

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Economy of the country is the back bone of the nation. The well economic condition of the country gives identity to the country itself and to the people of the country. Economy and commerce are interrelated to each other. Sound economy promotes commercial factor and well commerce (Banijya) gives sound economic condition.

Nepal's economy highly depends upon agriculture. Most of the people are dependent upon traditional agriculture. Slowly new techniques are being experienced and used. Today Nepal is stepping to the commercial sector. Slowly and gradually different commercial concepts are being employed in the nation, which indicates the prosperity in near future. The economic condition of the country is being dominated by many factors in last decade. Businessmen are not freely investing in the different sector of investment due to the unstable political condition of the country. So, economic condition of Nepal and Nepalese people has not grown up as it was expected, or it should be. Besides these conditions, the commercial banks are making their history regarding the establishment and in profit too. Though they are fighting with many social and political conditions in the country, they are proving their ability and helping the nation to handle the economy.

Government with the view of accelerate the pace of economic development under the structural adjustment program undertook a significant step towards financial liberalization in the year 2043/44. The liberalization policy of the government of Nepal has encouraged the private sector to invest in various fields, which support the domestic overall economic growth. By this, the growth of banks and financial institutions are increased and at present 31 commercial banks are operating in the Nepalese banking industry.

In this conditions bank can take initiation in search opportunity so that they can survive in competitive market and earn profit. However, investment is very risky job. For the purposeful, safe, profitable investment, bank must follow sound investment and fund mobilizing policy. Banking sector is exposed to number of risk like interest rate risk, credit risk, liquidity risk, borrowers risk etc.

Among them the most critical risk is borrower's risk, the risk of non-payment of the disbursed loan & advances. Failure to collect money disbursed may sometimes result in the bank inability to make repayments of the money to the depositors & return to the shareholders.

Margins on traditional business have been eaten away and banks have been forced to look to new markets and new products to sustain profitability. They should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. The less opportunity for getting avenues for loan flotation has compelled the banks to finance without being choosy. Quality of the loans and advances could not be maintained to the desirable level if there is no choice whether to finance or not. As a profit motive financial institution, bank need to focus on achieving profit. A loan is a profit determinant factor and also refers as a derivative that creates risk. The profit of the bank depends upon the spreads that it enjoys between the interest it receive from the borrowers and that to be paid to the depositors. An average bank generates about 70% of its revenue through its lending. If it is well managed, profit will be higher automatically. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments than a bank makes its profits.

Non-performing assets, also called non-performing loans, are made by a bank or finance company, on which repayments or interest payments are not being made on time.

The risk involved in this is so high that it can bring bank to a verge of bankruptcy. Banking system is volatile and sensitive section of national economy, which requires effective monitoring and supervision. Hence to such situation and protect depositors and shareholders money, Nepal Rastra Bank (NRB) issues various directives and guidelines from time to time with modifications and amendments for the sound regulation of the banking system. All the banks have to abide by the rules and regulation issued by the central bank.

Non Performing Assets [NPA] has become the problem of the government when the conditions of NBL and RBB worsened. The practice of renewal of loan, and unmanaged NPA brought the banks to bank failure. So considering the international and national circumstances, financial crisis and bank failure in most of the countries of the world, and increasing trend of NPA, Nepal Rastra Bank, NRB has started three phase rehabilitation program of financial sector viz. RBB and NBL restructuring, re-engineering of NRB and establishment of financial sector efficiency department of NRB. In these conditions NRB act 2058 introduced and inspection and supervision department has been established. As per the recommendation of based committee management of two big banks handed over to foreign management, Debt Recovery Tribunal and assets management company have been established and Voluntary Retirement Scheme, VRS has also been materialized in two big commercial banks and in NRB as well.

NBL has recently has been handed over to the Government of Nepal. After the three phase program of NRB, though the banks are not in the conditions of failure but still the NPA ratio of RBB is higher than the standard of NRB, i. e. 5%. The NPA of the RBB and NBL are more than 36% of the total NPA of commercial banks in the year 2007/08.

The condition of RBB and NBL has been found to be under control in recent days. The condition of Nepal Credit and Commerce Bank Limited [NCC] and Nepal Bangladesh Bank Limited [NBB] was also worsened due to the mismanagement of NPA. The management of the NBB has been undertaken by the Central bank and now with the close monitor of the central bank, the position of NBB has been upgraded and was able to generate a remarkable profit in the fiscal year 2008/09. In the case of NCC bank, the central bank had only done the close monitor and had restricted on the lending, which in turn, gave a positive impact in the condition of this bank.

The major reasons of the increment of the NPA in the banks might be undue influence of the top level management and sometimes from client, lending without proper collateral, untimely repayment of the loan, etc. And the consequences of these reasons might be the liquidation of the banks, where the deposits of the depositors will be lost. This ultimately remarks in the management skills of the top level executives as well as monitoring of the NRB.

1.2 Profile of the Sample Banks

NABIL Bank Limited

Nabil Bank the first foreign joint venture commercial bank of Nepal was established in 11 May 1984 under the company Act 1964. It started banking work in the same year by joint investment of Dubai Bank Limited and Nepalese promoters. The authorized share capital of the bank was Rs. 50 Million and paid up capital and issued capital of Rs. 30 Million at the time of establishment.

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial

banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe (www.nabilbank.com).

Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Ltd. (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/ 1. Pa. / 7 / 2049 / 50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 351. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/ I. Pra.Ka. 7 / 062 / 63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 131.76 Crores, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank (www.nepalsbibank.com.np).

Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products

such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, HBL stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.[www.hbl.com.np]

Everest Bank Limited

EBL started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank joined hands with Punjab National Bank, India as its joint venture partner in 1997.

The bank is providing its services through a wide network of its 18 branches across the nation and over 250 correspondents across the globe. All the major branches of the bank are connected through anywhere branch-banking system, a facility which enables a customer to do banking transactions from any of the bank branch irrespective of their own accounts.

The bank in association with Smart Choice Technology [SCT] is providing ATM services for its customers. EBL Debit Cards can be accessed at more than 50 ATMs and over 250 points of scales across the nation. The bank is also managing a ATM at Tribhuvan International Airport for the convenience to the customers and the travelers, the first and only bank in Nepal to place ATM outlet at the Airport (www.ebl.com.np).

Nepal Investment Bank Limited

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 the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure. It has now expanded to 39 branches all over the country (www.nibl.com.np).

1.3 Statement of the Problem

Nepalese commercial banking industry is still under the developing condition. They have to follow all the rules and regulations or the directives issued by the Rastra Bank of Nepal, the central bank of the country. Furthermore, the implementation of policy is not in an effective. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to the commercial banks of Nepal. The core banking business is mobilizing the deposits and utilizing it for lending to industry lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes which results into economic growth. However, lending also carries credit risk, which arises from the failure of borrowers to fulfill its contractual obligation during the course of transaction. It is well known that the bank and financial institutions in Nepal face the problem of swelling non-performing assets and the issue is becoming more and more unmanageable. The total NPA in the banking system is about 35 billion rupees, while it is even worse in case of two largest Commercial banks- Rastriya Banijya Bank and the Nepal Bank Limited.

