787	1.4447196

Source: BY SPSS Data Editor

Table 4.11 shows the relationship between LLP & NPA of RBB and NABIL. The correlation between LLP & NPA of RBB is 0.887. It refers that there is positive correlation between these two variables. The coefficient of determination of RBB is 0.7879 the relationship between LLP & NPA is significant because the coefficient of correlation is more than 6 P.Er i.e. $-0.8876 > 0.3837$ Likewise NABIL has positive correlation i.e. 0.4492 between loan loss provision and non-performing assets. The coefficient of determination R² is 0.20175 which indicates that 20.17% variability in Provision is explained by non-performing assets. The coefficient of correlation is less than 6P.Er. So the relationship between loan loss provision and loans and advances is insignificant. RBB has the higher degree of NPA in comparison to NABIL.

4.2.5 Correlation between Non-Performing Assets and Loans and Advances

This correlation coefficient shows the degree of relationship between the NPA and loan & advance. The NPA is independent variable(X) and loan & advance is dependent (Y) variable. It shows how a unit of change of loan & advance effects to the NPA and what is the relation of them. It means how is effected the NPA due to the change (increase or decrease) of loans and advances of banks.

Table: 4.11

Correlation between Non-Performing Assets and Loans and Advances

Name of Banks	Evaluation Criteria			
	R	R ²	P.Er.	6 P.Er.
RBB	0.478780863	0.22923111	0.232499	1.394994
NABIL	0.735424974	0.54084989	0.138501	0.831003

Source: BY SPSS Data Editor

Table 4.12 shows correlation between non-performing assets and loans and advances. Non-performing assets and loans and advances of RBB is 0.4787. It refers that there is positive correlation between these two variables. Here, coefficient of determination is 0.2292, which indicate 22.92% of non-performing assets is contributed by as loans and advances. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P. Er. In the case of NABIL there is positive correlation i.e. 0.7354 between non-performing assets and loans and advances. The coefficient of determination R² is 0.5408, which indicates that 54.08% variability in non-performing assets is explained by loans and advances. The relationship is insignificant because the coefficient of correlation is little less than 6 P.Er .i.e. $0.7354 < 0.8310$. As a whole there are insignificant correlation coefficient of bank between non-performing assets and loans and advances during the study.

4.2.6 Correlation between Non-Performing Assets (NPA) and Total Assets

The correlation coefficient shows the degree of relationship between the NPA and total assets for the study period. In this correlation coefficient, NPA is an independent variable and a total asset is dependent variable. It shows how units of change in total assets affect the NPA

Table: 4.12

Correlation between Non-Performing Assets and Total Assets

Name of Banks	Evaluation Criteria			
	R	R ²	P.Er.	6 P.Er.
RBB	-0.410490079	0.1685021	0.250818	1.5049056
NABIL	0.749644117	0.5619663	0.132131	0.7927854

Source: BY SPSS Data Editor

Table 4.13 shows the relationship between the non-performing assets and total assets of RBB and NABIL for five consecutive. The correlation between NPA and total assets of RBB is -0.41049. It refers that there is negative correlation between these two variables. The coefficient of determination of RBB is 0.1685, which indicates total assets contribute 16.85% of non-performing assets. The relationship between LLP & total assets of RBB is insignificant because the coefficient of correlation is less than 6 P.Er. i.e. $-0.4104 < 1.5049$. Likewise, NABIL has positive correlation i.e. 0.7496 between the non-performing assets and total assets. The coefficient of determination R^2 is 0.5619663 which indicates that 56.19% of non-performing assets is explained by total assets. The coefficient of correlation is less than 6P.Er. So the relationship between non-performing assets and total assets is insignificant.

The RBB has 16.85% of non-performing assets contribute by total assets but NABIL has 56.19% percent of nonperforming assets is contribute by total assets. NABIL has the higher degree of NPA to total assets in comparison to RBB.

In conclusion, as from correlation analysis it is found out that the coefficient of correlation between deposits and loans and advances of RBB and NABIL is 0.018 and 0.98. It shows that both have the positive relationship between these two variables. The coefficient of determination of NABIL is 0.978. Similarly, value of coefficient of determination of RBB is 0.0003. The correlation coefficient of NABIL banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er

whereas correlation coefficient of RBB banks is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er.

The correlation coefficient between, loans and advances and net profit is -0.74 of RBB. It refers that there is negative correlation between these two variables. Here, 55.07% of net profit is contributed by loans and advances. The relationship is insignificant because the coefficient of correlation is less than 6 P.Er. NABIL have also negative correlation i.e. -0.64. There is only 41.25% percent variability in net profit is explained by loans and advances. The relationship between loans and advances and net profit is insignificant due to less correlation coefficient than 6P.Er. In conclusion, NABIL and RBB both have insignificant relationship between loans and advances and net profit than that of RBB.

The correlation coefficient between, loan loss provision and loans and advances is 0.35 and 0.79 of RBB and NABIL. It refers that there is positive correlation between these two variables. Here, 12.55% of provision of RBB is contributed by as loans and advances and 62.67% variability in Provision of NABIL is explained by loans and advances. NABIL banks have more correlation coefficient than 6P.Er. Shows that the relationship between loans loss provision and loans and advances is significant but reverse in case of RBB.

The relationship between LLP and NPA of RBB and NABIL are positive direction. The correlation between LLP and NPA of RBB is 0.887. It refers that there is positive correlation between these two variables. The coefficient of determination of RBB is 0.788. The relationship between LLP and NPA is significant. NABIL has positive correlation i.e. 0.449. The coefficient of determination is 0.201. The coefficient of correlation is less than 6P.Er. So the relationship between Loan loss Provision and loans and advances is insignificant.

