

**IMPACT OF NON-PERFORMING LOAN ON
PROFITABILITY OF COMMERCIAL BANKS:
A COMPARATIVE STUDY ON AGRICULTURAL DEVELOPMENT BANK
LTD. AND NEPAL INVESTMENT BANK LTD.**

A Thesis

Submitted By:

Sujan Aryal

People's Campus

Campus Roll No.: 36/069

T.U. Regd. No.: 7-2-474-58-2008

Exam Symbol No. 2710037

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

March, 2022

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Sujan Aryal

Entitled:

**IMPACT OF NON-PERFORMING LOAN ON PROFITABILITY
OF COMMERCIAL BANKS:
A COMPARATIVE STUDY ON AGRICULTURAL DEVELOPMENT BANK LTD.
AND NEPAL INVESTMENT BANK LTD.**

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

.....
Rajendra Raya
(Thesis Supervisor)

.....
Dr. Gopal Krishna Shrestha
(Head, Research Department)

.....
Chhatra Mangal Bajracharya
(Campus Chief)

Date:-

VIVA-VOCE SHEET

We have conducted the viva – voce of the thesis presented

By:

Sujan Aryal

Entitled:

**IMPACT OF NON-PERFORMING LOAN ON PROFITABILITY
OF COMMERCIAL BANKS:
A COMPARATIVE STUDY ON AGRICULTURAL DEVELOPMENT BANK LTD.
AND NEPAL INVESTMENT BANK LTD.**

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 this thesis work entitled **IMPACT OF NON PERFORMING LOAN ON PROFITABILITY OF COMMERCIAL BANKS: A COMPARATIVE STUDY ON AGRICULTURAL DEVELOPMENT BANK LTD. AND NEPAL INVESTMENT BANK LTD.** submitted to Office of the Dean, Faculty Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Masters of Business Studies which is prepared under the supervision of respected supervisors **Rajan Raya** of People's Campus, Paknajol, Kathmandu.

Date:-

.....

Sujan Aryal

People's Campus

Campus Roll No.: 36/069

T.U. Regd. No.: 7-2-474-58-2008

ACKNOWLEDGEMENTS

This is an attempt to present thesis entitled **IMPACT OF NON PERFORMING LOAN ON PROFITABILITY OF COMMERCIAL BANKS: A COMPARATIVE STUDY ON AGRICULTURAL DEVELOPMENT BANK LTD. AND NEPAL INVESTMENT BANK LTD.** prepared for partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) is an outcome of continuous and immeasurable cooperation and support of several hands. I would like to express my heartfelt gratitude to all for their support.

I have great satisfaction and pleasure to express my appreciation and sincerity to my thesis supervisors **Rajendra Raya** of People's Campus, Paknajol, Kathmandu, for their excellent and effective guidance and supervision. I will remain thankful to their valuable direction useful suggestion and comments during the course of preparing this thesis without his help this work would not have come in this form. I also would like to extend my debt of gratitude to **Chhatra Mangal Bajracharya** Campus Chief of People's Campus and I owe a deep debt of gratitude to **Dr. Gopal Krishna Shrestha**, and Head of Research Department who provided me an opportunity to undertake this research work.

I highly appreciate to all the staffs of Agricultural Development Bank Ltd. and Nepal Investment Bank Ltd., NRB Library, People's Campus Library and TU Central Library for their valuable advices and support in collecting and presenting the necessary data.

I would also like to express my thankfulness to my friends, my family members as well as all known people who supported as well as inspired me directly or indirectly to complete this thesis.

Sujan Aryal
Researcher

TABLE OF CONTENTS

	<i>Page No.</i>
<i>Recommendation</i>	<i>ii</i>
<i>Viva Voce Sheet</i>	<i>iii</i>
<i>Declaration</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figures</i>	<i>xi</i>
<i>Abbreviations</i>	<i>x</i>
CHAPTER – I INTRODUCTION	1
1.1 Background of the Study	1
1.2 A Brief Profile of Selected Banks	3
1.3 Statement of the Problem	5
1.4 Objectives of the Study	6
1.5 Significance of the Study	6
1.6 Limitations of the Study	7
1.7 Organization of the Study	7
CHAPTER – II REVIEW OF LITERATURE	9
2.1 Conceptual Review	9
2.1.1 Concept of Credit/Loan	10
2.1.2 Non-performing Assets/Loan Management	12
2.1.3 An Overview on Credit Risk	14
2.1.4 Credit/Loan Management Framework	15
2.1.5 Factor Affecting Credit/Lending Policy	16
2.1.6 Review of NRB Directives Relating to Loan	17
2.1.7 Concept of Profit	23
2.1.8 Concept of Profitability	23
2.1.9 Profitability for the Banks	24

2.2 Review of Related Studies	25
2.2.1 Review of Journals and Articles	25
2.2.2 Review of Previous Research Works	28
2.3 Research Gap	33
CHAPTER – III RESEARCH METHODOLOGY	34
3.1 Research Design	34
3.2 Population and Sample	34
3.3 Nature and Sources of Data	35
3.4 Data of Analysis Tools	35
3.4.1 Financial Tools	35
3.4.2 Statistical Tools	37
CHAPTER – IV DATA PRESENTATION AND ANALYSIS	40
4.1 Financial Analysis	40
4.1.1 Interest income to Loan and advance Ratio	40
4.1.2 Net Profit to Loan & Advance	42
4.1.3 Return on Assets	44
4.1.4 Non-performing Credit to Total credit ratio	45
4.1.5 Return on Shareholdr's fund	47
4.1.6 Market price per share (MPS)	48
4.1.7 Pric Earning Ratio (P/E)	50
4.1.8 Non-performing Loan	51
4.1.9 Total Deposit	52
4.1.10 Coefficient of Correlation	54
4.1.11 Regression Analysis	55
4.2 Major Findings of the Study	55
CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS	57
5.1 Summary	57
5.2 Conclusions	58
5.3 Recommendations	59
BIBLIOGRAPHY	
APPENDICES	

LIST OF TABLES

Table No.....	Page no.
Table: 2.1 Loan Loss provision	19
Table: 4.1 Interest income to loan and advance	41
Table: 4.2 Net profit to loan and advance	43
Table: 4.3 Return on Assets	44
Table: 4.4 Non-performing credit to total credit ratio	46
Table: 4.5 Return on Share holder's fund	47
Table: 4.6 Market price per share (MPS)	49
Table: 4.7 Price Earning ratio	50
Table: 4.8 Non- performing Loan	52
Table: 4.9 Total Deposit	53
Table:4.10 Coefficient of Correlation	54
Table: 4.11 Regression Analysis of ADBL and NIBL	56

LIST OF FIGURES

Figure No.	Page no.
Figure: 4.1 Interest income to loan and advance	42
Figure: 4.2 Net profit to loan and advance	43
Figure: 4.3 Return on Assets	45
Figure: 4.4 Non-performing credit to total credit ratio	46
Figure: 4.5 Return on Share holder's fund	48
Figure: 4.6 Market price per share (MPS)	49
Figure: 4.7 Price Earning ratio	51
Figure: 4.8 Non- performing Loan	52
Figure: 4.9 Total Deposit	54

ABBREVIATIONS

AD	:	Anno Domini
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
CA	:	Current Assets
CB	:	Commercial Banks
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Products
LA	:	Loan and Advance
LATDR:		Loan and Advance to Total Deposit Ratio
LLP	:	Loan Loss Provision
Ltd.	:	Limited
NIBL	:	Nepal Investment Bank Limited
NP	:	Net Profit
NPL	:	Non-performing Loan
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
SD	:	Standard Deviation
TA	:	Total Assets
TD	:	Total Debt
TU	:	Tribhuvan University

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The development of a country is measured by its economic indices. Nepal, like any other country has been laying emphasis on the upliftment of its economy. The process of economic development depends upon various factors. Financial institutions are viewed as catalyst in the process of economic development and growth. The mobilization of domestic resources, capital formation and its proper utilization plays an important role in the economic development of a country. Every financial institution, big or small, a commercial bank or a finance company or a cooperative bank, plays an important role in the development of a country (K.C., 2013).

The role of money in an economy is very important. Proper and well-planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance of financial sector affects the growth of economy. Hence money is a subject to manage, and banks are the managers thereof. Bank, as manager collects disburse and controls the flow of money. Banks collect the fund from public who have saving and disburse the fund to the person and organizations who are in need of it. In this way, entire infrastructure of national development, direction of economy, rate of progress and even the habit of people falls under the periphery of banking systems (Bhandari, 2003).

Banks play a major role in the proper functioning of an economy. They act as an intermediary between the individuals who lend and those who borrow. These institutions accept deposits and provide loan advances to those who are in need. They make the flow of investment easier. Therefore, we cannot deny the role of bank in developing an economy. It pools the funds scattered in the economy and mobilizes them to the productive sectors. Their main objective is collecting the idle fund, mobilizing them into productive sectors and causing an overall economic development. There is a risk inherent in lending portfolio. Banking sector is exposed to number of risk like interest rate risk, liquidity risk, borrowers risk, and among these

many risk the bank face one of the most critical is the borrowers risk-the risk of non-payment of the disbursed loan and advance (Dahal & Dahal, 2012).

Loan and advances dominate the assets the assets side of the balance sheet of any bank. Similarly, earning from such loan and advances occupy a major space in income statement of the banks. However, it is very important to be remained that most of the bank failure in the world due to shrinkage on the value of the loan and advance. Here loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while non-performing loan erodes even existing capital (Pradhan, 1994).

Performing assets are those that repay principal and interest to the bank. These assets constitute the primary source of income to banks. Banks are willing to lend as much as possible. However, they have to be careful about the safety of such loans. Loans are risky assets, even though bank lends most of its resources in loans.

Non-Performing Loans (NPL) or Non-Performing Assets (NPAs) is a burning problem of Nepalese financial sector. In the present banking scenario, NPAs is being more headaches for the banking sector. In the general context, a non performing asset is nothing but those advances that do not generate income. In other words it refers to those unproductive assets of any firm that cannot be converted into cash within specific time limit. If the credit allowed by banks and financial institution turns bad, it creates NPAs. NPAs percentage in assets portfolio shows health of bank. The performance of any financial institution is greatly measured with the coverage of NPAs in the particular institution. Since, the prime sources of income for the bank are generated through income from loan and advances, increase in non- performing assets may lead bank in verge of collapse (Nepal Rastra Bank, 2020).

As per the rules laid down by Nepal Rastra Bank, the loan and advance which are overdue for 3 month or more should be treated as NPL. Therefore, the significance of the study is for banking sector. Major impact of NPL lies in the fact it does not generate income. The credit remains idle. As overdue ageing more than three month, six month and one year requires 25%, 50% and 100% provision for income, which is virtually sure to reduce the profit. Furthermore, borrowing cost of resources locked in

NPL and opportunity loss due in none recycling of funds are other impact. It also increases the administrative and recovery cost and legal cost as well. Effect on employee morale and decision making, lower image and rating of bank and reduce investor and foreign aid agency confidence are some of the prominent impact (Nepal Rastra Bank, 2020).

The negative level of capital fund, high level of NPL, poor risk management skill, government weaknesses and these several deficiencies have been found in the banking so with the view to addressing the huge problem and challenges of this sector, the strategies paper of the government in financial sector reforms has focused more on the banking sector as the overriding component of the overall financial sector reforms strategy in Nepal. But it does not mean that other areas have been neglected. The other areas such as insurance sector, securities market and corporate sector are also being strengthens side by side the government. Non-performing loans indicate an advance for which interest or repayment of principal or both remains overdue for a period of 90 days or more. An advance/loan is treated as non-performing when it fails to satisfy its repayment obligations. Thus, non-performing assets are loans in jeopardy of default. The level of NPAs is an indicator of the efficiency of banker's credit risk management and efficiency of resource allocation to productive sectors. The Basel Committee on Banking Supervision defines credit risk as potential default of a borrower to meet the obligation in accordance with the agreed terms. Higher non-performing assets resulted in many bank failures (Dahal & Dahal, 2012).

NPLs represent a real economic cost in modern days as they reflect the application of scarce capital and credit funds to unproductive use. It also affects the lending capacity since funds are blocked and repayment is disturbed and has also resulted in additional cost for intermediation and realizing the NPLs.

1.2 A Brief Profile of Selected Banks

Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world.

Later in 2002, a group of Nepalese companies comprising of bankers, professionals, industrialists and businessmen acquired the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd., and accordingly the name of the Bank also changed to Nepal Investment Bank Ltd.

At present, the Bank's shareholding pattern is as follows: Promoters - 69% and General Public - 31%. With our team of experienced bankers and professionals with proven track record, we, at NIBL believe in offering the best of what our customers look for. To be the leading Nepali bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all the stakeholders in the main goal of the bank. NIBL is committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance (www.nibl.com.np).

Agricultural Development Bank Limited (ADBL)

Agricultural Development Bank, Nepal was established in 1968 under the ADBN Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADBN in 1973. Subsequent amendments to the Act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

The bank worked as a premier rural credit institution since its establishment, contributing substantial agricultural credit supply in the country. The bank has 51% share of Government of Nepal and 49% of general public. Most of its shareholders are customers and employees. The enactment of Banks and Financial Institutions Act (BAFIA) took all the banks and financial institutions (BFIs) under its umbrella and abolished all the acts related to the BFIs including the ADBN Act, 1967. Since then, the bank has been working as a public limited company registered under the Companies Act, 2006 and is licensed as "A class financial institution" by Nepal Rastra Bank from 2006.