NPA effects on the performance of the banks, and arise the question of its management; the NPA lowers the profitability, the more the NPA lower the financial performance. NPA erodes the existing capital.

The trend of NPA was higher before 2046 B.S. higher NPA in government bank, consequently higher NPA in total. NPA is somehow managed nowadays, NRB directives regarding the banks and decision of restructuring of the banks has positive impact on those banks. NPA on private banks / joint venture banks are somehow managed by the team following these years the NPA is in decreasing trend.

Nepalese banking sector has been becoming a victim of huge NPAs. Such above stated situation raise a question, whether the Nepalese management team is competent enough to overcome the problem? Whether the NRB fails to regulate the commercial banks operating in the Nepalese banking industry? What might the external and internal factors of the banks that causes the level of NPA rise it is the crucial question that has to find out the solutions regarding the banks and its performance

Thus, this study makes a modest attempt to analyze the non-performing assets of the banks. The problems specially related to the NPA of the banks have been presented briefly as under:

- What is the actual position of Total Lending, Total Non Performing Assets and Net Profit of the sample banks?
- What is the ratio of NPA in total lending of the Banks?
- What is the relationship between Total Deposits and Total Lending?
- What is the relation between NPA and Total Lending?
- What is the relationship between NPA and Profitability of different Banks?
- What is the trend of ROA, NPA Ratio, CD Ratio, NPA and NPof sample Banks?

- What is the overall impact of the NPA on the profitability of the commercial banks?
- What might be the other factors that influence the non-performing assets of the commercial banks in the banking industry of Nepal?

1.4 Objectives of the Study

The main objective of the study is to find out the position of NPA of sample commercial banks and its impact in the profitability of them. The other specific objectives are as follows:

- To analysis the total lending, Credit to Deposit (CD) ratio, NPA, ratio of NPA to total lending and net profit in the selected commercial banks.
- To measure the relationship between Total Lending, Total Deposits, NPA ROA, ROE and Net Profit of sample commercial banks.
- To analysis the trend of NPA, CD ratio, Net Profit and ROA of commercial banks in Nepal.
- To determine the factors that influences the NPA of the commercial banks.
- To find the impact of non-performing loan on performance of selected commercial banks.

1.5 Significances of the Study

The main focus of the study will be to know about the non-performing assets of the selected Nepalese commercial banks and make comparative study of non-performing loan of the selected commercial banks. So this research will be able to deliver some of the present issues, latest information and data regarding nonperforming loan and loan loss provision. Besides the over mentioned factors, the study focuses on the analyzing the trend of total assets, total lending and total deposits of the selected commercial banks besides analyzing Non Performing Asset and the impact in the Net Profit of these banks. Hence, this study will give the real picture of the current non- performing assets which will be significant to bankers, its shareholders, depositor and all general public

who are interested on this current affair of banking industry .Last but not least, it also provides literature to the researchers who want to carry on further research in this field.

1.6 Limitation of the Study

This study is simply a partial study for the fulfillment of MBS Degree. This is not far from several limitations, which weakens the study from the viewpoint of reliability and validity. The major limitations of this study are inadequate coverage of industries, limited time period covered and the reliability of statements. The following are some limitations of the study:

- Profitability of an organization is caused by very many factors but here we study only those factors, which are directly affected by the non-performing assets of the commercial banks.
- The whole study is mainly base on secondary data, provided by the concerned banks; the reliability is up to the available data.
- The whole study is based on the data of only five years.
- The study covers only five banks of the banking industry.

1.7 Organization of the Study

This study has been divided into following chapters.

Chapter - I : Introduction

The first chapter introduction includes the background, profile of sample banks, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter – II: Review of Literature

The second chapter review of literature has two parts, first part deals with conceptual framework and second part deals with the review of books, articles, journals and unpublished thesis.

Chapter - III: Research Methodology

This chapter deals with the methodology adopted in carrying out the research and it includes research design, population and sample, nature and sources of data and method of data collection.

Chapter –IV: Presentation and Analysis of the Data

This is the main part of the study. Various analytical tools are used to analyze and interpret the data collected from various sources. Major findings are also included in this chapter.

Chapter-V: Summery, Conclusion and Recommendations

This chapter briefly deals with the summery, conclusions and recommendation of the study. Bibliography and annex are also included at the end of the chapters.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

There are several types of banks but among them commercial banks play significant contribution in the financial system of the country. They pool together the savings 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 financing.

According to Black's Law Dictionary Commercial Bank means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent-time deposit boxes, and to provide similar services (Bhandari, 2003: 25).

It is the fact that financial sector plays a vital role for the economic development of a country. Even before the establishment of a banking system in Nepal, financial transactions were in practice as undertaken by some moneylenders like sahu- mahajans, zamindars, relatives, friends, and few informal organizations limited to ethnic group such as Guthi. The borrowing from the other people and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver and valuable goods for the sake of security. Thus, the private moneylenders can be taken as forerunner of the concept of financial institution.

However, the private money lenders supported the economic development of a country, the transactions undertaken by them was totally based on their personal understanding. No legal restriction was against them and their monopolies in transactions were the reasons for covering the interest in

personal understandings and exploiting the people. Thus, it was then realized the need to establish financial intermediaries in supporting the economic development of a country.

Nepal has been ruled over by many rulers like Kirati, Lichchhavi, Malla, Ranas, and Shahs. Mostly Kirati, Lichchhvi and Malla regimes, who were concerned with the construction of temples, pati-pouwa, chautaris, etc. At that period neither the people nor the government needed to think about the economic development of the country. According to ancient “Vanshawali” in fourteenth century, the ruler of the then Kathmandu JayasthitiMalla segregated the local domiciles into 64 different classes according to profession they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowing and lending of money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal (Singh &Khadka,1999: 15).

After long time, during the Rana regime, only handfuls primeminister thought about the economic development of the country. During the reign of Ranodip Singh, an office named “Tejarat” was established in Kathmandu in 1933 (B.S). It used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for giving loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks.Nevertheless we can say that the institutional banking system had started from then (Bhandari, 2003: 6).

For a quite long time it rendered a good service to the government employees as well as to the general public. The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal.

To fulfill the growing need of economy in Nepal, banking activities were performed only after the establishment of Nepal Bank Limited in 1994 BS as the first commercial bank in Nepal. This bank was established under the Nepal Bank Act 1994 BS. At beginning, 49% of the ownership belongs to the promoters as well as general public and remaining belongs to government. The incorporation of Nepal Bank Ltd. is the real starting of the banking institution in Nepal. The bank started the act of consolidating the scattered capital since its establishment in order to mobilize it in productive sector. It developed systematic tradition in culture of modern banking system in Nepal. Such system could be able to establish a strong base for the upliftment of national economy. Beside, it also acted as central bank for more than two decades.