The correlation coefficient between, non-performing assets and loans and advances of RBB is 0.479. It refers that there is positive correlation between these two variables.

Here, 22.93% of non-performing assets is contributed by loans and advances. NABIL has positive correlation i.e. 0.735 between non-performing assets and loans and advances. Here 54.08% variability in non-performing asset is explained by loans and advances. The relationships of both banks are insignificant because the coefficient of correlation is little less than 6 P.Er.

The relationship between the non-performing asset and total assets of RBB and NABIL is not similar. The correlation between NPA and total asset of RBB is -0.41. It refers that there is Negative correlation between these two variables where, 16.85% of non-performing assets is contributed by total assets. The relationship between LLP and total asset of RBB is insignificant. Likewise, NABIL has positive correlation i.e. 0.750 between the non-performing asset and total assets. There is 56.20% percent of non-performing asset is explained by total asset. The coefficient of correlation is less than 6P.Er. So the relationship between non-performing asset and total assets is insignificant.

4.3 Trend Analysis

Trend analysis is the statistical tools for analyzing the data of selected banks in suitable manners. It helps to forecast the future value of bank of future expectation of different variables. It shows the behavior of different variables. It is based on the assumption that past tendencies continues in the future. In this study, data are presented for further eight years. For 2004/05 - 2008/09 and forecast is done on the basis of these trend lines.

4.3.1 Trend Analysis of Total Deposit

Deposits are the important part in banking sector hence its trend for next eight years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of total deposit of RBB and NABIL Bank Ltd for further eight year.

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - \text{Middle year}$

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

RBB

NABIL

$$a = 61,944.30$$

$$a = 37,348.2$$

$$b = 6,032$$

$$b = 9,062.5$$

Where as

$$Y_c = 61,944.30 + 6,032X \text{ of RBB}$$

$$Y_c = 37,348.20 + 9,062.5X \text{ of NABIL}$$

Table: 4.13
Trend analysis of Total Deposit of RBB and NABIL

(Rs in Millions)

Year(x)	RBB	NABIL
2004/05	43,489.2	14586.8
2005/06	45,700.7	19348.4
2006/07	50,192.6	23342.4
2007/08	57,990.8	31915.0
2008/09	61,944.3	37,348.2
2009/10	67,976.3	46,410.7
2010/11	74,008.3	55,473.2
2011/12	80,040.3	64,535.7
2012/13	86,072.3	73,598.2
2013/14	92,104.3	82,660.7
2014/15	98,136.3	91,723.2
2015/16	104168.3	100,785.7
2016/17	110,200.3	109,848.2

Source: Banking and Financial statistics-52 January 2009

Figure: 4.7

Trend Analysis of Total Deposit of RBB and NABIL

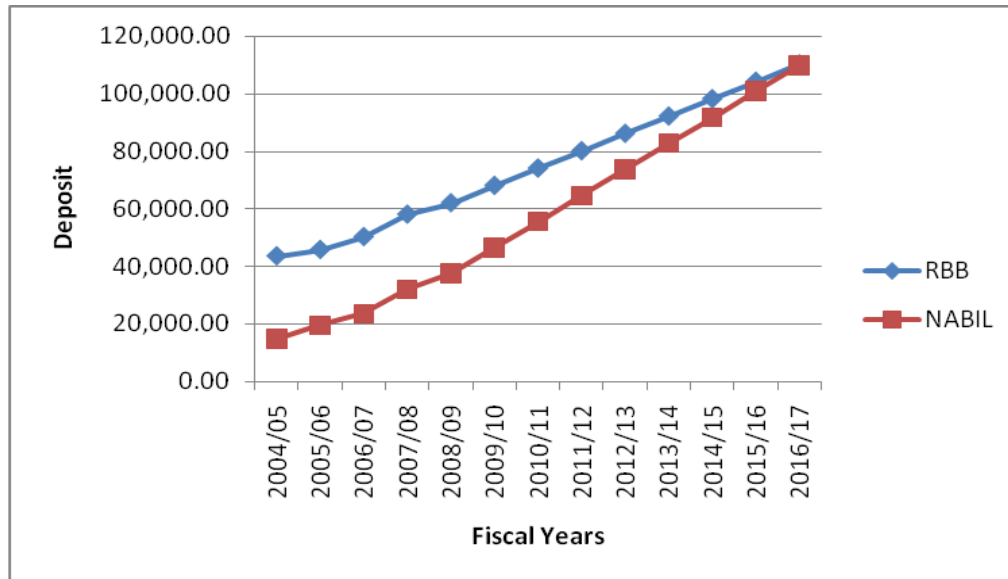


Table 4.14 and figure 4.8 shows that total deposit of RBB and NABIL. Both Banks is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of RBB. The increasing trend of total deposit of NABIL is more aggressive and high rather than RBB. It indicates NABIL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year FY 2009/10 to FY 2016/17. From the above trend analysis it is clear that NABIL has higher position in collecting deposit than RBB.