Having glorious history of more than 52 years, the bank is one of the leading commercial banks of the country. With its investment in agriculture, industry, trade, commerce and households, the bank has above 1.2 million happily satisfied customers. It is spread all over the 7 provinces & 77 districts of the nation with its 278 offices. While providing comprehensive services with complete banking solution, the bank has main motto of promoting rural agriculture, productive and deprived sectors. The bank is committed to provide best banking services through its widespread network and help the government from its part, to achieve the aim of "Prosperous Nepal, Happy Nepali" (www.adbl.gov.np).

1.3 Statement of the Problem

Commercial banks are indispensable institutions which act as intermediaries between lender and borrower. These institutions are necessary to assist in economic growth and economic development. Any country in the world strives for economic growth and economic development because it is distinct means for wholesome development of country. Aspiration of people for peace and prosperity is possible only if economic growth and economic development continues in wholesome manner in country.

Commercial banks collect money from depositors in small amount to huge amount these deposited money are disbursed to borrowers as loan advances. These loan and advances are capital for business enterprises. So repayment of loan and advances to banks as principle and interest depends upon the economic and financial health of these business enterprises. Besides the economic and financial health of these enterprises, the attitude of owner, legal practices of the land etc. also effects in the repayment of loan and advances. The underlying collateral also effect in the repayment or compensation of loan and advances (Johnson, 2007).

Financial institutions operating in Nepal have to undergo various kinds of problems. They have limited investment opportunities. The credit extended by the commercial banks to Agricultural and industrial sector is not satisfactory to meet the present growing need of the development of the country. Granting loans against insufficient deposit, overvaluation of goods pledged, land building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan is some of the basic loopholes and the unsound investment policy sighted in the banks.

Therefore, investment of commercial banks is not that productive. This has caused various problems to commercial banks. Timely repayment of loan is always expected by commercial banks from borrowers but it is dwindling. As a result bad debt and non-performing assets are increasing which has invited the rise to NPA. This NPA has many implications in the banks. First, it directly affects profitability of commercial banks. On the other hand, they get loss in their investment. Specifically this study is connected to search answer of the following questions related to the selected Banks.

- What is the position of loan management and profitability of commercial banks?
- What is the impact of loan and advance, non-performing loan and loan loss provision on net profit of commercial banks?

1.4 Objectives of the Study

- To analyze the position of loan and advance, non-performing loan and profitability of Nepal Investment Bank Limited and Agricultural Development Bank Limited.
- To examine the impact of loan and advance, non-performing loans and loan loss provision in net profit of NIBL and ADBL.

1.5 Significance of the Study

Loan is the major sources of income in any commercial bank. There is no doubt that the profit earned by any bank depends on the volume of the good lending. This study is based on measuring the efficiency of Nepal Investment Bank Limited and Agricultural Development Bank Limited in the practices of lending, non-performing loan management and profitability of the bank. This study no doubt have importance to various groups of people but in particular it is directed to certain group of people which are:

- Importance to shareholders.
- Importance to management team of the bank.
- Importance to customers.
- Importance to financial institution and stock exchange.
- Importance to government bodies and policy makers.

- Importance to outside parties: investors, customers, competitors, stockbrokers, dealers and market makers.
- Importance to the researchers.

1.6 Limitations of the Study

The research study has some limitations. The main limitations of the study are as follows:

- Though, there has been in operation of 27 commercial banks in Nepal, only two banks NIBL and ADBL are taken for the proposed study and thus may not represent the whole population.
- This study concentrates only on non-performing loan management and ignores the other financial aspects.
- Only the secondary data collected from the annual report of sample banks are used for presentation and interpretation of the non-performing loan and profitability analysis.
- Only five years data from year 2015/16 to 2019/20 are considered in this study. The reliability of the data depends totally on the annual reports of the banks.
- In this study, only selected financial and statistical tools as well as techniques are used.

1.7 Organization of the Study

The study is divided into five different chapters. They are:

Chapter-I Introduction

This chapter includes the background of the study, focus of study, statement of problem, objectives, significance of the study, limitations of the study and organization of the study etc.

Chapter- II Review of Literature

This chapter deals with the review of available literature. It includes review of books, reports, thesis and journals etc.

Chapter - III Research Methodology

This chapter includes the research methodology used in the study which includes research design, sources of data, population and sample and methods of data analysis etc.

Chapter - IV Presentation and analysis of data

Chapter four consists of presentation and analysis of data, which describes with the empirical analysis of the study. In this chapter all collected relevant data are analyzed and interpreted and will explain the major findings of the study. This chapter is concern with the data presentation and analysis of the study etc.

Chapter - V Summary, Conclusions and Recommendations

This chapter is concerned with the major findings of the study, conclusions drawn from the findings and the recommendation of this study etc.

Lastly, essential bibliography, appendices and proposal have been presented at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

Literature reviews are secondary sources, and do not report new or original experimental work. Most often associated with academic-oriented literature, such reviews are found in academic journals, and are not to be confused with book reviews that may also appear in the same publication. The purpose of literature review is to develop some expertise in one's area to see what new contribution can be made and to review some idea for developing design (Wolf & Pant, 2002). For the purpose of literature review, various reviews of books for conceptual framework are done and related articles, journals and previous thesis are reviewed.

2.1 Conceptual Review

The class of financial institution, commercial Bank, has one important characteristics that distinguishes form all other kinds of financial institution. This important distinction is that it alone can hold deposits to be drawn upon by cheque. It has the power to create and destroy money within limits through the use of loans and demand deposit commercial bank lend money by creating demand deposits and retire loans by canceling demand deposits. Credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocation available funds to various lending functions such as commercial, installment and mortgage portfolios (Johnson, 2007).

Banks and financial institutions served mainly as depositories for funds while more modern system has considered the supply of credit their purpose. A bank not accepts money on deposit but also lends money and creates and lends its own credit. There are several types of bank but among them commercial banks play significance contribution in the financial system of the country. They pool together the saving of the community and arrange for their productive use. They supply the financial needs

of modern business by various means. They accept deposits from public on the condition that they are repaid on demand or on short notice. Their business is confined to financing the short term and medium term needs of trade and industry such as working capital financial.

Book named says that in banking sector or transaction, an unavoidable of non-performing assets management and its methodology is regarded very important. Under this management, many subject matters are considered and thought, For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, and the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities (Bhandari, 2003).

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non – payment of loan is known as credit risk or default risk. Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. These methods of managing credit risk is guided by the saying do not put all the eggs in a single basket.

2.1.1 Concept of Credit/Loan

Credit is the amount of money lent by the creditor to borrower either on the basis of security or without security. Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances which is one of the major sources of income for banks. Bank prepares credit portfolio; otherwise it will not only effect debts but also affect profitability adversely (Nwankwo, 2004).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return of obligation repay on specified date on demand. Bank generally grants credit on four ways (Garla & Boruah, 2018).

- Overdraft
- Cash credit

- Direct credit
- Discounting of bills

For bank's overall corporate strategy and strategic plan at least three critical components are needed. They are (John, Edward, Paul, & Robert, 2011).

- Business plan
- Framework for risk management
- Strategies for corporate control.

These are the basic components provide a solid foundation for managing value and risk planning, it focuses in just an operating and competing in the financial services industry. The modern strategic approach also includes a framework for risk management and strategic for completing in the component fits for the modern idea of the basic business of banking as measuring, managing and accepting risk. The bank's objective is to manage value and risk by maximizing those or eliminating those that destroy value. The main task of commercial bank is to collect funds as deposit through several sources and lend them to different sectors like; manufacturing, transportation, trade, construction, communication and other public utilities etc. Doing all these activities every bank has to face so many risks. There are several types of risk prevailed in the banking industry, but the major area of the risk are widely recognized, i.e. credit risk, market risk and operating risk etc. The credit risk is the potential financial loss resulting from the failure of customers to honors fully the terms of loan or contract. On the other hand, the market risk includes balance sheet risk and trading risk such as potential risk to earning and capital resulting from changes in interest rate, liquidity conditions, impact of foreign exchange rate fluctuations etc. Meanwhile operating risk arises from the natural disasters, errors in processing and settlement of transactions safeguarding of assets, system failure, fraud and forgery (John, Edward, Paul, & Robert, 2011).

Non-Performing Assets/Loan: When banks lend out money, they do so with the hope that their borrowers will make their payments as scheduled. But that doesn't always happen. Sometimes borrowers run out of money or fall into situations where they can't repay their debt, and that's how non-performing loans become a problem for so many banks. A non-performing loan, is one that is in or close to default which is the assets of bank. In fact the loan and advance provided by bank is the major assets

of a bank and those assets/loan becoming default is the major problem for banks. This typically happens when principal and interest payments on the loan are overdue by 90 days or more. Non-performing assets/loans are generally considered bad debt because the chances of them getting paid back are minimal. The more non-performing assets/loans a bank has on its books, the more its stock price is likely to be affected (Nwankwo, 2004).

Normally in banking circle before the introduction of concept of non-performing assets, they used to tell the loan accounts in which repayments are not forthcoming as bad loans or loans overdue. NPA concept was introduced after implementation of Narasimhan Committee recommendations. The following concept followed in the overdue loan accounts (Sankar, 2016);

Under the present NPA concept, there are four categories of accounts

Standard assets or performing assets- the accounts in which the instalments are promptly paid without any delay.

Substandard assets- the loan accounts where the principal/interest or principal and interest are not forthcoming for more than 90 days.

Doubtful assets- no repayments for more than twelve months in the case of loans already categorized as substandard assets and for such loan accounts, the realizable value of securities is more than the liability in the account.

Loss assets- no repayments for more than twelve months in the case of loans already categorized as substandard assets and for such loan accounts, the realizable value of securities is less than the liability in the account or there are no securities available for the loan accounts (Sankar, 2016).

2.1.2 Non-performing Assets/Loan Management

In the dynamic financial environment fluctuation in interest rates, exchange rates and commodity and real estate price are not something new. These fluctuations in economic and financial variables destabilize the corporate strategies and performance of bank. Thus, it is necessary that bank has a framework of risk management. Effective loan management allows a bank to reduce risk and potential non-performing assets. Once bank understand their risk and their cost they will be able to determine their most profitable business. Therefore the bank must have an explicit risk strategy

by organizational changes, risk measurement techniques and fresh credit processes and system. While talking about the credit risk management, 5C's of creditworthiness should be considered and they are (Johnson, 2007).

Character

The good character and intention of the borrower is very important and thus should be seriously considered. Information about the character of the client can be gathered from his working place, reference, neighbors and other places he is associated with. This job tediously but should be carried out for secure investment.

Collateral

Sufficiency of collateral is necessary to ensure the recovery of loan. In case of default, by any cause, the collateral kept should have value enough to recover the loan granted and interest borne by it. It is recommended that only 50% of the value of collateral is granted as loan, but considering other factors like character of borrower and his credit worthiness, this percentage can be made flexible.

Capital

Capital provides a caution to absorb operating and assets losses that might otherwise impair debt repayment. This, in fact, is the insurance against the loans granted to the borrowers.

Capacity

It can be describe as a customer ability to pay. It is measured by applicants past performance records. The gross income, expenses and net income should be analyzed whether the borrower lives on salary/wages or any other forms of income sources. Whether the borrower has extra income source other than usual based which should be used to repay the scheduled installments should be considered.

Conditions

Borrowers may be subject to unfavorable economic conditions beyond their control. Repayment depends not only upon character, capacity and collateral but those factors over which the borrower exercise little or no control. As for example: natural calamities or drastic economic crises etc. Risk depends upon the quality found in each

'C' and the combination of these 5Cs, assuming the same conditions prevails; the following guidelines are suggested.

2.1.3 An Overview on Credit Risk

Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed forms and condition. Credit risk is not restricted to lenders doing activities only but includes off balance sheet and interbank exposures. The goal of CRM is to maximize the bank risk adjusted rate of return by maintaining the CRE within acceptable parameters. For most banks, loan is the largest and most oblivious resources of credit. However, other sources of credit risk exist throughout the activities of banks including in the banking book and in the trading book and also in both on and off balance sheet. Banks are increasingly facing credit risk or counterpart risk in various financial instruments other than loans including acceptance, interbank transactions, trade financing, foreign exchange transaction and guarantee and the settlement of transactions. Credit is regard as the most income generating assets especially in commercial banks. Credit is regarded as the heart of commercial bank in the sense that, it occupies large volume of transaction. It covers the main part of investment. It is the main factor for creating profit and determining the profitability. It affects the overall economy (Nwankwo, 2004).

Similarly, it provides cash to trade and industry too. The government will get tax from them and help to increase national economy. It is also the security against depositors. It is supposed from the very beginning that Credit is the wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit risk. It is the most challenging task because it is backbone in commercial banking. Thus effective management of credit should seriously be considered. Management is the system which helps to complete the task effectively. Credit risk management is also the system which helps to manage credit effectively, in other words, credit risk management refers the management of credit exposure arising from loans, corporate bodies, and credit derivatives. Credit exposures are the main sources of investment in commercial banks and return on such investment is supposed to be main sources of income.

2.1.4 Credit/Loan Management Framework

Fluctuations in interest rate, exchange rate, and commodity and real estate prices are not something new. However, fluctuation in economic and financial variables destabilized the corporate strategies and performance of the banks and their client customers. Thus, it is crucial to those banks have a framework for parameter and for selling parameter services to clients. Risk management can be conducted on a bank's balance sheet through adjustments in portfolio composition, or off the balance sheet by using most of parameter weapons derived from the technology of financial engineering, there off-balance sheet tools of parameter are known as derivatives contracts of activities or simply as 'derivatives' (John, Edward, Paul, & Robert, 2011). The credit management framework rests on three pillars are summarized as follows;

- Making good investment decisions creates corporate value.
- For traditional banks this means making good locus and investments and tradition banks, it means this plus making good investment decision regarding their non-traditional activities e.g. Investment banking, mutual funds, insurance derivatives.
- Generating enough cash flows internally is the key to making good investments.
- Companies that don't generate cash flow internally tend to cut investment more substantially than their competitors do. In banking generating enough cash flow internally plays a critical role in maintaining a firm's capital adequacy. Adequate capital in turn is a pre - requisite for expansion and making good investment. With respect to cost and control, banks with inadequate capital are subject to higher deposit insurance premium greater regulatory scrutiny and possible takeover by outsiders.
- Proper and prudent look at major market indicator.
- Bank should look properly at major market indicator because adverse movements in external factors such as interest rates and commodity prices can disrupt cash flow, a company ability to invest be jeopardized.