The economic and Industrial development was stopped in Nepal from the Second World War After 2007; the banking activities of Nepal were not satisfactory due to political instability. Though Nepal Bank was given the authority and responsibility of central bank, but with the change of time, it was necessary to establish a central bank (Bhandari, 2003:7).

Nepal Rastra Bank was established in Baisakh 14, 2013 BS under Nepal Rastra Bank Act 2012 BS as the central bank of Nepal. it is totally owned by government. NRB is heavily assisting for the development of the whole economy. It is giving timely directives to all financial institutions operating and conducting in all over the country.

After a long period, the second commercial bank namely RastriyaBanijya Bank (RBB) has been established in 2022 B.S. with cent percent government ownership. This bank has been established under the RastriyaBanijya Bank Act 2021 B.S. Both Nepal Bank Ltd (NBL) and RastriyaBanijya Bank (RBB) have made a remarkable contribution by providing reliable banking services to the Nepalese people. Its contribution is well noted on terms of capital formation to

the small dispersed saving into meaningful capital investment in order to flourish industry, agriculture, and commercial sector in the country.

The government introduced Commercial Bank Act in Nepal in 2033 B.S. to cover the vast field of financial sector. This act has helped to emerge number of commercial bank with a view to maintain the economic interest in comfort of the public in general facilitated to provide loan for agriculture, industry, and trade and make a available banking services to the country and people.

Along vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. And decided to allow foreign banks to operate their activities in Nepal in “Joint-Venture Model”. ‘Joint –venture banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. Basically at that time, it was envisioned that joint- venture banks (JVBS) would support the country in various ways.

In Nepalese context the main purpose of joint venture is top developed economic forces in order to achieve distinguished result, which the partners separately could not achieve. Nowadays, joint–venture banks (JVBs) are playing dynamic and vital role in economic development of the country.

The Nabil Bank Ltd [former Nepal Arab Bank Ltd] was the first joint-venture bank established in 2041 B.S. and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (currently Nepal Investment Bank), the second joint-venture bank established in 2042 B.S. with an objective to encourage efficient banking services and facilities. Likewise Standard Chartered Bank is operated in the year 2043 B.S.

With the satisfactory result of joint-venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent

percent domestic investment. At present there are more than two dozens of commercial banks and many development banks came into operation with cent percent domestic investment by Nepalese promoters which is the plus point of development of banking sector of Nepal. Now, there is a strong competition between commercial banks for their existence so that the growing needs of the customers can easily be achieved.

2.2 Commercial Banking at a Glance

The number of commercial bank branches operating in the country increased to 617 in mid Jan 2009 from 555 in mid July 2008. Among the total bank branches, 48.95 percent bank branches are concentrated in the central region alone. By the end of mid Jan 2009, total 302 branches are being operating in this region. However, in the western, eastern, mid-western and far-western are 19.45% (120), 19.29% (119), 7.78% (48) and 4.54% (28) respectively.

Entry of new banks in financial system along with increased in business, the total assets that is sources of funds of commercial banks went up by higher rate of 20.40 % compared to 15.51% in the previous year. By the end of this fiscal year, the total assets of commercial banking sector reached to Rs. 682,372.9 million from Rs. 566736.0 million in the last year (NRB: 2009 Mid July: 3-5).

The share of loans and advances to total assets decreased to 49.99 % in mid Jan 2009 from 53.45 % in mid July 2008. Similarly, investment and liquid funds registered the 18.46% and 11.10% respectively. In the preceding year, the respective shares were 19.23% and 11.80% (NRB: 2009 Mid July: 3-5).

The composition of liabilities of commercial banks shows that the deposit has occupied the dominant share of 70.32% followed by borrowing 3.16% and capital fund 2.42% in the mid Jan 2009. The respective shares of deposits, borrowing and capital fund in the previous years were 75.18%, 2.54% and 1.76%. Among the component of assets, loans and advances occupied the

highest share of 49.99% followed by total investment 18.46% and liquid fund 11.10% in the same year (NRB: 2009 Mid July: 3-5).

In the mid Jan 2009, the loans and advances increased at lower rate of 12.62% compared to 32.30% in mid July 2008. By the end of mid Jan 2009, the total outstanding amount of loans and advances of commercial banks reached to Rs. 341127.9 million. It was Rs. 302,913.4 million in mid July 2008 (NRB: 2009 Mid July: 3-5).

The total investment of commercial bank in mid Jan 2009 increased by 15.65 % and reached to Rs. 126,002.1 million from Rs. 108,954.8 million in mid July 2008. Similarly liquid fund increased by 13.25% and amounted to Rs. 75,735.9 million (NRB: 2009 Mid July: 3-5).

In mid Jan 2009, total deposit of commercial bank increased by 12.62% compared to 26.25% growth in the mid July 2008. As of mid Jan 2009, it reached to Rs. 479,864.2 million from Rs. 426,080.3 million in the mid July 2008. Among the component of deposit, current deposit increased with rate of 8.71% compared to 24.56% in the last year. Similarly, saving deposit and fixed deposit increased by 14.15% and 11.33 % respectively.

In the mid Jan 2009, the borrowing increased by higher rate of 49.58% compared to 13.0% in the previous year. By the end of mid Jan 2009, it reached to Rs. 21,551.9 million from Rs. 14,408.2 million in mid July 2008 (NRB: 2009 Mid July: 3-5).

Out of the Rs. 344,077.8 million outstanding credits in mid Jan 2009, the largest proportion of the loans and advances is occupied by manufacturing sector. The share of this sector is 23.43% followed by wholesale and retailers' 17.32%, others 16.35%, construction 10.84% and finance, insurance & fixed assets by 8.88%. Similarly, service industries comprises 6.66%, transportation,

communication & public services by 5.19% and agriculture by 4.15% in the same year (NRB: 2009 Mid July: 3-5).

The outstanding of deprived sector credit of commercial banks in the mid Jan 2009 increased by higher rate of 99.62% compared to 12.41% in the mid July 2008. By the end of mid Jan 2009, it reached to Rs. 15,353.6 million from Rs. 7,691.4 million in mid July 2008. The ratio of deprived sector credit total outstanding loans and advances stood at 4.50 % in the current fiscal period.

The non performing loan of commercial banks declined significantly to 5.38% in mid Jan 2009 from 6.08% in the July 2008. The total amount of NPA remained to Rs. 18,548.2 million from Rs. 18,648.5 million in the July 2008 (NRB: 2009 Mid July: 3-5).

After the execution of financial sector reform program, the ratio of non-performing loan(NPL) is improving. The NPL ratio, which was 6.3% at mid – July 2008, declined to 3.6% as of mid-July 2009. The ratio of NPL to the total loan of three government –owned commercial banks has been improving after the adoption of financial sector reform program. For instance, the NPL of Nepal Bank Limited (NBL) has sharply decreased from 49.6% in the mid-July 2005, to 12.4% last year, and further to 5.4% as of mid-July 2009. The NPL of these banks improved on account of the stern measures taken to recover bad loan along with the credit write-off of RS. 27.7 billion while undergoing the restructuring process (NRB: 2009 Mid July: 3-5).