4.3.2 Trend Analysis of Loan & Advances

Here, the trend values of loan & advances Between RBB and NABIL have been calculated for further Eight year. The following Table shows the actual and trend values of

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - \text{Middle year}$

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

RBB

NABIL

$$a = 28,209.9$$

$$a = 27,589.9$$

$$b = 3,254.2$$

$$b = 4,678.9$$

$$Y_c = 28,209.9 + 3,254.2X \text{ of RBB}$$

$$Y_c = 27,589.9 + 4,678.9X \text{ of NABIL}$$

Table: 4.14

Trend line of Total Loans and Advances of RBB and NABIL

(Rs in Millions)

Year(x)	RBB	NABIL
2004/05	28,919.8	11222.7
2005/06	27,164.7	13239.4
2006/07	25,422.3	15878.3
2007/08	27,491.2	21769.7
2008/09	28,209.9	27,589.9
2009/10	31,464.1	32,268.8
2010/11	34,718.3	36,947.7
2011/12	37,972.5	41,626.6
2012/13	41,226.7	46,305.5
2013/14	44,480.9	50,984.4
2014/15	47,735.1	55,663.3
2015/16	50,989.3	60,342.2
2016/17	54,243.5	65,021.1

Source; Banking and Financial statistics-52 January 2009

Figure: 4.8

Trend line of Total Loans and Advances of RBB and NABIL

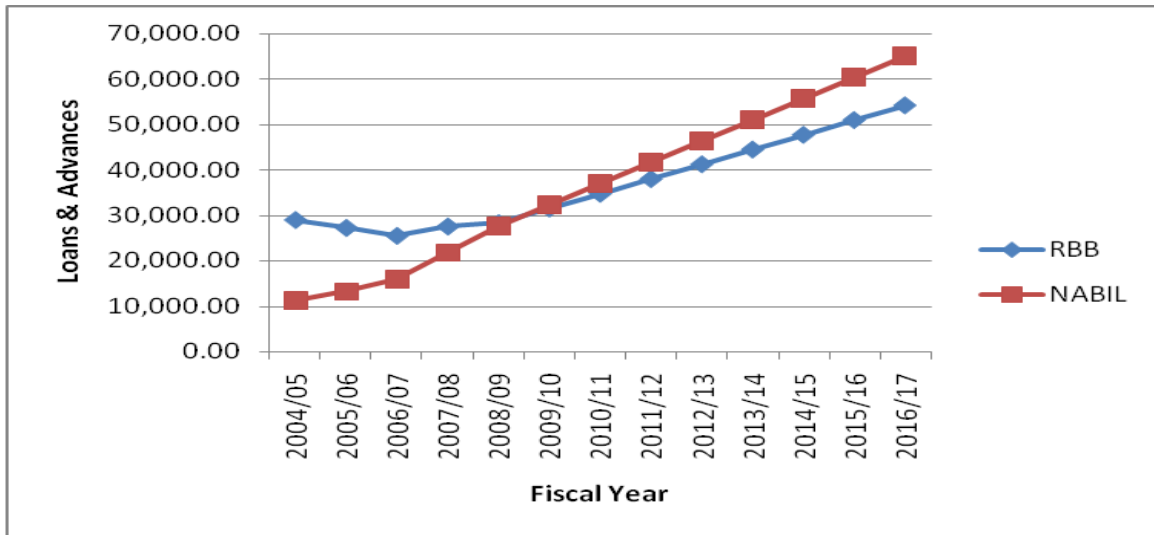


Table 4.15 & fig 4.9 depicts that loan & advances of RBB and NABIL. Both banks has in reverse trended i.e. RBB loans and advances is going on decreasing trends whereas NABIL is in increasing trend. The actual value of loan & advances for RBB is quite fluctuating and slow in relation to NABIL. The trend projected for further eight year FY 2008/09 to FY 2016/17 From the above analysis, it is clear that both RBB and NABIL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows that the NABIL has highly mobilized the loans & advances that of RBB.

4.3.3 Trend Analysis of Net Profit

Here, the trend values of net profit of RBB and NABIL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 2015/16.

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where

$$x = X - \text{Middle year}$$

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

RBB

NABIL

$$a = 1,178.8$$

$$a = 1,031.1$$

$$b = 853.3$$

$$b = 107.4$$

$$Y_c = 1,178.8 + 853.3 X \text{ RBB}$$

$$Y_c = 1,031.1 + 107.4 X \text{ NABIL}$$

Table: 4.15

Trend Analysis of Net Profit of RBB and NABIL

(Rs in Millions)

Year(x)	RBB	NABIL
2004/05	388.4	817.9
2005/06	1,949.7	979.1
2006/07	1,777.1	685.6
2007/08	1,846.9	750.4
2008/09	1,678.8	1,031.1
2009/10	2,032.1	1,138.5
2010/11	2,885.4	1,245.9
2011/12	3,738.7	1,353.3
2012/13	4,592	1,460.7
2013/14	5,445.3	1,568.1
2014/15	6,298.6	1,675.5
2015/16	7,151.9	1,782.9
2016/17	8,005.2	1,890.3