2.1.5 Factor Affecting Credit/Lending Policy

The credit policy of a firm provides the framework to determine whether or not to extend credit and loan such to extend. The credit policy decisions of banks have two broad dimensions; credit standards and credit analysis. Credit management strategy or the credit policy is a tool for analyzing and managing the credit risk. Generally the following factors are to be considered to make effective credit risk management. It is also called the factors of credit policy. It helps to get effective credit worthiness (K.C., 2013).

Industry environment

It determines the nature of the industry structure its attractiveness and the company's position within the industry, structural weakness of a company which is disadvantaged, theaters first way out and security value.

Financial Conditions

It determines the borrower's capacity to repay through cash flow as the first way out. The strength of second way out i.e. through collateral liquidation is also assessed. Further the possibility to fall bank on income of sister concern in case of financial crunch of the company condition threatens repayment capacity.

Technical strength

It determines the strength and quality of the technical support required for sustainable operation of the company in terms of man power , the viability of the technology uses, availability of after sales services, cost of maintenance and replacement need to be evaluated.

Management quality

It determines the integrity, competence and nature of alliances of the borrower's management team. Weakness in replacements needs to be evaluated.

Security realization

It determines the control over various securities obtained by bank to secure the loan provided excitability of the security documents and present value of the properties mortgaged with the bank. Weakness in security threatens the bank's second way out.

2.1.6 Review of NRB Directives Relating to Loan

NRB issues various directives relating banking regulations and prudential norms. Among various directives issued in Unified Directives 2075/76 (Amended each year) B.S. directive No. 2 is relating to loan Classification and provisioning.

Directive No. 2: Loan Classification and Provisioning

Nepal Rastra Bank act, 2058 B.S., granted the central bank full independence in the pursuit of its mandate .It is the duty if independent central bank to be transparent and to communicate. Nepal Rastra Bank's act 2058 B.S. mentioned its role at preamble" whereas, it is expedient to established a Nepal Rastra Bank to function as the central bank to formulate necessary monetary and foreign exchange policies, to maintain the stability of price, to consolidate balance of payment for sustainable development of the economy of the kingdom of Nepal, and to develop a secure, healthy and efficient system of payment, to appropriately regulate, inspect and supervise I order to maintain the stability and healthy development of banking and financial system, and for the enhancement of public credibility towards the entire banking and financial system of country. "To fulfill the theme that mentioned on its preamble of act, 2058 B.S. the act 2058 B.S. Chapter 2 sections 4 defined the objectives of Nepal Rastra Banks. Objectives (d) and (e) are related to manage bank and financial system, which are as follows:

- To regulate, inspect, supervise and monitor the banking system
- To promote the entire banking and financial system of the kingdom of Nepal and to enhance its public credibility.
- To fulfill objectives as a central bank Nepal Rastra bank issue various directives. Banking business is changing day by day not only from the external element but also within the banks. It is also observed from different element of the society that banking in Nepal is not being operated in such a manner to deserve sufficient public confidence. It is also not operated with due consideration of its long term financial health. This environment in banking business is not only the challenge to the individual bank but also became big challenge to banking and financial as whole and more to the central bank of the country. In order to safe guard from future damage on the banking sector

and to have health competition with the banking sector, new directives on code of ethics may help a lot this banking industry.

Directives related to loan classification and provisioning (Unified Directives No.2), banks shall classify outstanding loan and advance on the basis of aging of principal amount into the following 5 categories.

- **Pass Loan:** Loans and advances whose principal amounts are not past due and past due for a period up to 3 months shall be included in this category. These are classified and defined as performing loans.
- **Watch List:** Watch List also includes loans which have not been serviced for three months. But it includes loans whose principal and interest have not been paid within the repayment period.
- **Sub-Standard Loan:** All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category.
- **Doubtful Loan:** All loans and advances which are past due for a period of 6 months to 1 year shall be included in this category.
- **Loss:** All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Directive No. 2(a): Additional Arrangement in Respect of “Pass” Loan

Loan and Advances fully secured by bullions, fixed deposit receipts and Government of Nepal securities shall be included under "Pass" category. However, where collateral of fixed deposit receipt or Government of Nepal Securities or NRB Bonds is placed as security against loan for other purposes, such a loan has to be classified on the basis of ageing loan against FDRs of other banks. The respective overdue period of pass, sub-standard and doubtful loans will be considered for higher classification from the next day of date of expiry of the overdue period provided for each class.

Directive No. 2 (b): Additional Arrangement in Respect of “Loss” Loan

Even if the loan is not past due, loans having any or all of the following discrepancies shall be classified as “loss”.

- No security at all or security that is not in accordance with the borrower's agreement with the bank.
- The borrower has been declared bankrupt.
- The borrower is absconding or cannot be found
- Purchased or discounted bills are not realized within 90 days from the due date.
- The credit has not been used for the purpose originally intended.
- Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if there convey process is under litigation.
- Loans provided to the borrowers included in the blacklist and where the credit information bureau blacklists the borrower.

Note

Bills purchased/ discounted are to be classified in to loss loan where they are not realized within 90 days from due date. This is departure from the normal Classification rules applicable to other loans. Accordingly, it bills would have only two classification viz. Pass and Loss.

Directive No. 2 (c): Additional Agreement in Respect of “Term” Loan

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

Loan Loss Provision

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

Table 2.1

Loan Loss Provision

S.N	Classification of loan	Period beyond Prescribed Limit	Loan loss provision
1.	Pass	Not matured or crossed only 3 month after maturity	1%
2.	Watch List	Not matured/renewed or crossed only 3 month after maturity	5%
3.	Sub-standard	Crossed 3-6 months after maturity	25%
4.	Doubtful	Crossed 6-12 months after maturity	50%
5.	Loss	Crossed 1 year maturity	100%

Note from Nepal Rastra Bank, 2021

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

Directive No. 2 (d): Additional Provisioning in the case of Personal Guarantee Loan

Where the loan is extended only against personal guarantee a statement of the assets, equivalent to the personal guarantee a mount not claimable by any other shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of pass, sub-standard and doubtful, in addition to the normal loan loss provision applicable for the category, an additional provision by 20% point shall be provided. Classification of such loan advances shall be prepared separately. Hence, the loan loss provision required against the personal guarantee loan will be 21%, 45 and 70%, for pass, substandard and doubtful category respectively.

Directive No. 2 (e): Rescheduling and Restructuring of Loan

In respect of loans and advances failing under the category of substandard, Doubtful or loss, banks may reschedule or restructure such loans only upon receipt of a written plan of faction from the borrower citing the following reason:

- The internal and external causes contributing to deterioration of the quality of loan.
- The reduced degree of risk inherent to the borrower/enterprise determined by analyzing its balance sheet and profit and loss account in order to estimate recent cash lows and of project future ones, in addition to estimate recent cash flows and to project future ones, in addition to assessing market conditions.
- An evaluation of the borrower/enterprise's management with particular emphasis on efficiency, commitment and high standards of business ethics.

Directive No. 2 (f): Loan Loss Provisioning in Respect of Rescheduled, Restructured or Swapped Loan

Except for priority sector, in respect of all types of reschedule or restructured or swapped loan, if such credit falls under pass category according to NRB directives, loan loss provisioning shall be provided at minimum 12.5%.

- In case of rescheduling or restructuring or swapping of insured or guaranteed priority sector credit, the loan loss provisioning shall be provided at one fourth of the percentage mentioned in clause (a).
- In respect of swapped loans, the bank accepting the loans in swapping has to provide loan loss provision in the loans under the same classification as were existing. The bank accepting the loan in swapping shall obtain certification from the concerned bank of financial institutions as to the existing classification.

Directive No. 2 (g): Provisioning Against Priority Sector Credit

Full provisioning a per normal loan loss provisioning shall be made against the Uninsured priority and deprived sector loan However in respect of insured loans requisite provisioning shall be 25% of the percentage normal loan loss provisioning. The required provisioning in the case of insured priority/ deprived sector credit is as follows;

Table 2.2

Provisioning Against Priority Sector Credit

Provisioning Against Priority Sector Credit	
Pass	0.25%
Watch List	1%
Sub standard	5%
Doubtful	12.5%
Loss	25%

Note. from Nepal Rastra Bank, 2021

In case of rescheduling, restructuring or swapping of insured or guaranteed priority sector credit, the proportion of loan loss provision would be 3.125% (Being 25% of 12.5%).

Non-Performing Assets/Loans

Non-Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in

accordance with the directions or guidelines relating to asset classification issued by RBI. An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. Due to the improvement in the payment and settlement systems, recovery climate, up gradation of technology in the banking system, etc., it was decided to dispense with 'past due' concept. Accordingly, as from that date, a Non performing asset (NPA) would be:

- Interest and/ or installment of principal remain overdue for a period of more than 180 days in respect of a Term Loan.
- The account remains 'out of order' for a period of more than 180 days, in respect of an overdraft cash Credit (OD/CC).
- The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted.
- Interest and/ or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose ,and
- Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

With a view to moving towards international best practice and to ensure greater transparency, it has been decided to adopt the '90 days overdue' norm for identification of NPAs. Accordingly, non-performing asset (NPA) shall be a loan or an advance where:

- Interest and /or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an overdraft cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and/ or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose, and
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

2.1.7 Concept of Profit

The concept of profit entails several different meanings. Profit may mean the compensation received by a firm for its managerial function. It is called normal profit which is a minimum sum essential to induce the firm to remain in business. Profit may be looked upon as a reward for true entrepreneurial function. It is the reward earned by the entrepreneur for bearing the risk. It is termed as supernormal profit analysis. Profit may imply monopoly profit. It is earned by a firm through extortion, because of its monopoly power in the market. It is not related to any useful specific function. Thus monopoly profit is not a functional reward. Profit may sometimes be in the nature of a windfall. It is an unexpected reward earned by a firm just by mere chance, an inflationary boom (Chand, 2019).

The term profit has distinct meaning for different people, such as businessmen, accountants, policymakers, workers and economists. Profit simply means a positive gain generated from business operations or investment after subtracting all expenses or costs. In economic terms profit is defined as a reward received by an entrepreneur by combining all the factors of production to serve the need of individuals in the economy faced with uncertainties. In a layman language, profit refers to an income that flow to investor. In accountancy, profit implies excess of revenue over all paid-out costs. Profit in economics is termed as a pure profit or economic profit or just profit (Nitisha, 2019).

2.1.8 Concept of Profitability

The term 'Profitability' is composed of two words, 'Profit' and 'Ability'. There are two main concepts with regard to the word profit - economic and accounting. According to Adam Smith (The father of economics, "Profit is the sum remaining after the payment of all wages in economics includes payments to officers of corporations, to proprietors, to partners and to farmers as well as to what we today term labor and rent on the unimproved value of land, as the return to capital. Under the mathematics of capital of accountancy, the final 'accounting' profit of such corporations includes two elements, a return representing economic rent on the value of land and a return on capital. However, there is not even a faint idea as to what part of 'accounting' profit is representing by each of these two economic elements. For this reason, there is the

confusing reality that 'accounting' or the 'businessman's profit is not 'economic' profit (Gupta, 1992).

The purpose of profitability measurement is to see whether a bank has effectively used its resources to achieve its profitability objectives. The profitability objectives refer not to the maximum profit is the business can produce but to the minimum it must produce. The minimum profit is the profit at a minimum rate required for the desired type of investment in a bank. However, there must not be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also provide additional capital needed to cover the cost of staying in business (Dangol, 1999).

An economist will say that profit is the reward of entrepreneurship for risk taking. A labor leader might say that it is a measure of how efficiently labor has produced and that it provides a base for negotiating a wage increase. And investor will view it is a gauge of the return on his/her money. An internal revenue agent might regard it as a base for determining income taxes. The accountant will define it simply as the excess of firm's revenue over expenditure of producing revenue in given fiscal period (Lynch & Williamson, 1989).

Every business firm has different types of goal. Profit maximization is the goal of business. Profit is very important for business firm. It is equally important as for is water. To cover cost of staying in business such as replacement of machines, furniture, obsolescence of machines, market or technical risks etc. Profit is essential in the sense to the self-financing principal. It provides structure and helps to minimize cost of capital. Profit of business is attraction for investors. So investors would invest their money where there is adequate profit. Hence profit is required to ensure and satisfy the entire expectation of management, shareholders, investors, employees and nation as whole (Dangol, 1999).

2.1.9 Profitability for the Banks

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans investment are

sound. As other type of business entity, commercial banks are inspired by the profit. The main objectives of commercial banks are to maximize profit. Commercial banks invest public deposits on those sectors that drive the maximum income or higher rate of return in their assets. Hence the investment or granting of loan and advance by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided time period of loan, and nature of investment in different securities (Robinson, 1951).

Ambition of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholder who contributed to build up the bank's capital and keep aside for the provisions and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead for the investment (Robinson, 1951).