Though the share of non-performing loan is falling, the recovery of written-off loan is still challenging. Besides the government owned NBL, RastriyaBanijya Bank Limited (RBBL) and ADB/N, other commercial banks like Nepal Bangladesh Bank Ltd. And Lumbini Bank Ltd. Run by private sector also have relatively high ratio of NPL.

2.3 Functions of Commercial Bank

Banks can be defined according to the functions they perform. A bank is established with the prime objective of profit maximization. To achieve this, the bank carries out functional activities, “Principally, commercial banks accepts deposits, provides loan, primarily to business firms thereby facilitating the transfer of funds in the economy”. Although, in the yesteryears banks were viewed as acceptor of deposits then provider of loan, but modern commercial banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. The growing bank needs and habits of people and competitive environment has made the banking sector challenging and their operation cannot be under emphasized in present context of market globalization. Hence, a bank is a commercial institution licensed as a taker of deposits, concerned mainly with the making and receiving payments on behalf of their customers, accepting deposits, creating money and making short-term loans to private individuals, companies and other organizations.

Although profit maximization is a major objective of commercial bank, to achieve this objective commercial bank performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Bank Act 2031 (1974). The following are the functions of commercial banks in Nepal.

Accepting Deposits

Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as fixed deposit account, current deposit account, saving account and other accounts.

Advancing of Loans

Commercial banks provide the loans required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In

this was bank creates credit facilities. It provides loans from various procedures in different form such as overdraft, cash credit, direct loan with collateral, discounting of bills of exchange, loans of money at call and short notice.

General Utility Functions

Commercial banks also perform general utility functions such as issuing of letters of credit to its customers, issuing of bank drafts and traveler'scheque etc., for transfer of funds from one place to another, dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange, serving as referee to the financial standing and credit worthiness of its customers, underwriting loans to be raised by public bodies and corporations, providing safety vaults or lockers for the safe custody of valuables and securities of the customers, acting as a trustee and executing the will of the deceased, remittance of money.

Agency Functions

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as collection of customer's money from other banks, receipt and payment of dividend, interest, security brokerage service, financial advisory service, to underwrite the government and private securities.

2.4 Loan and Advances

Loan is defined as a thing that is lent esp. a sum of money. Likewise, debt means a sum of money owed to somebody. However, in financial terms loan or debt means principal or interest availed to the borrower against the security. Debt means the money that bank owes or will lend to individual or person.

Likewise, the term loan is defined as a lending. Delivery by one party to and receipt by another party of sum of money upon agreement expressed to implied, to repay it with or without interest (BoernerVs. Colwell Co. 21 Cal.

3d. 37). Anything furnished for temporary use to a person at his request on condition that it shall be returned, or its equivalent in kind, with or without compensation for its use.

Loan includes:

1. The creation of debt by the lender's payment of or agreement to pay money to the debtor or to a third party for the account of the debtor.
2. The creation of debt by a credit to an account with the lender upon which the debtor is entitled to draw immediately.
3. The creation of debt pursuant to a lender credit card or similar arrangement.
4. The forbearance of debt arising from a loan.

Further, debt means 'Principal and interest provided to debtor by banks or financial institutions, with or without the pledge of immovable or movable property or other securities or guarantees or without guarantee, and the word also mean over dues of the transactions beyond balance or fees, commission and interest incurred in that relation (Debt Recovery Act for Bank and Financial Institutions, 2058)

The supreme court of India has defined the debt during the decision of the case of United Bank of India vs. DRT. Sudhir Gupta states that "In the case in hand, there cannot be any dispute that the expression 'debt' has to be given the widest amplitude to mean any liability which is alleged as dues from any person by a bank during the course of any business activities undertaken by the bank either in cash or otherwise, whether secured or unsecured, whether payable under a decree or order of any court or otherwise and legally recoverable on the date of the application (Ghimire, 2005: 17).

2.5 Non Performing Assets

Assets are those equipments or resources which are utilized to multiply the utility of the raw materials used for producing goods and services by an

organization. Assets generally perform or give result to the organization, but if some assets do not give result to the organization those assets only take place in balance sheet of the organization but is the burden for the organization. And those assets are classified as Non performing asset .It has high cost so the organizations are alert about the Non performing assets. Non performing assets of the Rastriya Banijya Bank and Nepal Bank Limited were so high before because the management had tried to eliminate Non performing asset from the record and placing the records as per the need. Later on those issues become so vast and the management should be changed. Taking the lesson from those banks the commercial bank upgrading are trying to manage the Non performing assets rather than to eliminate it from the loans and advances. Non performing assets of the banks have highly negative impact on the performance of the bank, so it is the most highlighting issues of the commercial banks.

Non performing Assets [NPA] means the amount of loan that the individual commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing Assets for the bank. Reduction of NPA has always been a significant problem for every commercial banks and proper attention for the management of the NPA now has got the top priority. Due to various hurdles on the way of management of NPA, commercial banks are now losing their profitability and struggling for the existence.

NPA may be defined broadly as the Bad Debt; however, it in terms of banking sector consists of those loans and advances which are not performing well and likely to be turn as bad debt. NPA as per the current directives of Nepal Rastra Bank, NRB, has been categorized as classified loans and advances. NPA has severe impacts on the financial institutions. On the one hand, the investment becomes worthless as expected return cannot be realized and on the other, due to the provision required for the risk mitigation the profitability is directly

affected. The existence of the bank can be questioned in this situation. Thus, interest along with principal has to be recovered timely and without any obstacles.

Non-performing assets could wreck bank's profitability both through a loss of interest income and need to write off the principal loan amount. It tackles the subject of an entire starting from the stage of their identification till the recovery of dues in such amount (Bhandari, 2003:13).

To start with performance in terms of profitability is a benchmark for any business enterprises, including the banking industry, however increasing non-performing assets have a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the same time banks are forced to make provisions on such assets.

Loans and Advances dominate the assets side of balance sheet of any bank. Similarly, earning from such loans and advances occupy major space in income statement of the banks. However, it is very important to be reminded that most of the bank failures in the world due to shrinkage in the value of the loan and advances. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while non-performing loans erodes even existing capital.

Performing assets are those loans that repay principal and interest to the bank from the cash flow it generates. If an individual bank has around 10% non-performing assets or loans, it sounds the death knell of that bank other remaining the same. The objectives of loan policy are to maintain the financial health of the banks, which result in safety of depositor's money increases in the returns to the shareholders. Since the loan is a risky asset there is inherent risk in every loans, however, the bank should not take risk above the certain degree irrespective of the returns prospects.

At present, many local banks across Asia are saddled with non-performing loans (NPLs) or sub-performing loans, foreclosed real estate properties, and other non-performing assets (NPAs) for which they have neither the management time nor the resources for proper resolution. Ultimately, this leads to a depletion of loanable funds for banks, resulting in slower credit growth. Tighter credit restricts economic growth and development, as enterprises are unable to access capital.

To define NPA first of all meaning of Assets should be understood. Assets mean the property of a person or a company. This indicates that assets are the property of a company accumulated with the help of sources.