Source; Banking and Financial statistics-52 January 2009

Figure: 4.9

Trend Analysis of Net Profit of RBB and NABIL

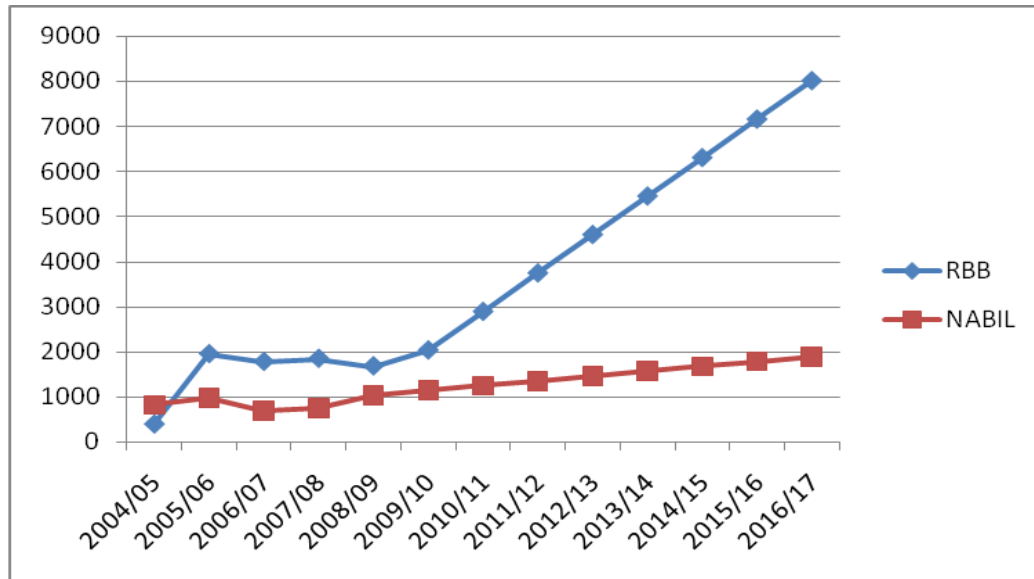


Table 4.16 and fig 4.10 reveals the trend of Net profit of RBB and NABIL. Net profit of both bank are forecasted in reverse trend. The trend of increasing value of net profit of RBB is higher and aggressive than NABIL. The net profit of RBB is increasing year to year and NABIL has been decreasing year by year. The trend of Net profit has projected to FY 2016/17 i.e. further Eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, RBB is doing better in order to generate net profit during the projected study period. In conclusion the prospect of profit generating capacity of RBB is higher than the NABIL.

4.3.4 Trend Analysis of Non- Performing Assets

Here, the trend values of non-performing assets of RBB and Nabil have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 2015/16.

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

$x = X - \text{Middle year}$

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

RBB

NABIL

$$a = 5,281.8$$

$$a = 224.8$$

$$b = 325.9$$

$$b = -261.4$$

$$Y_c = 5,281.8 - 325.9 X \text{ RBB}$$

$$Y_c = 224.8 + 261.4 X \text{ NABIL}$$

Table: 4.16

Trend Analysis of Non-Performing Assets of RBB and NABIL

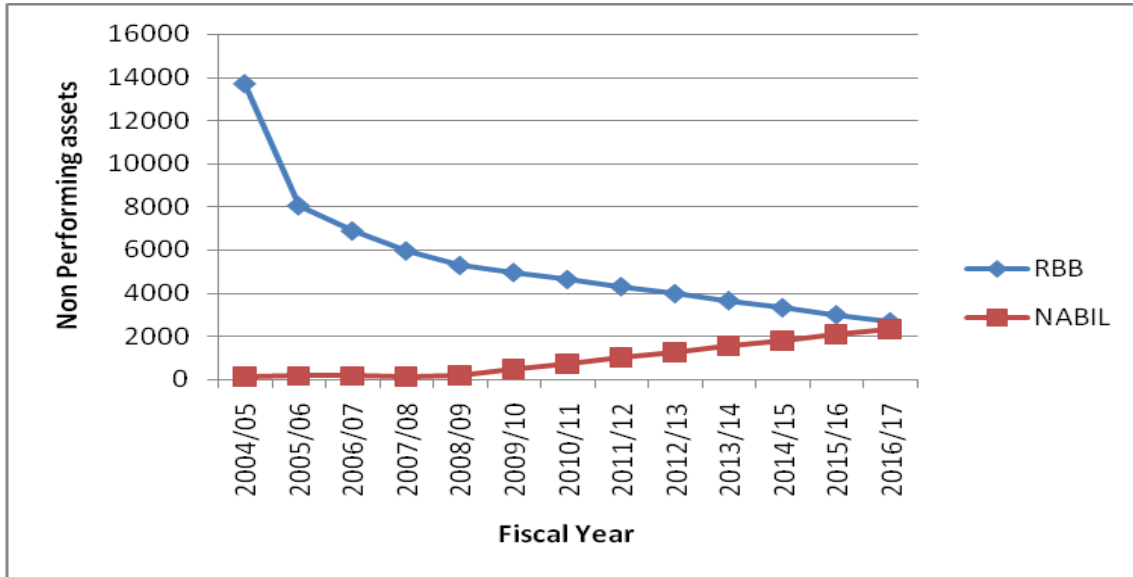
(Rs in Millions)

Year(x)	RBB	NABIL
2004/05	13689.3	144.51
2005/06	8045.5	182.6
2006/07	6876.5	178.3
2007/08	5951.8	171.4
2008/09	5281.8	224.8
2009/10	4955.9	486.2
2010/11	4,630	747.6
2011/12	4,304.1	1,009
2012/13	3,978.2	1,270.4
2013/14	3,652.3	1,531.8
2014/15	3,326.4	1,793.2
2015/16	3,000.5	2,054.6
2016/17	2,674.6	2,316

Source; Banking and Financial statistics-52 January 2009

Figure: 4.10

Trend Analysis of Non-Performing Assets of RBB and NABIL



The above table 4.17 & Fig 4.11 reveal the trend of non-performing assets of RBB and NABIL. Non-performing assets of RBB is forecasted in decreasing trend. The trend of non-performing assets of NABIL is estimated in increasing trend. The trend of non-performing assets of RBB is decreasing which indicate that non-performing assets is regularly decreasing during the study period. The non-performing asset of NABIL has been increasing every year and RBB decreasing respectively. The trend of non-performing assets has been projected up to FY 2016/17 i.e. further Eight year. Above statistics, shows that RBB is doing better by decreasing non-performing assets over the period. However, NABIL is increasing non-performing during the projected study.

4.3.5 Trend Analysis of Loan Loss Provision

Here, the trend values of loss loan provision of RBB and NABIL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 2015/16.