A successful bank is one who invests most of its fund in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day to day requirements of the depositors. After all a commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders wealth invested in the firm at an acceptable level of risk. In conclusion, amongst all objectives, profit maximization is the ultimate objectives of Nepalese commercial banks; Profit earned by the firm is the main financial indicators of a business enterprise (Robinson, 1951).

2.2 Review of Related Studies

2.2.1 Review of Journals and Articles

Bhattarai (2015) conducted a study on "*Determinants of Non-Performing Loan in Nepalese Commercial Banks*". This study aimed to identify the impact of macroeconomic variables (GDP, Inflation, and Real Effective Exchange Rate) and bank specific variables (size, change in loan, real lending rate of interest, and share of loan to total assets) on the non-performing loan of the commercial banks in Nepal. The study was conducted mainly with secondary sources. The impact of GDP growth rate is found to be insignificant in this study. One year lagged inflation rate has

significantly positive impact on non-performing loan. The study found that macroeconomic variables such as the real effective exchange rate have significantly negative impact on non-performing loan. The impact of GDP growth rate was found to be insignificant in this study. One year lagged inflation rate has significant positive impact on non-performing loan. The banks which charge relatively higher real interest rate have higher non-performing loan, which is consistent with the findings of previous studies. The ownership dummy has positive coefficient and significant at one percent level showing that if the bank is government owned the non-performing loan would be higher than that of the private owned banks. As well, more lending in the previous years and current year reduces the non-performing loan since the coefficient of change in loan in current and previous years have negative coefficient and significant at one percent level.

Marcus (2017) analyzed on the study entitled on *“Reducing Non-Performing Loans (NPLs) in the EU Banking sector”*. The study mainly conducted to examine the relation and effect of AMC in to the NPL of financial institutions of Euro Zone. The assets management company (AMC) would work by seeking to bridge the difference between the real value in economic terms of banks’ NPLs and the price that an investor would willingly pay (‘the bid-ask spread’). The bad bank would identify assets to be bought and estimate what their real economic value is (i.e. the estimated value of the asset without market failures and in some cases assuming reduced structural inefficiencies over time). The study found that setting up a common asset management company (AMC) that would manage the sell-down of NPLs, or in other words, a European “bad-bank”. The selling bank would take some upfront losses on transfer to the AMC, due to the AMC buying below-book, but above current market prices. The development of a secondary market for NPLs through the creation of the pan-European AMC may well be the solution the Euro zone requires. We believe that such AMCs should be established by country, reflecting local specificities, and perhaps also by asset class. There are many ingredients needed to tackling the NPL overhang in Europe. Policymakers are now rolling up their sleeves and we are likely to see European AMCs being added to the ‘NPL deleveraging toolkit’ in the months ahead. Replicating the successes achieved by AMCs in Ireland and Spain is a noble objective, but the operational and political challenges inherent in a pan-EU AMC design should not be underestimated.

Garla and Boruah (2018) conducted a study on *“Effective Management of Non-performing Loans Using SAS”*. The main objective of this study was to exploring the effective non-performing loan management ice used by banks. This study found that effective management of non-performing loans using SAS that high levels of nonperforming loans (NPL) or bad debt are problematic both to the bank and to the economy. Banks are in need of a solution to meet the systemic requirements of an NPL strategy-specifically, individual assessment of significant nonperforming exposures and high-risk performing loans (also called “watch-list”). However, given the high volume, individual credit assessment of loans without resulting in delayed expected credit loss (ECL) recognition is a challenge that banks are facing now. Banks have heightened pressure in assessing nonperforming loans at frequent intervals. A bank’s ability to assess, manage, and optimize returns on impaired loans depends on a well-defined strategy, framework, and culture for handling NPLs. In addition to NPLs, financial institutions are also exploring ways to effectively monitor significant performing exposures to watch for any potential indicators of performance deterioration.

Gabriel Victor and Innocent (2019) conducted a research entitled on *“Effect of Non-Performing Loans on the Financial Performance of Commercial Banks in Nigeria.”*. This study examined the effect of non-performing loans on the financial performance of commercial banks in Nigeria between the periods of 1985 to 2016. The study employed the multiple regression techniques to analyze data collated from the Central Bank of Nigeria (CBN) statistical bulletin and Nigeria Deposit Insurance Corporation (NDIC) publications for various years. The result of the study showed that non-performing loans to total loans ratio (NPL/TLR) and cash reserve ratio (CRR) had statistically negative significant effect on return on asset (ROA). The result also found that a high level of non-performing loans would reduce the financial performance of commercial banks in Nigeria. Consequently, the study found that the regulatory authorities in Nigeria should create and support an environment where commercial banks in Nigeria have a strong risk management practices.

Rane and Sukthankar (2020) studied on *“Impact of Nonperforming Assets On Financial Performance of Scheduled Commercial Banks Operating in India”*. The

major objective of the study was to analyze the trend in NPA and its impact on the financial performance of scheduled commercial banks of India as there is a deterioration in the asset quality of these banks. Present study focuses on analyzing the trend and impact of NPA from the consolidated financial statement of all public sector banks, private sector banks, and foreign banks operating in India by using data for a few selected variables. The required secondary data for the study was collected from the Reserve Bank of India. The time trend analysis and regression model were used to investigate the collected data for the study. The findings of the study showed that there was significant increasing trend in the NPA's of all banks under study, and the gross NPA had negative impact on the profitability and a positive impact on the operating cost of these banks.

2.2.2 Review of Previous Research Works

Lama (2014) conducted a research entitled on “*Non-performing Loan Management of Commercial Bank (With Reference to NIBL)*”. In this study descriptive and analytical analysis and financial tools as well as statistical tools analyze non-performing loan management of NIBL.

The Main Objectives were:

- To analyze the level of NPLs of Nepal Investment Bank Ltd.
- To analyze the relationship between loan amount and non-performing loan.
- To study the impact of non-performing assets in the profit of commercial banks.

The Major Findings were:

- The loan & advances to total deposit ratio is in fluctuating trends. The Bank has higher ratio in each year and mean too. It indicates the better mobilization of deposit. The greater ratio mean, signifies that the bank lend higher amount in the form of loans and advances to earn better returns.
- The loans and advances to total assets ratio is in fluctuating trend during the study period. It is found that in total assets, the bank has high proportion of loans and advances.
- The ratio of provision held to total non-performing loans is sufficiently high. It indicates that the bank has sufficiently provisioned against non-performing

loans. The higher the ratio of NPL provisioned against loans, the better the cushion against the risk of actual loan loss.

- The average loan and advance maintained by NIBL is Rs. 44,294 million, with other things remaining unchanged. NIBL has a positive rate of 2,871 million which denotes that with every unit change in the year, the value of the loan and advance will increase by additional 2,871 million.

Ghimire (2014) conducted a study on “*Non-performing Loan Management and Liquidity Analysis of Commercial Banks in Nepal (With Reference to NIBL and SCBNL).*” In the report research used descriptive and analytical analysis and financial tools as well as statistical tools to compare the level of liquidity in the sample banks.

The Main Objectives were:

- To analyze the trend of non-performing loan maintained by the selected banks.
- To evaluate the liquidity ratio maintained by the commercial banks.
- To analyze the flow of loan and advance provided by the commercial banks.
- To find out the strength and weakness in the credit administration of the selected banks.

The Major Findings were:

- The loan loss provision to total loans and advances witnessed NIBL having lower ratio than SCBNL these suggest that NIBL has a lower rate of nonperforming loans and risky assets among its total volume of loans and advances.
- The current ratio of SCBNL is higher than NIBL and SCBNL is less risky in term of liquidity.
- NIBL has greater capability of meeting its demand for cash as and when required and also has a greater ability of meeting its obligation.
- This study found that SCBNL is more capable of utilizing its long term, high interest bearing deposits into granting loans and advances for profit purpose.

Tharu (2015) conducted a study on “*Loan and Non-performing Loan Analysis of Everest Bank Limited*”. Tharu had used descriptive as well as analytical research

design and used some of credit related ratios and statistical tools for the analysis to fulfill following objectives;

The Main Objectives were:

- To determine and analyze the non-performing loan management of Everest bank ltd.
- To compare the performance of banks on credit.
- To analyze the variables of credit risk management.
- To collect the opinion for effective credit management.

The Major Findings were:

- The ratio of loan loss provision to non-performing loan of Everest bank ltd. is in decreasing trend which has changes the periphery of earlier credit procedure.
- The rate of interest income on loan and advances are in increasing trend.
- It can be concluded that the ratio is above 50% each fiscal year indicates the good lending performance.
- The higher interest expenses to interest income ratio shows unfavorable profitability situation of the bank.
- The change in total deposit highly effects loan and advances policy of Everest Bank Ltd.

Shrestha (2016) conducted a study on “*Analysis of Non-performing Loan Management of Standard Chartered Bank Nepal Ltd.*”. The researcher used various financial ratios relating to credit management and used statistical tools to check the consistency in the ratios and loan portfolio.

The Main Objectives were:

- To analyze the lending system of the bank.
- To assess level of non-performing loan of the bank.
- To examine the import of growth in deposit on liquidity and lending practices.
- To explore the relationship with loan and advances and net profit of the bank.

The Major Findings were:

- New policy of lending focuses on cash flow lending by passing out collateral based.

- SCBNL has invested money in growing credit and advances but the recovery process of the bank is slow. Efficiency in management is not satisfactory.
- By analyzing market demand and trend, SCBNL has brought retail banking facilities like Home Loan; Margin lending whose market performance at present seems satisfactory.

Maharjan (2017) conducted a study on “*Comparative Analysis Non-performing Loan in Commercial Banks of Nepal (With Reference to NABIL Bank, Standard Chartered Bank, Everest Bank and Himalayan Bank)*”. The researcher had used analytical and descriptive research design and put on the various ratio analysis tools in statistical analysis and try to achieve following objectives;

The Main Objectives were:

- To analyze the level of loan and advance and non-performing loan of sample banks.
- To analyze the mobilization of deposit in loan and advance of sample Banks.
- To study the relationship of deposit, loan and advances, nonperforming loan and net profit of sample banks.
- To provide suitable suggestions for effective non-performing loan management.

The Major Findings were:

- SCBNL has disbursed highest credit and advances than others.
- SCBNL has utilized the total deposit maximally than other banks in granting loan and advances.
- SCBNL has remained more effective in managing credit to gain highest interest income.
- The interest income on credit and advance to total assets has indicated that Credit and advances is major source of income in banks.

Lamichhance (2018) conducted the study on “*A Study on Non-Performing Assets Management of Commercial Banks (With Reference to Nepal Investment Bank Ltd. and Bank of Kathmandu Ltd.)*” and used financial ratios to find out the loan performance and also analyzed the non-performing loan and its relation with net profit with the help of statistical tools to achieve the objectives of the study.

The Main Objectives were:

- To compare the NPL level of the bank.
- To extract the impact of non-performing assets in the profit of NIBL and BOK.
- To assess the trend of non-performing loans, loan loss provision, loan and advance and net profit of NIBL and BOK.

The Major Findings were:

- The average loan and advance to total assets ratio of BOK is higher than NIBL and it seems quite uniformity also.
- NIBL has the low non-performing loan to total loan and advances ratio, thus NIBL maintaining their NPLs better than BOK which shows NIBL has low credit risk than BOK.
- The average loan loss provision to total loan ratio of BOK is higher than NIBL and not able to earn a profit from the point of view average.
- The negative relationship shown by correlation coefficient of non-performing loan and loan and advance of NIBL pointed out the fact that an increase in loan and advance has resulted in decrease in non-performing loan.

Gautam (2019) conducted a study on “*Study on Non-performing Loan Management of Joint Venture Commercial Banks (With Reference to Nepal Investment Bank and Bank of Kathmandu)*”. Gautam used descriptive and analytical tools in the study and used different financial ratios and some of the simple statistical tools for the analysis to fulfill following objectives;

The Main Objectives were:

- To see loan flow and non-performing loan level of sample banks
- To examine credit management efficiency of selected banks
- To find out strength and weakness in credit administration

The Major Findings were:

- BOK has maintained higher credit and advances to total deposit
- Fixed deposit is the main source of granting credit for both banks.
- Credit loss provisioning is in decreasing trend so, it indicates efficient credit policy

2.3 Research Gap

A research gap is defined as a topic or area for which missing or insufficient information limits the ability to reach a conclusion for a question. A research need is defined as a gap that limits the ability of decision-makers (policy-makers, patients, practitioners) from making decisions. A few research studies have been conducted by the different students, experts and researcher about non-performing loan management. Since those study (i.e. the above mentioned studies) offer limited findings, more extensive testing, and adjustment of necessary variables are needed in ordered to be more conclusive about the non-performing assets management the impact of loan and advance, non-performing loan and loan loss provision in the net profit of ADBL and NIBL. The purpose of the research work is different from the previous studies in the case of analysis of impact of loan and advance, non-performing loan and loan loss provision in the net profit of sample banks. There is research gap between the present study and previous studies at first, years covered by the research i.e. time period of the research period and the sample banks. This study includes advance tools like ratio analysis, correlation analysis and co-efficient of variation, as specific tools for this study which are used differently in the analysis than they were used before in previous research. But this research is about non-performing assets management of two commercial banks of Nepal with sample of Agriculture Development Bank Ltd. (ADBL) and Nepal Investment Bank Ltd. (NIBL). In the previous research, there is no clear-cut calculation on the effect analysis of non-performing loan and loan loss provision management on the net profit of the banks and this is an attempt to fulfill this gap with the help of regression analysis using non-performing loan and loan loss provision as independent variables in the study. The research can help the people who wanted to know about the overall loan and non-performing loan standard and accounting procedure of selected banks. Therefore, this topic may be new as well as the researches efforts may be appreciable.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically it is necessary for the researcher to know not only the research methods but also the methodology. When we talk about the research methodology we not only talk of research methods but also consider the logic behind the methods. It use in the context of our research study and explain why we are using a particular method or techniques and why are not using other so that research result are capable of being evaluated either by the researcher himself or by others. The study of research methodology gives the student the necessary training in gathering material and arranging them participating in the field work which required, and also training in techniques for collection of data appropriate to particular problem in the use of statistics and controlled experimentation and in recording evidence sorting it out and interpreting. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives (Wolf & Pant, 2002).