Non Performing Loan means an outstanding loan that is not repaid, i.e. neither payments of interest nor principle are made. In case of the banks the loans and advanced are the assets as the banks flow loans from the funds generated through shareholders equity, money deposited by the people and fund having through the borrowings, Hence the term NPA means the loans and advances that are not performing well. Thus all the irregular and/or overdue loans and advances can be termed as NPA.

Classification of NPA

As per the NRB directives NPA are said as classified loans. And this includes sub-slandered, doubtful and loss categories as defined by new NRB directives. The circular further says a NPA is a credit facility in respect of which interest has remained unpaid for two quarters. According to the circulars, the loans are classified based on weakness and dependence on collateral securities into four categories and prescribed the provisioning rate as follows:

Table 2.1
Classification of Loan and Advances

Classification of loans and advances	Criteria for Provisioning	Provision Rate
Pass	Not past due and past due for a period up to 3 months. [Performing loans]	1%
Substandard	Past due for a period of 3 months to 6 months	25%
Doubtful	Past due for a period of 6 months to 1 year	50%
Loss	Past due for a period of more than 1 year or advance which have least possibility of recovery	100%

Source: Nepal Rastra Bank, Directives for Commercial Banks

Additional Conditions for Which the Loan is Considered as Loss Loan:

In case of the loan having any or all of the following condition, the loan amount is regarded as Loss loan. The conditions are:

- Inadequate collateral amount,
- Insolvency of debt holder or the borrower is declared to be bankrupt,
- The borrower is absconding or cannot be found,
- Miss use of loan or the loan has not been used for the purpose originally intended,
- Purchased or discounted bills are not realized within 90 days from the due date or
- Loans provided to the borrowers included in the blacklists and where the Credit Information Bureau blacklists the borrower.
- Owing to non-recovery, if initiation of auction of collateral passed six months or recovery process is under litigation (Unified Directives 2004:9).

Loan Loss Provision

In short, loan is the money lent at interest. But in commerce & finance, the term loan is used as the transfer of money or other properties on promise to repay along with the interest, usually at a fixed future date. Loan and advances are the primary source of income and the most profitable of all the assets of the banks. They occupy a largest portion of revenue of the bank. Hence, banks need to be careful about the safety of such loans and advances because banks may be influenced by the bad debts. From an accounting perspective, loans should be recognized as being impaired and necessary provisions should be made, if it is likely that the bank will not be able to collect all the amounts due i.e. principle and interest. Loan loss provision is an arrangement made in order to safeguard from the bankruptcy if loaned amount is not recovered or if the debtors default on repayment of loan. It provides buffer against future unexpected losses. Loan loss provision is thus a method that banks used to recognize a reduction in the realizable value of their loans. Banks are expected to evaluate credit losses from their loan portfolios on the basis of available information- a process that involves a great deal of judgment and is subject to opposing information. Banks are directed to make a provision as per the classification of the loans into four categories viz. pass loan, sub-standard loan, doubtful loan and loss loan as per the following system.

Provisions made for the performing loan i.e. pass loan is considered as general loan loss provision and the provision made for the non-performing loan is considered as specific loan loss provision.

Additional Guidelines for the Loan Loss Provision

- a. For restructured or rescheduled loan, loan loss provision should be at least 12 percent.
- b. If priority sector or deprived sector loan which is insured or guaranteed priority sector credit has been rescheduled or restructured, provision should be only 25 percent of above point (a) such loans.

- c. If interest and principle of restructured or rescheduled loans have been served regularly since last two years, such loans can be converted in pass loan.
- d. Priority sector or deprived sector loans which are not insured should be provisioned as per general provision (i.e. stated above in the loan loss provision).
- e. Where the loan is extended only against personal guarantee, a statement of the assets and equivalent to the personal guarantee amount 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 percent shall be provided. Classification of such loans and advances shall be prepared separately. Hence the loan loss provision required against the personnel guarantee loan will be 21%, 45% and 70% for Pass, Substandard and Doubtful Loan category respectively (NRB).

2.6 Effects of NPA on Banks

Under the circumstances assets that do not earn any income to the bank affect the profits in a number of ways, which are explained as follows:

Profitability Impact

1. The resources locked up in NPA are borrowed at a cost and have to earn a minimum return to service this cost.
2. NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
3. Since they do not earn interest they bring down the yield on advances and the net interest margin or spread.
4. NPA have a direct impact on assets and return on equity, the two main parameters for measuring profitability of the commercial banks.

5. Return on assets will be affected because while the total assets include the NPA they do not contribute to profits which are the numerator in the ratio
6. Return on equity is also affected as provisioning eats more and more into profits earned.
7. The cost of maintaining these include administration costs, legal costs and cost of procuring the resources locked in them.
8. NPA bring down the profits, affects the shareholders value and thus, adversely affect the investor confidence.

As a whole, the impact of NPA can be assessed with the following:

- Lower ROE and ROA
- Lower image and rating of banks
- Disclosure reduces investor's confidences
- Increases costs/difficulties in raising capital.
- NPA do not generate income.
- They require provisioning
- Borrowing cost of resources locked in
- Opportunity loss due to non-recycling of funds.
- 100% risk weight on net NPA for CRR
- Capital gets blocked in NPA
- Utilizes capital but does not generate income to sustain the capital that is locked
- Recapitalization by government comes with string.
- Administration and recovery costs of NPA
- Effects in employee morale and decision-making (Ghimire, 2005: 21).

2.7 Review of the Previous Studies

On the way of conducting this research work, some books, journals and publications have been studied to formulate ideas about the subject matter. Although, the specific books regarding the NPA could not be found, however, some banking related books have been consulted.

2.7.1 Review of Books and Articles

Vaidya (1998), discussed about the early warning system for investment risk management. In his book, the author has also envisaged number of examples about crisis created by the banks in the world. As per his view, banking sector cannot ignore any sector of the economy on the basis of its good and bad and there is vital role of financial institution in regards to bad accounts. "Nepalese financial institution has made significant progress especially during this decade, although they are still far behind the developed markets. In spite of having great risk management i.e. focused on collateral rather than on project, credit culture is a new aspect both to the investors and corporate. Unless we have a credit culture, they will end up nowhere. How to identify a good bank? Huge deposits, high technology, strong marketing, broad branching network etc. Finally we arrive the point – collection of the loans, on the whole, private sector banks have lower nonperforming assets (NPAs) than their public sector counterparts. NPAs are the loans that cannot be or have not been recovered. The management owned banks suffer acutely from this, as they have to lend to various priority sectors, at the whims of their political masters and then forget everything about the money forever".

Pradhan (2002), in his article “NPA Some Suggestions to tackle them” found that unless the growth of NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate misused the credits and delayed payments and contributed indirectly for enhancing NPA ratio. He further argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group of parties and sector, lack of initiatives to take timely action against willful defaulters, indecision on existing out of bad loans for fear of investigation agencies like special police CIAA, public accounts committee of the parliament have also contributed in

whatsoever measures to the worsening situation on NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly legal system. Suggesting the remedy of NPA, he adds that administrative system should be strengthened. Legal reforms should be made and assets Reconstruction Company should be formed.