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where

$$x = X - \text{Middle year}$$

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

RBB

NABIL

$$a = 7,407.3$$

$$a = 409.1$$

$$b = -194.9$$

$$b = 353$$

$$Y_c = 7,407.3 - 194.9 X \text{ RBB}$$

$$Y_c = 409.1 + 353 X \text{ NABIL}$$

Table: 4.17

Trend Analysis of Loss Loan Provision between RBB and NABIL

Year(x)	RBB	NABIL
2004/05	15,214.4	392
2005/06	13,593.1	352.9
2006/07	89,67.5	356.3
2007/08	7,709.4	404.6
2008/09	7,407.3	409.1
2009/10	7,212.4	762.1
2010/11	7,017.5	1,115.1
2011/12	6,822.6	1,468.1
2012/13	6,627.7	1,821.1
2013/14	6,432.8	2,174.1
2014/15	6,237.9	2,527.1
2015/16	6,043	2,880.1
2016/17	5,848.1	3,233.1

Source; Banking and Financial statistics-52 January 2009

Figure: 4.11

Trend analysis of Loss Loan Provision Between RBB and NABIL

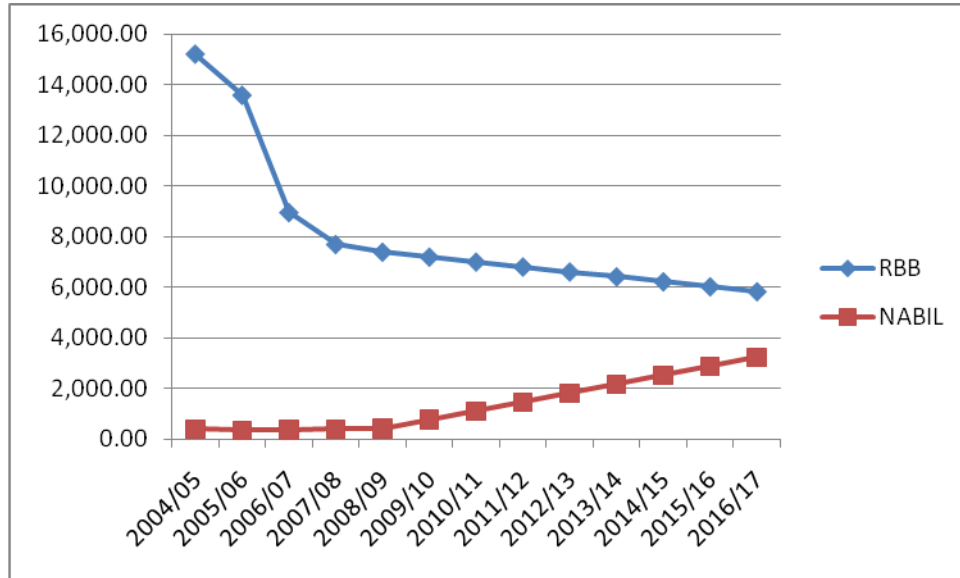


Table 4.18 & fig 4.12 reveals the trend of loss loan provision of RBB and NABIL. Loss loan provision of NABIL is forecasted constant and forecasted in decreasing trend. The trend of increasing value of loss loan provision of NABIL is higher and aggressive than RBB. The loss loan provision of NABIL increasing every year and RBB has been decreasing every year respectively. The trend of loss loan provision projected to FY 2016/17 i.e. further Eight year. In conclusion, NABIL is doing better because constant in loss loan provision but RBB has decreasing loss loan provision, which indicate it is doing best. It is suggest NABIL decrease the NPL to minimize loan loss provision.

In conclusion, as from trend analysis, the trend line of total deposit of RBB and NABIL is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of RBB. The increasing trend of total deposit of NABIL is more aggressive and high rather than RBB. It indicates NABIL has more prospect of collecting total deposit.

The loans and advances of RBB and NABIL are in reverse trend. The increasing trend of NABIL is higher than RBB. The actual value of loans and advances for RBB is quite

fluctuating in relation to NABIL. It is clear that both NABIL and RBB are mobilizing its collected deposits and other funds in the form of loans and advances. But the Nabila is highly mobilizing loans and advances than the RBB.

The trend of net profit of both banks is RBB and NABIL has been forecasted in reverse trend. The trend of increasing value of net profit of RBB is higher and aggressive than NABIL i.e. RBB is doing better in order to generate net profit during the projected study period. The prospect of profit generating capacity of RBB is higher than the NABIL.

The trend of non-performing assets of RBB and NABIL are in opposite direction. Non-performing assets of RBB is forecasted in decreasing trend, which indicate non-performing assets is regularly decreasing during the study period. The trend of non-performing assets of NABIL is estimated in increasing trend. This show that RBB is doing better by decreasing non-performing assets. However, NABIL is increasing non-performing assets.

The trend of Loss loan provision of NABIL is forecasted constant and RBB forecasted in decreasing trend. The trend of increasing value of loss loan provision of NABIL is higher than RBB.RBB is doing better because constant in loss loan provision but NABIL has increasing loss loan provision.

4.4 Major findings of the study

1. The loans and advances to total deposit ratio of RBB and NABIL is in fluctuating trends. The mean of RBB and NABIL are 51.53 and 70.52 respectively. So NABIL has higher ratio than that of RBB. It indicates the better mobilization of deposit or converted in to loans and advances to earn income by NABIL. The S.D. and C.V of RBB is 8.49, 16.13 similarly NABIL has 4.08, 5.68. Thus, it signifies that RBB has higher deviation. The higher C.V. of RBB shows the more inconsistency in the ratios with compare to NABIL. The ratio of provision held to total non-performing assets for the NABIL has the highest ratio than the RBB. The average mean ratio of RBB is 137.63.

2. The standard deviation is 19.33 and C.V. is 14.05. It indicates NABIL Bank has appropriate provision for non-performing asset. The mean ratio of NABIL is 192.89. The S.D of NABIL is 28.02 and coefficient of variation is 12.51 respectively. NABIL has high ratio of NPL as so banks has make high provision as well. In the form of non-performing assets to total assets ratio of NABIL and RBB. The RBB has the approximately highest ratio than the NABIL. The average ratio of non-performing asset to total asset of NABIL is 0.67.