3.1 Research Design

Research design is the specification of method and procedures for acquiring the information needed. It deals with what information is to be collected from which sources and by what procedures. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objective and economic procedures. To achieve the specific objective of the study, descriptive and analytical research design have been used in terms of non-performing assets management of Agriculture Development Bank Ltd. (ADBL) and Nepal Investment Bank Ltd. (NIBL).

3.2 Population and Sample

The term population of data denotes for the data of each organization which is within the boundary of specific organization. The population data for this study comprises all listed commercial banks i.e. 27 commercial banks, which are currently operating in Nepal. And the sample bank selected from the population for the study are ADBL and

NIBL. Judgmental sampling method is to be used while selecting sample organizations for this study.

3.3 Nature and Sources of Data

To conduct this study, secondary data are taken from annual reports of sample banks and their websites. So, the major sources and types of data include published sources, like financial statement of ADBL and NIBL from year 2015/16 to 2019/20.

3.4 Data of Analysis Tools

To make the study more specific and reliable, the researcher uses two types of tools for analysis;

3.4.1 Financial Tools

As this study is related to financial performance analysis financial tools are more useful. They help to identify the financial strength and weakness of the firm. In spite of various financial tools available the research has primarily stressed on ratio analysis assuming it the most suitable tools. A Ratio is simply a number expressed in terms of other number and it expressed the quantitative relation between any two variables. However, the researcher has employed his utmost effort to use as many ratios as possible to reach the point of true financial position of the banks. This study includes liquidity ratio and profitability ratios.

Non-Performing Loans to Loan and Advances Ratio

NRB has directed all the commercial banks to create loan loss provision against the doubtful and bad debts. This ratio helps in minimizing the non-performing loans and helps to control the credit.

$$\text{Non-performing Loans to Loan and advance Ratio} = \frac{\text{Non-performing Loans}}{\text{Loan and advances}} \times 100$$

Return on Total Assets

The return on assets compares the net earnings of a business to its total assets. It provides an estimate of the efficiency of management in using assets to create a profit, and so is considered a key tool for evaluating management performance. The return

on assets figure can be used to compare the efficiency of asset usage within an industry. Since each of these businesses should require roughly the same proportions of assets to sales in order to provide goods and services to customers. However, the asset base of a business could vary substantially across industries, so the measure should not be used to compare entities located in different industries. The ROA is calculated using following formula;

$$\text{Return on Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$$

Return on Equity Ratio

This ratio measures, how much profit is earned by utilizing funds of total equity by the firm. As the commercial bank the objectives are to earn profit so as to provide a reasonable return to the owners. Total shareholder's equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Total Equity}} \times 100$$

Net Profit to Loans and Advances

This ratio indicates the proportion of the return over total loans and advances. It Describe show efficiently the bank has utilized and mobilized its resources in the form of loans and advances of the banks. Higher the ratio better is the performance of the banks and vice versa. It is calculates as;

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit After Tax}}{\text{Loan and Advance}} \times 100$$

Interest Income to Loan & Advance Ratio

Interest income to loan and advance simply refers that the bank capability to generate interest income through the amount of loan and advance. Whereas the interest income is the total sum amount of cash & cash equivalent, Due from Nepal Rastra Bank

The formula of interest income to Loan & Advance is

$$\text{Interest Income to Loan \& Advance} = \frac{\text{Total Amount of Interest Income}}{\text{Total Amount of Loan and Advance}}$$

Market Price per share (MPS)

The MPS define that what the trading price of the company during the fiscal year. IF a stock holder wants to sale his stock or new investor wants to purchase the stock how much price is to pay to purchase the stock and how much does a seller got while selling the stock. The market value per share is simply the going price of the stock.

3.4.2 Statistical Tools

The statistical tool is essential to measure the relationship of two or more variable. It is the mathematical technique used to facilitate the analysis and interpretation of the performances of the organizations. It also helps to present the data, show the relation and deviations or differences of variables of organizations. In this research study some statistical tools are used for the analysis of the data more accurately, which are given below.

Arithmetic Mean

The average value set of observations is a mean of the data. It is the best value, which Represent to the whole group means is the arithmetic average of a variable. Arithmetic mean of a series is given by:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

\bar{X} = Sum of the variables 'x'

N = No. of observation

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. Standard deviation is defined as the positive square root of the mean as square of the deviation takes from the arithmetic mean. It indicates the ranges and size of deviance from the middle or mean. In other words, it helps to analyze the quality of data regarding its variability. It is calculate as:

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

Coefficient of Variation

Standard deviation is the absolute measure of dispersion. The relative measure of dispersing based on the standard deviation is known as the measurement of coefficient of standard deviation. The percentage of measure of co-efficient of so is called co-efficient of variation. Less CV is the more uniformity and consistency and vice versa. It is calculated as under:

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

Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Regression Analysis

Regression analysis is a statistical approach to forecasting change in a dependent variable on the basis of change in one or more independent variables. Also known as curve fitting or line fitting because a regression analysis equation can be used in fitting a curve or line to data points, in a manner such that the differences in the

distances of data points from the curve or line are minimized. Relationships depicted in a regression analysis are, however, associative only, and any cause-effect (causal) inference is purely subjective.

The regression model used in this study can be defined as below;

$$y = a + bX$$

Where:

a is constant or Y intercept and b is the slope of the regression line or regression coefficient of Y on X which is denoted by b_{yx} . It is a measure of average change in dependent variable Y corresponding to a unit change in independent variable X.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the data have been analyzed and interpreted using financial and statistical tools following the research methodology dealt in the third chapter. In the part of analysis, various tables have been used to present the data collected from various sources have been inserted in the required tables according to their homogenous nature. The outcomes of the analysis have been compared with conventional standard with respect to ratio analysis, directives of NRB and other factors. Furthermore, many suitable graphs, and diagrams have also been used to present the actual position of loan and advance and nonperforming assets/loan of ADBL and NIBL and to analyze the correlation and impact of non-performing loan, loan loss provision and total deposit the Reviews software is used in the calculation process.

4.1 Financial Analysis

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input to ratio analysis is the firm's income and expenditure statement and balance sheet for the periods to be examined. The study consists of the following ratios to analyze the non-performing loan management of ADBL and NIBL.

4.1.1 Interest Income to Loan & Advance Ratio

Interest income to loan and advance simply refers that the bank capability to generate interest income through the amount of loan and advance. Whereas the interest income is the total sum amount of cash & cash equivalent, Due from Nepal Rastra Bank, Placement with bank and financial institutions, Loan and advances to bank and financial institutions, Loan and advances to the customers, Investment securities, Loan and advances, to staff & others investments related to generate interest income. Similarly, the loan advance includes the followings items Term Loan, Overdraft, Trust receipt/Import loans, Demand and other Working Capital Loans, Personal residential loans, Real estate loans, Margin lending loans, Hire Purchase Loan, Deprived sector loans, Bills purchased, Staffs loan & others loan. Interest Income to

Loan & Advance is calculated by dividing the total amount of interest with the total amount of Loan & Advance. And converting the results in percentage. The formula of interest income to Loan & Advance is

$$\text{Interest Income to Loan \& Advance} = \frac{\text{Total Amount of Interest Income}}{\text{Total Amount of Loan and Advance}}$$

Table 4.1

Interest Income to Loan & Advance

%

Year	NIB	% Change	ADBL	% Change
2015/16	8.4	-	12.09	-
2016/17	9	-7.14%	12.55	-3.80%
2017/18	11	-22.22%	13.93	-11.00%
2018/19	10.9	0.91%	13.85	0.57%
2019/20	10.1	7.34%	11.74	15.23%
Total	49.4		64.16	
Mean	9.88		12.832	
Standard Deviation	1.03		0.901	
CV	0.10		0.0703	

Note. from Annual reports of sample banks 2015/16 to 2019/20

Interest Income to Loan & Advance is explained in briefly with the help of table and figure. As per the table 4.1 the percentage of interest income to loan and advance of NIB for the year 2015/16 to 2019/20 were 8.4, 9, 11, 10.9 & 10.11. Whereas the Mean, Standard deviation & CV of the bank were 9.88, 1.03034 & 0.1043. Similarly. The percentage of interest income to loan and advance of ADL for the year 2015/16 to 2019/20 were 12.09, 12.55, 13.93, 13.85 & 11.74. And the mean Standard deviation and CV of the bank were 12.832, 0.90106 & 0.0703.

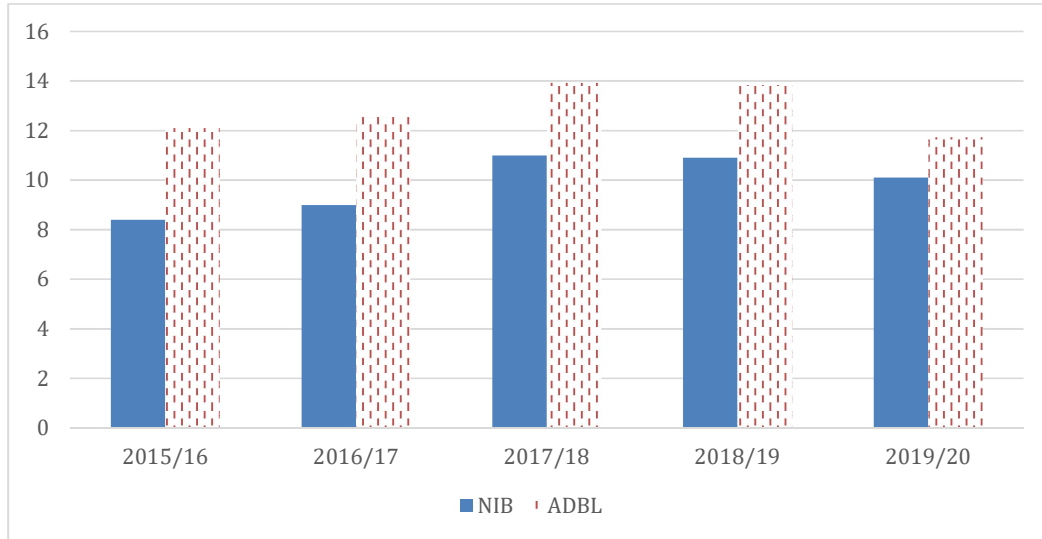


Figure 4.1. Trend of Interest income to loan & Advance

As per the figure 4.1 the interest income to Loan and advance were presented with the help of bar diagram. The tallest bar for the NIB was at the year 2017/18 and the smallest bar was at the year 2019/20. Whereas the Tallest bar for the ADBL was at the year 2017/18 & 2018/19 and the smallest bar of the bank were at the year 2015/16.

4.1.2 Net Profit to Loan & Advance

Net profit to Loan & Advance simply refers amount can be generated with the amount of Loan and & Advance. Whereas the Amount of net profit is calculated by subtracting the amount of all the expense incurred to earn the interest income for the amount of Interest income. The net profit to Loan & Advance is calculated by dividing the amount of net profit with loan & Advance. And converting the amount in the percentage. The formula to calculated the net Profit to Loan & Advance is

$$\text{Net Profit to Loan \& Advance} = \frac{\text{Net Profit}}{\text{Loan \& Advance}}$$

Net profit to Loan & Advance is explained in briefly with the help of table and figure.

Table 4.2

<i>Net profit to Loan & Advance</i>				%
Year	NIB	% Change	ADBL	% Change
2015/16	2.9	-	3.17	-
2016/17	2.9	0.00%	2.91	8.20%
2017/18	3	-3.45%	3.65	-25.43%
2018/19	2.5	16.67%	3.75	-2.74%
2019/20	1.7	32.00%	2.7	28.00%
Total	13		16.18	
Mean	2.6		3.236	
Standard Deviation	0.48		0.40	
CV	0.18		0.12	

Note. from Annual reports of sample banks 2015/16 to 2019/20

As per the table 4.2 the percentage of Net Profit to loan and advance of NIB for the year 2015/16 to 2019/20 were 2.9, 2.9, 3, 2.5 & 1.7. Whereas the Mean, Standard deviation & CV of the bank were 2.6, 0.48166 & 0.1853. Similarly. The percentage of Net Profit to loan and advance of ADL for the year 2015/16 to 2019/20 were 3.17, 2.91, 3.65, 3.75 & 2.7. And the mean Standard deviation and CV of the bank were 3.236, 0.40894 & 0.1262.