Dr. Sharma, former vice chairman of NPC (2005) published an article “Defaulters Jeopardizing Reforms” on The Kathmandu Post states Nepalese financial sectors are suffering from three major problems. First, despite reform policy the progress of reduction of NPL has remained slow. Second, NRB's capacity for prudential supervision and regulatory functions is weak and needs to be strengthened especially in the areas of enforcement of the banking regulations and taking action against financial institutions involved in the irregularities of the financial norms. Third, Nepal being a member of WTO, the country should prepare itself to manage entry of foreign financial institutions. He says if the bank has to be rescued by the taxpayer's money the fiscal system will crumble. He states most of the today's defaulters, according to the bank did not pay back their loans of these two state bank, RBB and NBL, even when the economy was doing well and the external sector was relatively favorable. He further insists the problem of NPL cannot be minimized if we only squabble around the issue of definitions. The government should take strong action against the defaulters, once the committee formed by NRB feels that the party concerned is a willful defaulter.

The government and NTB should provide maximum help to the banks in recovering the bad debts. He accuses the judicial system for giving stay orders for long time and it is weak in handling recovery and other bank and related cases. Any improvement in legal system and in strengthening of judiciary to make it more professional has to be done urgently, he suggest. He further strengthens his suggestion by giving many examples of countries who once suffered from huge NPA in their banking system got back on track by strong

Debt Recovery Tribunal. He supports that DRT, established by the government of Nepal, should be further strengthened for minimizing the problems of NPL of the banks.

Poudel (2005), in his article “Financial System, Impaired Assets and Their Resolution in Nepal” states that NPL/total loan ratio of Nepal is the highest among China, Japan, Korea, Malaysia, Philippines and Thailand. NPL in Nepalese banking sector has been mounting since early 1990's and its main resource are two public sector banks, RBB and NBL, he adds. Moreover, NPL of these banks is as high as 60% of their Total Loan Portfolio, poor governance resulted from political inference and insider lending, lack of independency at the top management, weak information system and weak legal framework and accounting practices are the main cause of NPA problem, he clarifies. Heavily concentrated lending in a few large groups beyond normal prudent risk acceptability, larger consortium loans, higher credit risk exposures with a serious collateral short falls adversely affected both banks liquidity, profitability, asset quality and capital base. He insists lack of responsibility and accountability, weak regulation and supervision of banks, global security problem after September 11 incident and domestic insurgency problems affected repayment rates of their total loan. He agrees with the intervention of NRB over NBL and RBB by handing over the bank management to foreign management groups. He says the NRB should formulate and implement all the necessary rules, regulation, acts, policies and guidelines to address the NPA problem. He supports that enactment of banks and financial institutions Act establishment of Debt tribunals, enactment of banks and financial institution Act 2004 are expected to reduce NPL and avoid future shocks in the banking system. In addition, Assets Management Company is in the process of establishment in near future, which aims at acquiring, managing and realizing cash by disposing impaired bank assets.

Subedi (2006), published an article entitled “Is Biz Community Only the Culprits” argues that business community not solely responsible for the growth of NPA but bankers also equally responsible. He says the fails to analyze study the report financially, managerially and technically. He says it is the cash flow that repatriates the loan not the collateral which most bankers rely on. So, existing investigation and analyses must be concentrated on project status. He further states it is the duty and right of the banker to undertake the project before the problems arise because a bank is not only the financier but also the partner of the project. Hence, the bank must undertake and start to recover the loan by operating and managing it. He agrees writing off the loan may be controversial but necessary. He gives the true example of Haratic Wire. It took loan for exporting copper wire to India and at that time wire export to India was free. The company commissioned and started to production. Then India banned the copper wire import and now it is a sick unit and promoters are blacklisted. In such case, bankers together with the promoters have to sell the properties. If it is inadequate for recovery, the loan is to be written off instead of calming unrelated properties of the promoters. They must not be blacklisted because they could promote other business. He supports liabilities of particular company are to be limited to company.

Upadhaya, Sr External Affairs Specialist of the WB (2006) published an article “Defaulters Are The Villains of Market Place” on Katmandu Post says defaulting or the impunity with which borrowers refuse to pay back their bank loans on various pretext is symptomatic of the larger governance problem that bed evil Nepal. He writes further commercial banks have been a source of easy money for a predatory and politically well connected clique. He says when banks have provision for these losses, the cost of borrowing rises for honest business and the return on deposits diminishes for the depositors, everyone suffers. He warns ahead, if defaulting continues the government will have to spend money from its budget to fix the problem at the expense of programs that would help the poor.

On Jun. 30, 2006, Kantipur had carried a small news item in its business and economy section. The gist of the news goes like this. A group of bank debtors in Nawalparasi unionized themselves demanding that interest payments on bank loan up to Rs. 1 million be waived besides relaxing repayment of the principal. If their demands were not fulfilled, they threatened to release the names of bank managers and other staff members who took bribes while issuing loans. In his budget speech, Dr. Bhattarai did waive loans up to Rs. 30,000 and interest and penalties on loans ranging from Rs. 30,000 to 1,00,000. He is now pointing his guns at the big borrowers. The recent naming and shaming of 339 bank defaulters showed that they collectively owned a cool Rs. 16 billion, excluding interest which may total several times this amount. Segregation of the Bank defaulters showed that nearly 30 percent of them (101 individuals) owned over 81 percent of the loans (Rs. 13 billion). This nearly resembles the 80:20 rule -80 percent of the problem is being explained by 20 percent of the causes.

The Problem of massive loan delinquencies came to light in the early 2000s when Nepal went into a deep financial crisis, and the donors pushed for country fiduciary risk assessments prior to making their commitments on budgetary support. The businessmen were drawing massive loans without ever bothering to pay them back. The picture became clearer when one looks at high degree of financial lever –age (high debt / equity ratio) in Nepali business companies. Literally, with corruption, debt capital was coming as risk –free capital by 2004, defaulters exceeded Rs. 40 billion, representing 30 percent of all credit flows in the country. This implied as serious impending financial disaster, defaults on loan repayments by 1,159 debtors who had borrowed over Rs. 2.5 million each from two major banks, Nepal Bank Ltd. and RastriyaBanijya Bank, reached a whopping Rs. 15.67 billion. Nepal's Credit Information Bureau [Center] still carries a listing of the 2,225 defaulter (www.cibnepal.org). The largest corruption case is ever filed by the commission for the investigation of Abuse of Authority (CIAA), dubbed 1.2 billion. To add insult to injury, even

the then sitting president of the Federation of Nepalese Chambers of commerce and Industry (FNCCI), the apex body of the business community in Nepal, was accused of major bank default.