3. The average mean ratio of non-performing assets to total loans and advances of RBB is 26.56%. The S.D is 11.34 and C.V. is 42.50. RBB has the highest ratio, which shows the bad performances and lower profitability on its assets. The study is fully based on the secondary data of related banks and NRB report. From the data analysis of the concerned banks, the following major things are drawn that the loans and advances to total assets ratio of RBB and NABIL are in fluctuating trend during the study period. The mean of the ratio of RBB and NABIL are 33.62 and 58.94 respectively. While observing the ratios NABIL is better in mobilizing loans and advances in relation to the total assets and it seems quite successful in generating higher ratio in each fiscal year in comparison to RBB.

4. The ratio of returns on loans and advances shows how bank makes earning through providing loans and advances. RBB has the highest ratio through the study period. The average mean of NABIL is 4.43%. S.D is 1.99 and C. V. is 38.73 respectively. Low S.D. and higher C.V. indicate not variability in ratio of NABIL. The mean of RBB is 5.43%, S.D is 2.30 and C.V is 42 respectively. Thus, it signifies that along with the lower return and high degree of variation in this ratio.

5. The coefficient of correlation between deposits and loans and advances of RBB and NABIL is 0.018 and 0.98. It is shows that both have the positive relationship between these two variables. The coefficient of determination of NABIL is 0.978. Similarly, value of coefficient of determination of RBB is 0.0003. The correlation

coefficient of NABIL bank is significant because the correlation coefficient is greater than the relative value of 6 P.Er whereas correlation coefficient of RBB insignificant because the correlation coefficient is lower than the relative value of 6 P.Er.

6. The correlation coefficient between, loans and advances and net profit of RBB is - 0.74. It refers that there is negative correlation between these two variables. Here, 55.07% of net profit is contributed by Loans and advances. The relationship is insignificant because the coefficient of correlation is less than 6 P.Er. NABIL have also has negative correlation i.e. -0.64. There is only 41.25% percent variability in net profit explained by loans and advances. The relationship between Loans and advances and net profit is insignificant due to less correlation coefficient than 6P.Er. In conclusion, NABIL and RBB both have insignificant relationship between loans and advances and net profit than that of RBB.
7. The correlation coefficient between, loan loss provision and loans and advances is 0.35 and 0.79 of RBB and NABIL. It refers that there is positive correlation between these two variables. Here, 12.55% of provision of RBB is contributed by as loans and advances and 62.67% variability in Provision of NABIL is explained by loans and advances. NABIL has more correlation coefficient than 6P.Er. Shows that the relationship between Loans loss Provision and Loans and advances is significant but reverse in case of RBB. The relationship between LLP and NPA of RBB and NABIL are a positive direction.
8. The correlation between LLP and NPA of RBB is 0.887. It refers that there is positive correlation between these two variables. The coefficient of determination of RBB is 0.788. The relationship between LLP and NPA is significant. NABIL has positive correlation i.e. 0.449. The coefficient of determination is 0.201. The coefficient of correlation is less than 6P.Er. So the relationship between Loan loss Provision and Loans and advances are insignificant.

9. The correlation coefficient between, non-performing assets and loans and advances of RBB is 0.479. It refers that there is positive correlation between these two variables. Here, 22.93% of non-performing assets is contributed by as loans and advances. NABIL has positive correlation i.e. 0.735 between non-performing assets and loans and advances. Here 54.08% variability in non-performing asset is explained by loans and advances. The relationships of both banks are insignificant because the coefficient of correlation is little less than 6 P.Er.
10. The relationship between the non-performing asset and total assets of RBB and NABIL is not similar. The correlation between NPA and total Asset of RBB is - 0.41. It refers that there is Negative correlation between these two variables where, 16.85% of non-performing assets is contributed by total Asset. The relationship between LLP and Total Asset of RBB is insignificant. Likewise, NABIL has positive correlation i.e. 0.750 between the non-performing asset and total assets. There is 56.20% percent of non-performing asset is explained by Total asset.
11. The coefficient of correlation is less than 6P.Er. So the relationship between non-performing asset and total assets is insignificant. The trend line of total deposit of RBB and NABIL is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of RBB. The increasing trend of total deposit of NABIL is more aggressive and high rather than RBB. It indicates NABIL has more prospect of collecting total deposit.
12. The loans and advances of RBB and NABIL are have in reverse trend. The increasing trend of NABIL is higher than RBB. The actual value of loans and advances for RBB is quite fluctuating in relation to NABIL. It is clear that both NABIL and RBB are mobilizing its collected deposits and other funds in the form of loans and advances. But NABIL has highly mobilized loans and advances than the RBB.