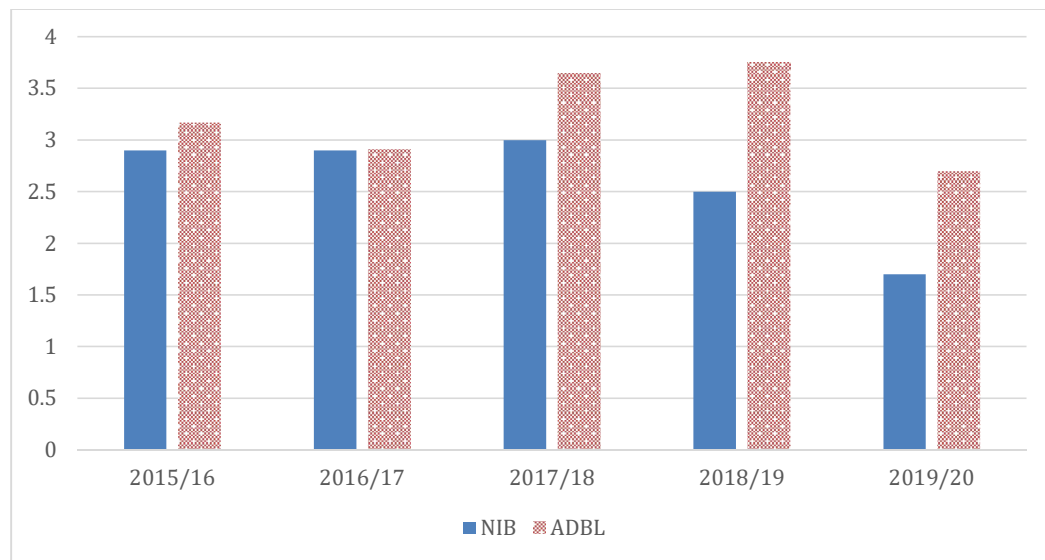


Figure 4.2. *Net profit to Loan & Advance*

As per the figure 4.2 the interest income to Loan and advance were presented with the help of bar diagram. The tallest bar for the NIB was at the year 2017/18 and the smallest bar was at the year 2019/20. Whereas the Tallest bar for the ADBL was at the year 2018/19 and the smallest bar of the bank were at the year 2019/20.

4.1.3 Return on Assets (ROA)

Return on total assets means the capability of assets to generate the net income during the period. Whereas the Assets was calculated as sum of current assets and fixed assets. The ROA is calculated by dividing the net income with Total Assets. It simply measures that how many times the net profit is with the Assets. The Formula of ROA is

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

The ROA is explained in briefly with the table and figure.

Table 4.3

Return on Assets (ROA)

Year	NIB	% Change	ADBL	% Change
2015/16	2	-	2.32	-
2016/17	2.1	-5.00%	2.15	7.33%
2017/18	2.13	-1.43%	2.71	-26.05%
2018/19	1.79	15.96%	2.77	-2.21%
2019/20	1.19	33.52%	1.86	32.85%
Total	9.21		11.81	
Mean	1.842		2.36	
Standard Deviation	0.347		0.34	
CV	0.18		0.14	

Note. from Annual reports of sample banks 2015/16 to 2019/20

As per the table no.4.3 the return on assets of NIB for the year 2015/16 to 2019/20 were 2, 2.1, 2.13, 1.79 & 1.19. Whereas the Mean, Standard deviation & CV of the bank were 1.842, 0.34707 & 0.1884. Similarly. The Ratio of Net Profit to loan and advance of ADL for the year 2015/16 to 2019/20 were 2.32, 2.15, 2.71, 2.77 & 1.86.

And the mean Standard deviation and CV of the bank were 2.36, 0.3424 & 0.1450.

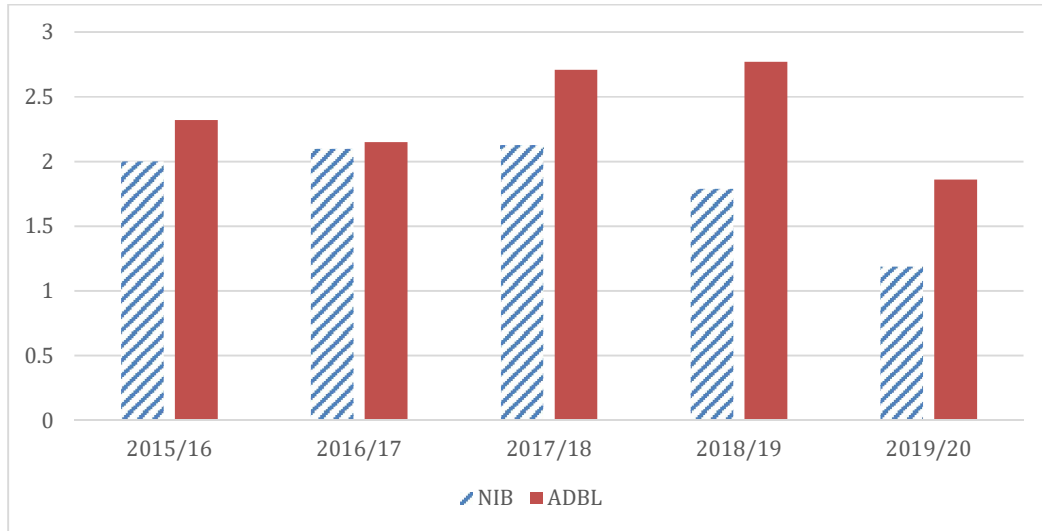


Figure 4.3. Return on Assets

As per the figure no. the ROA were presented with the help of bar diagram. The tallest bar for the NIB was at the year 2017/18 and the smallest bar was at the year 2019/20. Whereas the Tallest bar for the ADBL was at the year 2018/19 and the smallest bar of the bank were at the year 2019/20.

4.1.4 Non-Performing Credit to Total Credit Ratio

The NPL to total credit ratio simply explain about the ratio that indicates the portion of non performing credit from the total credit or loan and advance. Whereas Non-Performing Loan Simply refers to the sum of borrowed money whose scheduled payments have not made by the debtors for a period of 90 days or 180 days. It is calculated as the sum of restructure, substandard, Doubtful & Loss amount which are invested in the domestic and foreign level. It is calculated by dividing the non-performing loan with the total loan. The ratio of the bans were explained with the help of table and figure.

Table 4.4

Non-Performing Credit/ Total Credit Ratio

Year	NIB	% Change	ADBL	% Change
2015/16	0.68	-	4.36	-
2016/17	0.83	-22.06%	4.6	-5.50%
2017/18	1.36	-63.86%	3.5	23.91%
2018/19	2.78	-104.41%	3.29	6.00%
2019/20	2.91	-4.68%	2.84	13.68%
Total	8.56		18.59	
Mean	1.712		3.71	
Standard Deviation	0.95		0.66	
CV	0.55		0.17	

Note. from Annual reports of sample banks 2015/16 to 2019/20

As per the table 4.4 the non- performing credit and total credit ratio of NIB for the year 2015/16 to 2019/20 were 0.68, 0.83, 1.36, 2.78 & 2.91. Whereas the Mean, Standard deviation & CV of the bank were 1.712, 0.95317 & 0.5668. Similarly. The Ratio of Net Profit to loan and advance of ADL for the year 2015/16 to 2019/20 were 4.36, 4.60, 3.5 3.29 & 2.84. And the mean Standard deviation and CV of the bank were 3.718, 0.66206 & 0.7181.

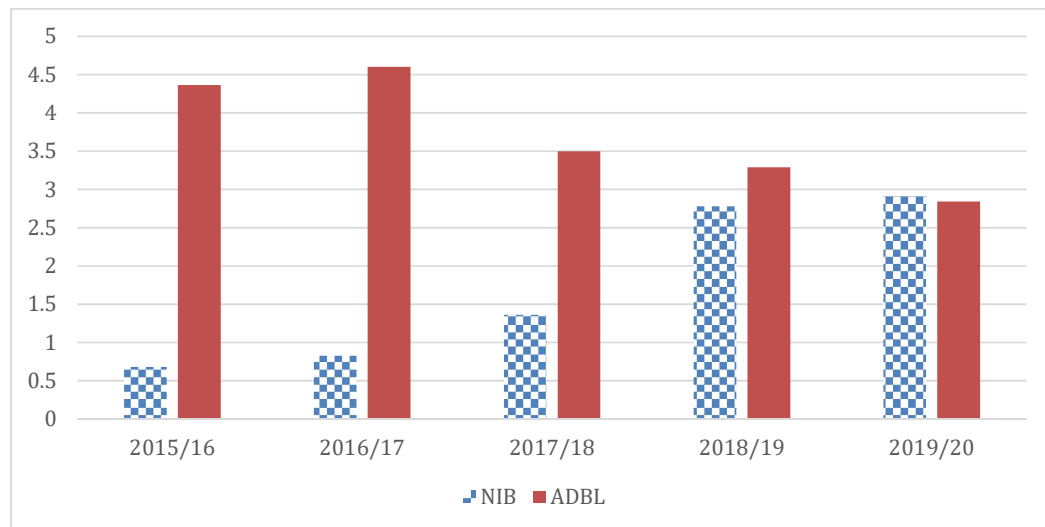


Figure 4.4. Non-Performing Credit/ Total Credit Ratio

As per the figure 4.4 the interest income to Loan and advance were presented with the help of bar diagram. The tallest bar for the NIB was at the year 2017/18 and the smallest bar was at the year 2019/20. Whereas the Tallest bar for the ADBL was at the year 2018/19 and the smallest bar of the bank were at the year 2019/20.

4.1.5 Return on shareholders fund

This ratio measures, how much profit is earned by utilizing funds of total equity by the firm. As the commercial bank the objectives are to earn profit so as to provide a reasonable return to the owners.

Table 4.5

Return on Share Holder's Fund %

Year	NIB	% Change	ADBL	% Change
2015/16	15.7	-	28.66	-
2016/17	16.6	-5.73%	27.49	4.07%
2017/18	14.7	11.45%	26.21	4.66%
2018/19	13	11.56%	29.01	-10.68%
2019/20	8.9	31.54%	22.23	23.38%
Total	68.9		133.60	
Mean	13.78		26.7210	
Standard Deviation	2.716		2.45149	
CV	0.197		0.091	

Note. from Annual reports of sample banks 2015/16 to 2019/20

As per the table no. the Ratio of Return on Shareholders fund of NIB for the year 2015/16 to 2019/20 were 15.7, 16.6, 14.7 13 & 8.9. Whereas the Mean, Standard deviation & CV of the bank were 13.78, 2.71691 & 0.1972. Similarly. The Ratio of Return of shareholders fund of ADL for the year 2015/16 to 2019/20 were 28.66, 27.49, 26.21, 29.01 & 22.23. And the mean Standard deviation and CV of the bank were 26.72, 2.45 & 0.0917.

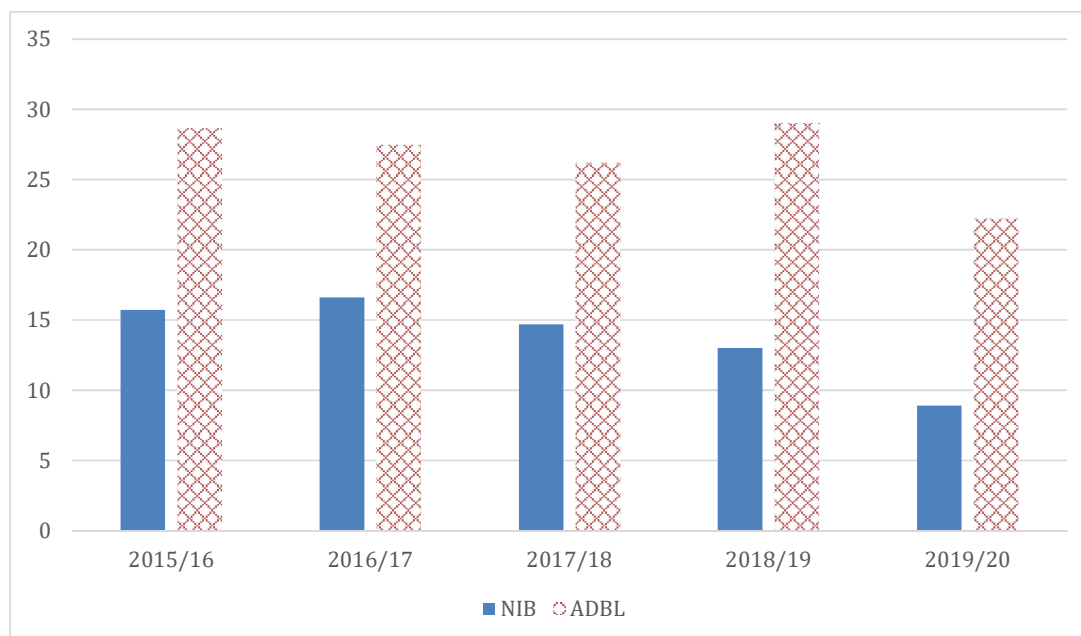


Table 4.5. Return on Share Holder's Fund

As per the figure no 4.5 Return on shareholders fund were presented with the help of bar diagram. The tallest bar for the NIB was at the year 2016/17 and the smallest bar was at the year 2019/20. Whereas the Tallest bar for the ADBL was at the year 2018/19 and the smallest bar of the bank were at the year 2019/20.

4.1.6 Market Price per share (MPS)

The MPS define that what the trading price of the company during the fiscal year. IF a stock holder wants to sale his stock or new investor wants to purchase the stock how much price is to pay to purchase the stock and how much does a seller got while selling the stock. The market value per share is simply the going price of the stock. The market price per share formula says this is equal to the total value of the company, divided by the number of shares. It is the average price of the stock during the trading price of the facial year. Each and every stock have certain level of market price during a certain time period. The MPS shows that the traded price of stock during the fiscal year. The MPS of the banks were explained with the help of table & Figure

Table 4.6

Market Price per share (MPS)

(in percentage)

Year	NIB	% Change	ADBL	% Change
2015/16	1040	-	768	-
2016/17	770	25.96%	435	43.36%
2017/18	621	19.35%	314	27.82%
2018/19	519	16.43%	409	-30.25%
2019/20	431	16.96%	385	-42.54%
Total	3381		2311	
Mean	676.2		462.2	
Standard Deviation	214.02		158.118	
CV	0.316		0.342	

Note. from Annual reports of sample banks 2015/16 to 2019/20

As per the table 4.6 the MPS of NIB for the year 2015/16 to 2019/20 were 1040, 770, 621, 519 & 431. Whereas the Mean, Standard deviation & CV of the bank were 676.2, 214.024 & 0.3165. Similarly. The MPS of ADL for the year 2015/16 to 2019/20 were 768, 435, 314, 409 & 385. And the mean Standard deviation and CV of the bank were 462.2, 158.11 & 0.342.