Dhungana (2007), in his article “Problem of NPL and the Need of Financial Discipline in the Nepalese Banking System” states that Nepalese financial system still has a high level of NPL. Systems soundless cannot be restored without resolving the problem of NPL. He further says, the level of total loan is the highest level in the Nepal in 2003 than that of other South Asian Countries. According to him, the main causes for NPL problem in the Nepalese banking system are internal and external factors consist poor system, procedures and credit culture in credit management , management oversight deficiencies in policy level and lack of competencies in the Board of Directors to monitor risk, limited supervision by the bank itself and fraud in lending and recovery, poor recovery efforts even the loan is categorized under bad, lack of loan write-off policies, poorly managed few banks. External factors consists lack of financial discipline within borrowers and in financial system, poor legislative regime, fragmented legal environment, lack of supportive institutions helping to reduce the NPA, deterioration in economic growth rates and activities last few years, poor legislative and super visioning capacity of the central bank in the past, security problems and conflicts in the economy.

He further suggested that for the management of the NPL and a good banking there should be a proper risk management. Preventive and curative measures are acquired to be initiated in the system. He insists that the financial discipline is most crucial to enhance the good credit culture for the benefit of the society and achieving the high level of economic growth. preparation of best CPG, establishing best credit approval procedures installing proper credit management system and credit culture are some of the preventive measures to control NPL growth. Curative measure such as assisting the banks and financial institutions to dispose the distress loan and facilitating to recover NPL are also

equally important. He says both strengthening of the internal capacity of the financial institution and improving capacity of the system, building financial discipline in the system as a whole is the need of the day.

Basyal (2009), discussing about the financial sector reform in his article “Financial Sector Reform Program in Nepal: Prospects and Challenges” states that the host of challenges and complexities that confront the financial system of Nepal could be categorized as the weak financial position of most of the government – owned financial institutions as reflected in their negative net worth and huge accumulated losses, higher portions of NPA, predominance of the informal financial system, high interest rate differential between the formal and informal sectors, large interests spread between lending and borrowing rates in the formal financial sector etc. it is estimated that the size of the NPA in the commercial banking is as high as 18% and 50% of this ratio we can found in the two largest banks (RBB and NBL). For resolving this situation the government has initiated FSR program. He argues that the government has a paramount role in building an atmosphere for paving the way for the emergence of professional management and efficient financial operations not only in the institutions owned by it but also in the private owned institutions. To tackle this problem, the financial system should be strengthened by improving its regularity and supervisory systems. He explained the FSR strategy should ensure that financial institutions are run in accordance with the sound business principles and practices. The central bank's capability for effective supervision of the financial institutions should be enhanced.

A Program organized by Kantipur National Daily on April 16, 2010 named as “Kantipur Round Table” most of the bankers agreed that the rate of non-performing loans are going to increase due to the increase in the lending rates. At the same program, the CEO of Everest Bank warned the bankers that it will effect in the long run profitability of the banks as well. On the other hand, the borrowers of Real Estate Loans had started strikes against the bank’s step to

increase the interest rates to them without prior information and breaching the agreements earlier made.

Banks are facing difficulties to settle down (call back) the loan amount granted in the real state sector. In the recent days, most of the loan were sanctioned in real state by the businessmen, but due to the liquidity crisis , the real estate sector is deteriorate and the businessmen were not able to repay the loan and advances on time. According to Ichyaraj Tamang, Chairman of Nepal land and housing development association, “we won’t pay the interest if the same rate is levied till Ashad.” He also states that banks are increasing the interest rates to increase the profit but not to save the customers in this case; they are not willing to pay the loan (Bajarkhabar, 2010-May).

On the heading, “Be Sincere While Flowing Loans,” states that the banks and financial institutions are now flowing loan and advances which are totally stopped since six months. The loan is sanctioned as in the recent days, the flow of deposit in the financial sector are increasing .In the last days, banks had stopped loans as the c/d ratio had increased and liquidity is lower than that of the standard fixed by the central bank. Within the last two months, commercial Banks were able to collect deposit of 40 Arab rupees .Now the total deposits of commercial banks is more than 620 Arab, similarly Loan and Advances is around Rs.465 Arab. The banks have granted loans on unproductive sector such as real state, housing, gold and vehicle spare parts, which ultimately hit the economy of the country. But as the liquidity crunch is now overcome, there is not any sector for lending and banks and financial institutions have to search seriously a new sector for lending, which is a serious challenge for them (Arthik National Daily, 2010-August-15).

On the heading “Bank’s Net Profit decreased” states that the net profit of the commercial banks over the stated period was decreased, Most of the banks have increased the Loan Loss Provision for the fiscal year which adversely

affect in Net Profit. The list stated on the paper shows that the Non Performing Loan ratio is highest for RastriyaBanijya Bank with 9.81% followed by Agricultural Development Bank with 8.22% and the lowest is of Everest Bank with 0.16% (Karoobar, 2010, August-22)

2.7.2 Review of Thesis

Koirala (2006) in his thesis titled “*Non Performing Assets and Profitability of Commercial Banks in Nepal*” submitted to Tribhuwan University, Nepal Commerce Campus has the following objectives:

1. To evaluate the non-performing assets of the different commercial banks in the Nepalese banking industry.
2. To access the relationship between the profitability and the non-performing assets of the commercial banks.

And his studied about the non performing assets of the six commercial banks of Nepal, was concerned to find out the level of NPA and its effects on the return on assets and the other factors of the Nepalese commercial banks. This study especially focuses on six commercial banks of Nepal, viz. NABIL, HBL, NIBL, NSBIBL, EBL and NBBL only, out of the then 17 commercial banks operating in the banking industry of Nepal at that time. For the objectives above mentioned using the methodology like trend analysis was found in his study.

The correlation coefficient between ROA and NPA was found to be negative for all the six banks, indicating a negative relationship between ROA and NPA. That showed that increase in profitability was affected by the amount of non-performing assets. Higher the NPA lower will be the ROA and vice-versa. These findings support the theory. The correlation coefficient between total lending and NPA is found to be positive for all the banks except the NABIL Bank. Positive correlation explains that if the total lending increases it leads to increase in the NPA. The correlation between NPAs of sample and population

banks is found to be negative except than that of NABIL bank. The negative relationship explains that increase in NPA of the sample banks leads to the decrease in NPA of the population, which was explained as controversial with the practice.

Karmacharya (2008), in his thesis entitled “*NPL and Loan loss provision of commercial Banks with reference to NBL, Machhepuchhre Bank and NCC bank*” had pointed out the following mentioned objectives:

1. To find out the proportion of Non Performing loans in the selected banks
2. To evaluate the factors leading to accumulate of NPL in banks
3. To analyze the relationship between loan and loan loss provision in banks.
4. To analyze the impact of loan loss provision in profitability of the banks.

Using ratio analysis and correlation, he was able to find the conclusion that Non Performing Loan is higher in Nepal bank limited in comparison to the other banks viz. Machhapuchhre bank and Nepal Credit and Commerce (NCC) Bank. He also found out that Restructuring and rescheduling process of NBL has positive impact on performance of bank i.e. the trend of lending and recovery system has been improved. MBL and NCC are also decreasing the proportion of NPL day by day to the minimal limit. LLP increases if NPL increases. The NPL and loan & advances of the NBL are in decreasing trend. Loan and advances of the MBL is in increasing trend with the decreasing level of NPL, which had been defined as “a good example of proper loan disbursement and follow up system.