13. The trend of Net profit of both banks RBB and NABIL forecasted in reverse trend.
The trend of increasing value of net profit of RBB is higher and aggressive than NABIL. The net profit of RBB increasing every year by Rs.147.8 million and NABIL has been decreasing by Rs. 51.75 million respectively. In conclusion, RBB is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of RBB is higher than the NABIL.
14. The trend of non-performing assets of RBB and NABIL are in opposite direction.
Non-performing assets of RBB is forecasted in decreasing trend. Which indicated non-performing assets is regularly decreasing during the study period.
15. The trend of non-performing assets of NABIL is estimated in increasing trend. The non-performing assets of NABIL has been increasing every year by Rs.11.458 million and RBB is decreasing Rs.1890.87 million respectively. RBB is doing better by decreasing non-performing assets. However, NABIL is increasing non-performing assets.
16. The trend of Loss loan provision of NABIL is forecasted constant and RBB forecasted in decreasing trend. The trend of increasing value of loss loan provision of NABIL is higher than RBB. The loss loan provision of RBB decreasing every year only by Rs.2149.83 and NABIL has been increasing every year by Rs.19.25 million respectively. RBB is doing better because constant in loss loan provision but NABIL has increasing loss loan provision.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The loans loss provision of RBB is high due to high amount of NPA. It is recommended that the banks should have to increase the provision amount to recover the bad loans the assets of commercial banks indicate the manner in which the fund entrusted to the banks is employed. The successful working of the banks depends on the ability of the management to invest funds in the various investment projects. Hence, loans and advances are the most profitable assets of banks. These assets constitute primary sources of income to banks and being a business institution, a bank aims at making huge profit. Since loans and advances are more profitable than any other asset of the banks, it needs to lend fund as possible. However, banks have to be careful about the safety of such loans and advances. It means the banks have to be careful about the repayment of loans and interest before giving loans. If banks are too timid it may fail to obtain the adequate return on the fund, which is confided to use. Similarly, if the banks are too liberal, it may easily impair his profit by bad debts. Therefore, banks should not forget the reality that most of the banks failures in the world due to shrinkage in the value of the loans and advances.

Despite of being loans and advances more profitable, it creates risk of non-repayment for the banks, such risk is known as credit risk or default risk. Therefore, like other assets the loans and advances are classified into performing and non-performing on the basis of overdue aging schedule. If the due in the form of principal and interests are not paid by the borrower for a certain period then treated as non-performing loan or assets. It means NPAs could wreck banks profitability both through loss of interest income and write off the principal loan amount. Non-performing loan are also known as non-performing assets (NPAs). Performing assets have multiple benefits to the company as well as to the society while non-performing assets erode even existing capital of the banks. NPAs have been becoming great problem in banking business in the world. In

this context, Nepal can't be run off from such situation. The level of NPA in Nepalese banking business is very alarming. It is well known fact that the banks and financial institution in Nepal have been facing the problem of swelling non-performing assets (NPAs) and the issue is becoming more and more unmanageable day by day. It is well known from different financial reports; banking and financial statistics no-52 January 2009, the total NPA in Nepalese banking system is about Rs.18, 548.20 million.

This research is focused on studying the non-performing assets of public and private commercial banks. For this purpose, descriptive and analytical research designs are adopted out of total population of 31 commercial banks; one public and one private bank has been taken as sample using judgmental sampling method. They are Rastriya Banjiya Bank and NABIL Banks Limited. In this study mostly secondary data are used. Besides this, newspaper, relevant thesis, journals, articles, related website etc. are also taken for this research. The data collected from various sources are recorded systematically and presented in appropriate forms of table and charts and appropriate mathematical, statistical, financial and graphical tools are applied to analyze the collected data in suitable manner. The data of five consecutive years of the banks has been analyzed to meet the objective of the study.

5.2 Conclusions

The relationships of both banks are insignificant because the coefficient of correlation is little less than 6 P.Er. The relationship between the non-performing asset and total assets of RBB and NABIL is not similar. The correlation between NPA and total Asset of RBB is -0.41. It refers that there is Negative correlation between these two variables where, 16.85% of non-performing assets is contributed by total Asset. The relationship between LLP and Total Asset of RBB is insignificant.

Nepalese banks have to remarks and focused in their efforts to recover their spiraling bad loans, or non-performing assets, to sustain the positive trend of improving assets quality. Better risk management techniques, compliance with core principles for effective banking supervision skill building and training and transparency in transaction

could be the solution. Removal of non-performing loan from the banking system even through government or quasi government funds at times, is essential. But official assistance should be so structured as to avoid moral hazard to conclude with, till recent past, corporate borrowers even after defaulting continuously never had any real fear of banks taking any action to recover their dues despite the fact that their entire assets were hypothecated to the banks. This is because there was no legal Act formed to safeguard the real interest of banks. While NPA can't be eliminated, but can only be contained, it has to be done not at a heavy cost of provisioning and increasing the portfolio of credit. Along with recovery fresh inflow of NPA should be brought down at a level much less than the quantum of its exit. If this specific goal is reached, there is an eventual solution for this problem. Good governance is essential for the success in NPA management.

The money is the blood of any organization. Thus its proper utilization may be caused of success of the business or organization. Today's banking industry is severely affected by the problem of non-performing assets (NPA). It can be concluded that improper credit appraisal system, ineffective credit monitoring and supervision system, economic slowdown, borrower's misconduct, and over valuation of collateral, political pressures to lend for accredit worthy parties etc. are the major factors leading to non-performing assets.

Even the financial sector is growing terms of quantity but it is for developed countries in term of quality. The main objective of commercial banks is to collect the idle funds from public and mobilize it into productive sector, which cause the overall economic development. The banks should have to take in consideration the interest of depositors, shareholders, and society. Lending is the one of the main function of commercial banks which is the most income generating by assets. As saying "high risk, high return" it gives high return than it also high risk. To minimize this risk banks should have to make loan loss provision for safety. If high amount of loans and advances lend then high amount of loan loss provision is required as per NRB directive.

It is found that the RBB has the highest NPA to total loans and advances. RBB is generating most of their assets in loans and advances but they are in loss. NABIL invest least amount of their resources in loans and advances. That is why NABILs profits show the high during the study period. Similarly, RBB has maintained huge amount of provision due to high non-performing assets, which also cause to reduce the profit of RBB. In this way, RBB seems to be weak compare to NABIL.

In conclusion, improper credit policy political pressure to lend, lack of supervision and monitoring, economic slowdown, overvaluations of collateral are the major causes of occurring NPAs. In recent year, not only the private sectors banks but also public sector's banks are trying to maintain their loans and advances to control over becoming the NPA.