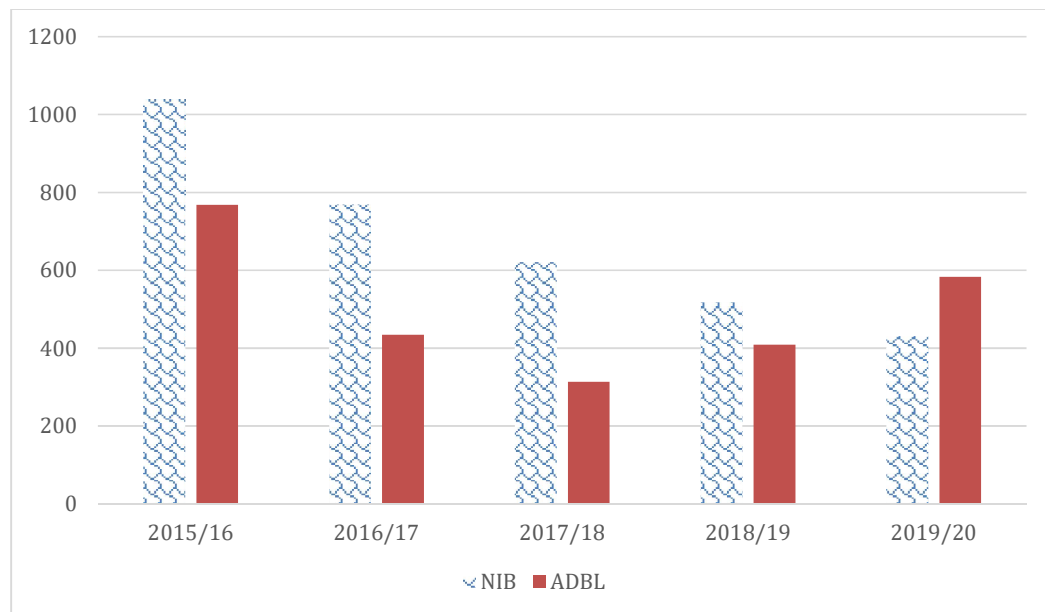


Figure 4.6. Market Price per share (MPS)

As per the figure 4.6 EPS were presented with the help of bar diagram. The tallest bar for the NIB was at the year 2017/18 and the smallest bar was at the year 2017/18. Whereas the Tallest bar for the ADBL was at the year 2015/16 and the smallest bar of the bank were at the year 2017/18.

4.1.7 Price earnings Ratio (P/E)

This ratio reflects the price currently paid by the market for each rupee of current reported Earnings Per Share (EPS). Price earnings ratio simply defines that the relationship of Earning per share and market price of per share. How much time bigger the MPS of a stock then the EPS. Normally the MPS of a company is always grater the EPS. We already know about the EPS and MPS of the company. It is calculated by dividing the Market Value Per Share (MVPS) by Earning Per Share. PE ratio is the investor's exception towards the company's financial performance. It gives the knowledge of financial protection towards owner which also indicates the market appraisals of the Banks. The Price earnings Ratio is explained in briefly with the help of table.

Table 4.7

Price Earnings Ratio

Year	NIB	% Change	ADBL	% Change
2015/16	35.5	-	14.55	-
2016/17	26.3	25.92%	13.77	5.36%
2017/18	17.4	33.84%	8.51	38.20%
2018/19	19.6	-12.64%	9.54	-12.10%
2019/20	25.3	-29.08%	12.24	-28.30%
Total	124.1		58.61	
Mean	24.82		11.722	
Standard Deviation	6.305		2.346	
CV	0.254		0.200	

Note. from Annual reports of sample banks 2015/16 to 2019/20

As per the table 4.7 the P/E of NIB for the year 2015/16 to 2019/20 were 35.5, 26.3, 17.4, 19.6 & 25.3. Whereas the Mean, Standard deviation & CV of the bank were

14.55, 13.77, 8.51, 9.54 & 12.24. Similarly. The P/E of ADL for the year 2015/16 to 2019/20 were 14.55, 13.77, 8.51, 9.54 & 12.24. And the mean Standard deviation and CV of the bank were 11.722, 2.346 & 0.2002.

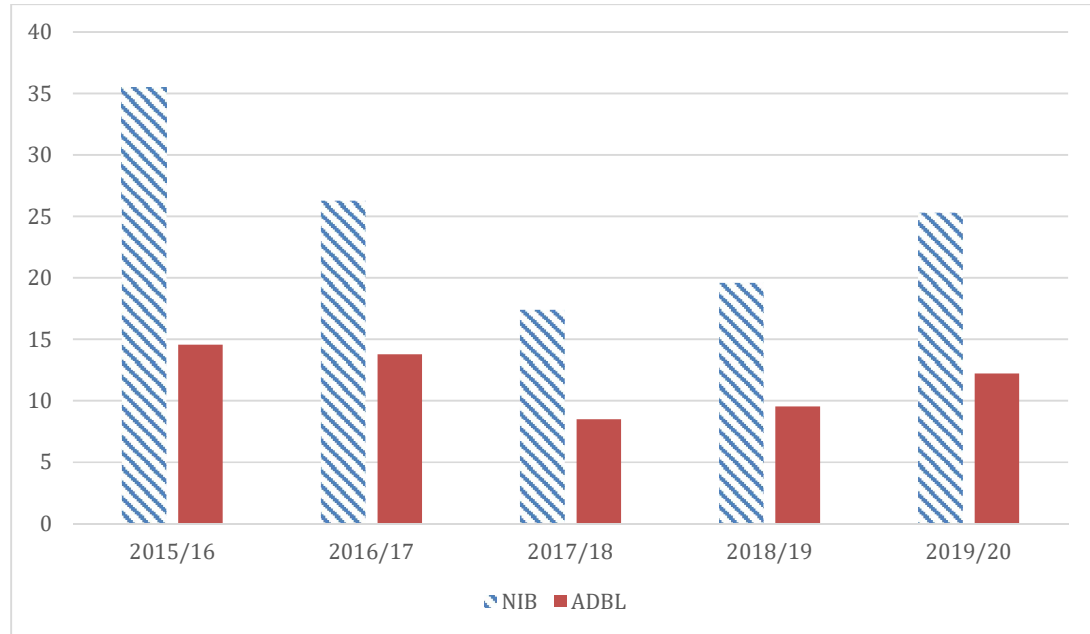


Figure 4.7. Price Earnings Ratio

As per the figure 47 P/E ratio were presented with the help of bar diagram. The tallest bar for the NIB was at the year 2015/16 and the smallest bar was at the year 2017/18. Whereas the Tallest bar for the ADBL was at the year 2015/16 and the smallest bar of the bank were at the year 2017/18.

4.1.8 Non-performing Loan

Non-Performing Loan Simply refers to the sum of borrowed money whose scheduled payments have not made by the debtors for a period of 90 days or 180 days. It is calculated as the sum of restructure, substandard, Doubtful & Loss amount which are invested in the domestic and foreign level. The Non-performing loan of the NIB & ADBL is explained with the help of table and figure.

Table 4.8

<i>Non-Performing Loan</i>			<i>(Amount in million)</i>	
Year	NIB	% Change	ADBL	% Change
2015/16	58,551	-	438,289	-
2016/17	87,628	49.66%	430,784	-1.71%
2017/18	163,854	86.99%	392,968	-8.78%
2018/19	353,451	115.71%	364,377	-7.28%
2019/20	407,406	15.26%	349,282	-4.14%
Mean	214,178		395,140	
Standard deviation	141068		35174	
CV	0.66		0.09	

Note. from Annual reports of sample banks 2015/16 to 2019/20

As per the table 4.8 the non-performing loan of NIB & ADBL for the year 2015/16 to 2019/20 are represented. Whereas the mean, SD & CV of NIB were 214178559855.42, 1.41 & 0.66 respectively. Similarly the Mean, SD & CV of ADBL of ADBL were 395140627494.75, 35174676221 & 0.09 respectively.

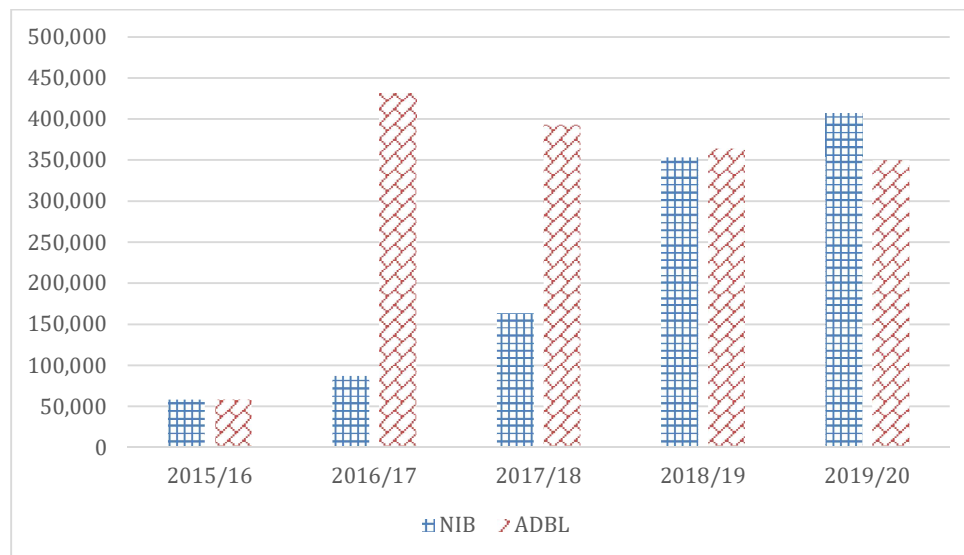


Figure 4.8. Non-performing Loan

As per the figure 4.8 NIB has highest non-performing loan at the year 2019/20 & lowest Non-performing loan at the year 2015/16. Whereas the ADBL has the highest

non-performing loan at the year 2015/16 & lowest non-performing loan at the year 2019/20.

4.1.9 Total Deposits

Deposit simply refers to the sum of amount collected by the financial institutions from the customers and markets during the certain period of time at the condition to return the amount deposit with certain amount of interest. Deposits includes the non-interest bearing account and interest bearing accounts. Whereas the non-interest bearing accounts includes current deposits and margin deposits. Similarly, the interest bearing account includes saving deposits, fixed deposit, call deposits and certificate deposits. The amount of total deposits of the NIB and ADBL were described in briefly with the help of table and figure.

Table 4.9

<i>Total Deposit</i>		<i>(Rs in million)</i>		
Year	NIB	% Change	ADBL	% Change
2015/16	99,353	-	86,936	-
2016/17	118,921	19.70%	99,515	14.47%
2017/18	136,585	14.85%	104,216	4.72%
2018/19	149,392	9.38%	118,884	14.07%
2019/20	166,362	11.36%	143,628	20.81%
Mean	134,122		110,636	
Standard deviation	23317		19406	
CV	0.17		0.18	

Note. From Annual reports of sample banks 2015/16 to 2019/20

As per the table 4.9 total deposit of the Nib & ADBL were presented. Whereas the mean, SD & CV of the NIB were Rs. 134122872371.20, 23317829626 & 0.17 respectively. Similarly, the mean, SD & CV of ADBL were Rs. 110636425141.20, 19406593625 & 0.18 respectively.

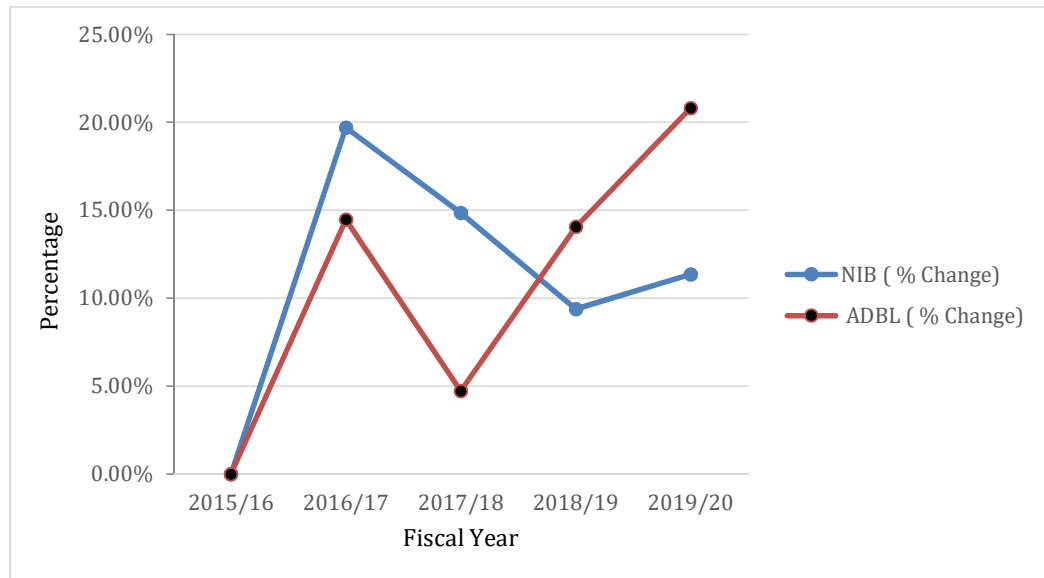


Figure 4.9. Total Deposit

The total deposit of NIB is highest at the year 2019/20 & smallest at the year 2015/16. Whereas the total deposit of the ADBL is highest at the year 2019/20 and smallest at the year 2015/16.