5.3 Recommendations

RBB has the low amount of loan comparing to NABIL. It provides lower amount in the form of loans. Thus, it can be said that the management of RBB is risk averse as compare to NABIL. RBB banks will be able to better mobilization of collected deposit. Even though investing their resources in the most income generating sources but they have negative returns due to enough bad loans. It is recommended to RBB to make serious action to recovering the bad loans (NPA). And also should make remedial action for new loan. Hiring assets management company (AMC) is recommended to reduce the current non-performing assets. NABIL need to increase their lending in terms of loans and advances according to returns, safety, liquidity and risk. The loans loss provision of RBB has high due to high amount of NPA. It is recommended that the banks should have to increase the provision amount to recover the bad loans. Government must applied regulator body to take timely action against willful defaulter. One of the main causes of default loans and increasing the NPAs is that the banks aren't taking much collateral or over valuation of collateral. Therefore, banks should take enough collateral, so the banks at least can able to recover its principle and invest amount in case of being unable to repay by the borrower. Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA

of Nepalese commercial banks. Thus proper financial analysis should be done before lending to the borrowers. The accounting policies must be transparent and must be best auditing practices. Inefficient management may be the cause to increase the non-performing assets in Nepalese commercial banks. Therefore, all banks should provide appropriate training regarding loan management, risk management, credit appraisal etc to the employee. The other factors which lead to non-performing assets are lack of proper supervision and monitoring, ineffectiveness of credit policy, political scenarios, and economic conditions. Besides that negligence in taking information from credit. Information Bureau may be also leading factor to NPAs. It is recommended that banks should apply precaution before granting loans and advances to decrease the bad loans. Lack of credit rating agency. So it's recommended to establish the credit rating agency and AMC to proper analysis. Last but not the list the banks staff must know their responsibility of the work rather than their selfishness. They must have strong commitment and support the rule and regulations.

High levels of non-performing assets not only decrease the profitability of the banks but also affect the entire financial as well as operational health of the organization. If the NPA does not control immediately, it will be main causes for shutdown of the banks in future. Therefore following are some of the recommendation, which will help to reduce the level of NPA of Nepalese Commercial Banks.

BIBLIOGRAPHY

Books:

- Batra, A. and Dass, H., (2003)**, *Techniques of Financial Analysis*, London: Charles E, Merrill Publication Company
- Hampton, John J. (1998)**, *"Financial decision making"*, 4th Ed., New Delhi: Prentice Hall of India Pvt Ltd.
- Khan, M. Y. Jain, P.K., (1993)**, *Management Accounting and Financial Accounting*, New Delhi: TaTa McGraw-Hill Publishing Co. Ltd.
- Khan, M.Y, & Jain, P. K. (2003)**. *Financial Management*. New Delhi: Tata McGraw-Hill Publishing Company Ltd
- Kothari, C. R., (1994)**, *Research Methodology Methods and Techniques*, New Delhi: Wiley Eastern Ltd.
- Pandey, I. M., (1994)**, *Financial Management*, New Delhi: Vikas Publishing House Pvt. Ltd.
- Shekhar, K. C., (1978)**, *Banking Theory and Practice*, New Delhi: Vikash Publishing House.
- Van Horne, James C, Wachowicz, Jr. John M., (1996)**, *Fundamentals of Financial Management*, Ninth Edition, New Delhi: Prentice Hall of India Pvt. Ltd.

Journals and Article

- Adhikari (2010)** "*Non-performing Loan and its Management*"
- Dungana (2007)** in his article titled "*Why Assets Management Co. is considered the best to solve the non-performing loan problem*"
- Rawal (2008)**, in "*Measures adopted to overcome the problem of financial sector and the NPLs*"

Sapkota (2009) has written an article titled "*portion of NPA in commercial Banks – High in Public, Low in Private*"

Unpublished Master level Thesis:

Gunaker Bhatta (2008), has made research on "*Profit planning a case study of Nepal Electricity Authority;*" an unpublished master level thesis submitted to Central Department of Management, Faculty of Management T.U.

Khare (2004) "*Profit Planning in Commercial Bank in Nepal, A Comparative Study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited*", an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U

Shrestha (2006) has conducted a research entitled "*Investment Analysis of Commercial Banks*" (*A Comparative Study of Nepal Bank Limited and Nepal State Bank of India Limited*). an unpublished master level thesis submitted to Shankar Dev Campus, Faculty of Management, T.U., Kathmandu

Shrestha, B., (2007), *Comparative Analysis of Non-Performing Assets of Nepalese Commercial Banks*, an unpublished master level thesis submitted to Shankar Dev Campus, Faculty of Management, T.U., Kathmandu

Shah (2009) carried out a research on "*Cash Dividend Practice and its Impact on Share Price in Nepal*". An unpublished master level thesis submitted to Nepal Commerce Campus, T.U.

Shrestha (2010) conducted a study on "*SWOT Analysis of Nepal Bank Limited*" An Unpublished master level thesis of Master Degree, T.U.

Tapol (2011) conducted a study on "*Investment Practice of Commercial Banks in Nepal*". An Unpublished thesis submitted to research department, Nepal Commerce Campus, Kathmandu

Thapa, S (2009) entitled "*A study of Non-Performance Assets of Nepalese Commercial Banks in Nepal*" , an unpublished master level thesis submitted to Shankar Dev Campus, Faculty of Management, T.U., Kathmandu.

Yadav (2009) conducted a study on “*A Study on Comparative Financial Performance of Joint Venture banks in Nepal*”. An unpublished master level thesis Faculty of Management Central Department, TU.

Websites

www.nabilbank.com.np

www.rbb.com.np

www.nrb.org.np

www.brf.nrb.org

www.himalayantimes.com