4.1.10 Coefficient of Correlation (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another.

Table 4.10

Coefficient of correlation

Bank Name	Variables	Correlation(r)
ADBL	Net profit with Loan & Advance	0.2357
NIB		0.7517
ADBL	Net profit with non-performing loan	-0.5466
NIB		0.7337
ADBL	Loan & Advance with Non-performing loan	-0.9073
NIB		0.9116

Note. From By using Microsoft excel 2010

As per the table 4.10 the coefficient of correlation between the net profit and loan & Advance of ADBL is 0.235758125 & 0.23 Whereas the coefficient of correlation between the net profit and loan & advance of NIB is 0.7517.

As per the table 4.10 the coefficient of correlation between the net profit and non-performing loan of ADBL is -0.5466. Whereas the coefficient of correlation between the net profit and non-performing loan of NIB is 0.7337.

As per the table 4.10 the coefficient of correlation between the Loan & Advance and non-performing loan of ADBL is -0.9073. Whereas the coefficient of correlation between the Loan & Advance and non-performing loan of NIB is 0.9116.

4.1.11 Regression Analysis

The regression is based on the dependent variable Net profit with the independent variables Non-performing Loan and the Loan & Advance.

Table 4.11

Regression Analysis

Bank Name	Independent Variables	Constant(a)	b	Y= a+bx
ADBL	Non-Performing Loan	59888	-0.0062	Y=598837995-0.66251819x
NIB		26468	0.0029	Y =2646828584+0.0029x
ADBL	Loan & Advance	25061	0.0093	Y =2506174241+0.0093x
NIB		61066	0.0230	Y=610665096.50+0.023X

Note. From By using Microsoft excel 2010

As per the table 4.11 while regression analysis of Net profit with non-performing loan. The results were shown in the form of equation. While calculating the regression between Net profit with non-performing loan of ADBL the a = 598837995, b= -0.06251819 & the equation was $Y=598837995-0.66251819x$. Similarly While calculating the regression between net profit with non-performing loan where the a=26468258584, b=0.002959665 & the equation $Y=2646828548+0.0029x$.

As per the table no. while regression analysis Net Profit with loan & advance. The results were shown in the form of equation. While calculating the regression between net profit with loan & advance of ADBL the a =25061744241, b = 0.00936998 & the equation $Y= -27962933439+0.0093x$. Similarly While calculating the regression between the net profit with Loan & advance of NIB the=-61066096.5, b= 0.230453 & the equation $Y=610665296+0.023x$.

4.2 Major findings

On the basis of above analysis of data, the study has following major findings;

- As per the ratio income to loan & Advance, Net profit to loan & Advance, ROA, Return on shareholders fund, total loan to total deposit ADBL was better than NIB.
- As per the Non-performing loan to total loan NIB was better than ADBL.
- As per the EPS was better
- As per MPS & P/E NIB was better
- As per the deposit and non-performing loan NIB is better than ADBL.
- As per the correlation between the variables net profit with loan & advance of ADBL the result is rejected. And the results of NIB were accepted.
- As per the correlation between the net profits with non-performing loan the result of both banks were accepted but the results of ADBL was highly correlated than the NIB.
- As per the correlation between the loan & advance with the Non-performing loan the results of both banks were correlated but the results of ADBL were highly correlated.
- As per the results of regression analysis of net profit with non-performing loan the results of ADBL is in negative which means the if the non-performing loan increase more that would be harmful for the bank. Whereas the results of NIB was good than the ADBL.
- As per the results of regression analysis of net profit with loan & Advance the results of the both bank were positive and in good condition.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, the summary has been presented along with conclusion and actionable recommendations. This is brief summary of all the chapters of the study from the analysis of the relevant data. Since a study would not be complete without any suggestive findings, the study has also tried to point out effect of non-performing loan in the profitability of ADBL and NIBL as well as the corrective suggestions for the elimination of the errors again if future, with the hope of giving directions for further growth and improvement in the bank's operation.

5.1 Summary

In Nepal industries, agriculture sector, trade and commerce are still in a state of infancy. Development of any nation would be daydream until and unless an adequate amount of capital is invested and mobilized in productive sectors like industries trade and business of every nook and corners of the country. Thus the commercial banks have most important role to accelerate economic growth of a nation as well as improve the living standard of the people.

In the first chapter of the study the research question has been raised on what is the position of loan and advance, nonperforming loan, loan loss provision and profitability of the sample banks? and what is the impact of loan and advance, non-performing loan and loan loss provision on the net profit of sample banks?. To search out the solution of these research questions the objectives of the study are mentioned and as to examine the position of loan and advance, non-performing loan, loan loss provision and profitability as return on assets, return on shareholder's equity and return on loan and advance and to examine the impact of loan and advance, non-performing loans and loan loss provision in net profit. To achieve the aforementioned objectives, only these two commercial banks, out of population of 27 commercial banks, has been selected as sample. Also, only secondary data has been collected and analyzed to achieve the objectives. The secondary data has been collected from the annual financial reports of ADBL and NIBL, covering five year periods, i.e. from the fiscal year 2015/16 to 2019/20.

In the second chapter of the study the conceptual review on the loan management, non-performing loan management, lending criteria and various factors affecting the proper loan management are discussed. In this section various previously conducted research studied has been reviewed to get the conceptual idea for the study and the research gap for the study is generated as the actual impact of loan and advance, non-performing loan and loan loss provision in the net profit of the sample banks is yet to be analyzed in this period of the analysis.

Third chapter of the study describes the research methodologies for the study. In this part research design, sources of data, data collection technique, data collection methods and tools and techniques employed etc. for this purpose descriptive cum analytical research design was adopted. Annual reports and other publications from the basis of secondary data are used. To analyzed the collected data form annual financial reports of the banks the financial ratios of the two banks are compared using the descriptive statistical analysis tools as mean, standard deviation and coefficient of variation and the effect of loan and advanced, non-performing loan and loan loss provision in the net profit of the banks are analyzed using multiple regression analysis tools. For the data analysis here Excel sheet and Eviews data analysis software are used in this study.

In the fourth chapter of the study the data collected from various sources are recorded systematically and presented in the appropriate forms of the tables, charts and appropriate mathematical, statistical, financial, graphical tools have been applied to analyze the data. At the end of this chapter result from comparative financial ratio analysis and the result of regression analysis is presented as major findings of the study.

5.2 Conclusions

This study particularly deals about the non-performing assets management of commercial banks in Nepal with reference of ADBL and NIBL. Certain conclusion has been derived after the credit management of the sample banks. As per the strength and weaknesses of non-performing loan management of the both banks, there are

more strength and less point regarding weaknesses in loan management. The banks have pretty huge amount of non-performing loan previous years.

It can be concluded the average loan and advance to total deposit ratio, loan loss provision to loan and advance ratio, non-performing loan to loan and advance ratio, of ADBL is higher than that of NIBL and the average loan and advance to total assets ratio of ADBL is lower than that of NBIL. There is negative correlation between loan and advance and loan loss provision of ADBL low positive correlation coefficient between loan and advance and net profit, positive correlation coefficient between loan and advance and non-performing loan, very high degree of positive correlation between loan and advance and total assets and the correlation coefficient between loan and advance and total debt and loan loss provision and non-performing loan is negative. The correlation coefficient between loan loss provision and total debt is negative the positive and negative correlation between the variables shows the opposite and same direction change.

The regression analysis in the study concludes that non-performing loan of ADBL and NIBL positively associated with net profit of the banks. On the other hand, loan loss provision of ADBL and NIBL has negative relation with the net profit of the banks as similar to the non-performing loan, loan and advance has significant positive association with net profit of the banks.

5.3 Recommendations

Based on the major findings and conclusion of the study on credit management of sample banks some suggestions are made. The following points are highlighted to put forward for further improvement of commercial banks.

- Lending is major function of commercial banks and it is one of the most important sources of profit. In comparison to NIBL, ADBL has high lending ratio but higher than 80% credit deposit ratio is the threshold for commercial banks as per the NRB directives which should not be crossed.
- Non-performing loan (NPL) erodes the performance of banks. It reduces profitability because of LLP. This LLP will reduce banks fund for productive

sector. NPL of NIBL is less than ADBL. So, the ADBL should take action to make every effort to reduce NPL.

- ADBL and NIBL both have huge amount to be made for provision for loan losses. Therefore, profit of both banks is decreasing over the study period. So, banks should keep maintaining loan loss provision regarding non-performing loan as per the NRB directive base because more provision causes decrement if the profit available for the distribution.
- The both banks should keep up the act of wealth maximization of the shareholders as they are the true owners of the bank.
- Net profit of ADBL and NIBL has significant positive relation with loan and advance of the banks. So, it is recommended to increase loan and advance flow in order to make more profit.
- Although non-performing loan of ADBL and NIBL has positive impact on its net profit during the study but it not better to have more non-performing loan. So, it is recommended to maintain active loan and advance and reduce inactive loan and advance.
- Every commercial bank should maintain loan loss provision as per NRB's directives regarding non-performing loans.

BIBLIOGRAPHY

- Bhandari, D. (2003). *Banking and insurance*. Kathmandu: Januka Publication Pvt. Ltd.
- Bhattarai, S. (2015). Determinants of non-performing loan in nepalese commercial banks. *Economic Journal of Development Issues*, 19(2), 1-7.
- Chand, S. (2019). Profit: Concept, Policies, Measurement, Planning and Controlling. *The next Generation Library*. Retrieved from <http://www.yourarticlelibrary.com/economics/profit-concept-policies-measurement-planning-and-controlling/29040>
- Dahal, B., & Dahal, S. (2012). *A Hand Book of Banking*. Kathmandu: Asmita Books and Stationery.
- Dangol, R. (1999). *Accounting for Business*. Kathmandu: Taleju Pustak Bitarak.
- Gabriel, O., Victor, I. E., & Innocent, I. O. (2019). Effect of non-performing loans on the financial performance of commercial banks in Nigeria. *American International Journal of Business and Management Studies*, 1(2), 1-9.
- Garla, S., & Boruah, S. (2018). Effective management of non-performing loans using SAS. New York, USA: SAS Institute Inc.
- Gautam, G. (2019). *Study on non-performing loan management of joint venture commrcial banks (with reference to NIBL and BOK)*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to, Office of the Dean, Faculty of Management, TU.
- Ghimire, B. (2014). *Non-performing loan management and liquidity analysis of commercial banks in Nepal (with reference to NIBL and SCBNL)*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to, Office of the Dean, faculty of Management, TU.
- Gupta, S. (1992). *Management Accounting Budgeting, Business Budget & Budgetary Control*. New Delhi: Agra Shahitya Bhawan.
- John, B., Edward, I., Paul, N., & Robert, N. (2011). *Managing Credit Risk*. New York: John Wiley & Sons Ltd.
- Johnson, E. (2007). *Commercial Bank Management*. New York: The Dryden Press Private Limited.

- K.C., S. (2013). *Banking Theory and Practice*. New Delhi: Vikash Publishing House Pvt. Ltd.
- Lama, I. (2014). *Non-performing loan management of commercial banks (with reference to NIBL)*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to, Office of the Dean, faculty of Management, TU.
- Lamichhance, R. (2018). *A study on non-performing assets management of commercial banks (with reference to NIBL and BOK)*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to, Office of the Dean, Faculty of Management, TU.
- Lynch, R., & Williamson, R. (1989). *Accounting for Management*. New Delhi: Tata McGraw Hill Publishing Company.
- Maharjan, T. (2017). *Comparative analysis of non-performing loan in commercial banks in Nepal (with reference to NABIL, SCBNL, EBL and HBL)*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to, Office of the Dean, Faculty of Management, TU.
- Marcus, E. (2017). Reducing non-performing loans (NPLs) in the EU banking sector. *KPMG Journals*. Retrieved from <https://home.kpmg.com/xx/en/home/insights/2017/02/reducing-npl-in-the-eu-banking-sector-fs.html>
- Nepal Rastra Bank. (2020). *Bank Supervision Report*. Kathmandu: Bank Supervision department. Retrieved from https://nrb.org.np/bsd/reports/Annual_Reports--Annual_Bank_Supervision_Report_2017-new.pdf
- Nitisha, N. (2019). *Economics Discussion*. Retrieved from <http://www.economicsdiscussion.net/business/profit-types-theories-and-functions-of-profit/3329>
- Nwankwo, G. (2004). *Risk Analysis and Management, Principles and Practice*. Lagos: Malt House Press Ltd.
- Pradhan, R. (1994). *Financial management practices in Nepal*. Kathmandu: Asmita Books Publishers.
- Rane, S., & Sukthankar, S. (2020). Impact of non-performing assets on financial performance of scheduled commercial banks operating in India. *Journal of Interdisciplinary Cycle Research*, 12(6), 874-893.
- Robinson, E. (1951). In *Commercial Bank Management*. New York: The Dryden Press Private Limited.

- Sankar, G. (2016). What is the difference between a bad loan and an NPA? *Quora*. Retrieved from <https://www.quora.com/What-is-the-difference-between-a-bad-loan-and-an-NPA>
- Shrestha, R. (2016). *Analysis of non-performing loan management of Standard Chartered Bank Nepal Limited*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to, Office of the Dean, faculty of Management, TU.
- Tharu, K. (2015). *Loan and non-performing loan analysis of Everest Bank Limited*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to, Office of the Dean, faculty of Management, TU.
- Wolf, H., & Pant, P. (2002). *A Handbook for Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Websites:

www.adbl.com.np

www.nibl.com.np

www.nrb.org.np