According to his findings the rapidly deteriorating loan portfolio is a huge drain on the bank’s profitability and subsequently on capital adequacy. Poor corporate governance and risk management practices are the key reasons for high level of NPA in our banking sector. The internal cause for NPA are weak management practices, particularly in the area of credit analysis, credit administration, and risk management and internal control system where as

external reasons are the economic slowdown, legal hurdles in recovery and poor quality of credit information.

LLP of MBL is very high than the level of NPL which has been summarized as bank had made sufficient provision for its bad loan. The level of NPL and LLP of NCC bank has drastically increased, summarized as fault in credit management and recovery system. MBL had showed positive correlation between loan and advances to deposits, but NBL shows negative correlation, i. e. NBL was concentrating more on loan recovery. And finally, the result of the study was that the portion of profit has been provisioned for loan loss will decreased the profit of the banks.

Ghimire (2008), entitled “*Comparative Study on Non Performing Loan of Nepalese Commercial Banks*” with reference to Nabil Bank, NCC Bank and NIBL Bank has stated the major objectives of the study as:

1. To evaluate the proportion of NPA and level of NP in total Assets, Total deposit and total lending in selected commercial banks.
2. To analysis the relationship between Loan and Loan Loss Provision in the commercial banks.
3. To examine whether Nepalese Commercial Banks are fulfilling the NRB directives regarding Loan Loss provision or not
4. To find the impact of NPL on performance of selected commercial Banks.

Using the statistical tools like mean, S.D, coefficient of variation and correlation she points out the findings below mentioned.

Non Performing loan of the NABIL Bank is very low defining the risk adverse attitude of the bank. NCC has higher and NIBL has most consistent NPA. NCC bank needs to concentrate on reducing NPA. NIBL though has the consistent NPA is following increasing trend is below acceptable ratio.

The loan which has been provisioned as loan Loss of NABIL Bank is 3.36%, NCC has 15.98% and finally NIBL has 2.84%. NCC has the highest deviation and variation of the ratio, where the NABIL and NIBL have the most consistent ratio during the study period. The Loan and LLP of NABIL seems negatively correlated to each other which found insignificant, NCC and NIBL has positively related loan and LLP and the relation was found significant in the study.

Though the adequate LLP has been done, none of the banks are found following NRB directives on LLP. Provision are not as per the need of categorized loan. She stated that the proper loan classification and Loan Loss Provision also helps to confront the problems of NPA.

Furthermore she suggested to make serious action to recovery the bad loan (NPA) and should make curative action for new loans. Assets management company is recommended to NCC Bank to reduce current NPA. Directives of NRB of KYC seems important and necessary. Bank and financial institutions should demand supportive role from government of Nepal to recover from the bad loans especially created because of willful default.

Kafle (2009), on *“Impact & Implementation of Nepal Rastra bank Directives on Non Performing Loan”* has stated the major objectives of the study as:

1. To find out the loan loss provision in total loan and advances and to analyze the status of Non Performing loan of the sampled banks.
2. To examine the impact of NRB guidelines (Non-Performing Loan) on financial performance of the sampled banks.
3. To examine whether NRB directives are being actually followed or not in respect to the Non-Performing Loan by the sampled banks
4. To examine whether the implementation of NRB directives are being monitored or not.

And the result thereof so pointed out by Kafle using the statistical tools like standard deviation, correlation, coefficient of variation are as follows.

Among the sample banks NABIL, SCBNL, and NIC bank has small amount of loan loss Provision of 2.83%, 3.10% and 3.33% respectively on average which indicates a very smaller amount has been deducted from the profit to caution the possible loan losses. Loan Loss Provision and Total loan and Advances are negatively correlated of NABIL bank and positively correlated of SCBNL and NIC bank. LBL and NBL has the huge amount of LLP shows that the major portion of the profit has been cushioned against LLP. The Loan and LLP are positively related to each other and the relation is significant.

Non Performing Loan of the NABIL Bank is 1.67%, which is below the international as well as Nepalese standard with the deposit mobilization rate of 68.63%.SCBNL has NPL 2.6%, shows good quality of loan in its loan portfolio. The deposit mobilization rate is only 41.72% which shows only smaller amount of deposits has been deployed under loan portfolio. NIC bank has NPL of only 2.52% on 81.54% of average deposit mobilization. LBL has NPL of 19.15% defines the inefficiency in recovering of invested amount having deposit mobilization rate 85.05 %. It indicates the inefficiency of the bank to have good loan portfolio. Nepal Banks total loan and advances along with total deposit seems very weak, high level of deposit, low level of mobilized deposit and high level of NPL shows the poor performance of the bank.

Regarding the NRB directives, NRB officials replied it the proudest matter because even in slowdown of economy and presence of financially corrupted different industries, banking sector is safeguarding their business. The major credit goes to the NRB for making appropriate standards, regulatory guidelines and effective directives of safe the financially industry. The impact of NRB

directives in short run are it deduct the profit standards and business but in long run they are found very effective for the sustainable market.

NABIL bank has followed the NRB directives, NIC meets the entire NRB standards, Lumbini Bank fails to meet NRB standards, NBBL because of the failure of the bank, NRB captured for necessary efforts. Those banks which are not implementing the regulatory guidelines will automatically show their inefficiency in very short span of time and NRB makes regulatory force to stop them doing so.

We found that commercial banks are happy to comply the NRB standard, monitoring and inspection activities. The directives are much more necessary to protect the depositors deposit, interest and investment safely to the loan and advances and for the healthy competitive environment and to protect the financial institutions.

Maharjan (2009), in his thesis "*A Comparative Study on Non-Performing Assets of Himalayan Bank Ltd. & Lumbini Bank Ltd*" has found that the gradually increasing NPA has now become a major challenge for every commercial bank. Every bank is giving top priority to make them competent by reducing NPA.

The main objectives of this research are:

1. To find out the level of NPA in Total Loan and Advances and Total Assets and its relationship with Loan and Advances.
2. To evaluate the relationship between profit (Loss) and loan loss provision,
3. To determine the trend of NPA, loan and advances, loan loss provision and profit(Loss)
4. To determine the basis of floating loan, causes, impact remedial action and sector which cover high NPA.

Using the financial tools like mean, standard deviation, coefficient of variation and correlation he found out the following findings for the above mentioned objectives.

The loan and advances of HBL is increasing regularly with the increment of total assets, while the loan and advances of the LBL is fluctuating with the fluctuation of the Total assets. It defines that there is positive relationship between two variables.

The level of NPA of HBL in total assets and total loan are 3% and 6.2% in average. NPA to Total Loan and Loan Loss Provision are positively related of the HBL bank where the level of NPA of LBL in Total Assets and Total Loan is 16.07% and 22.92% respectively, are in decreasing trend which are higher than the NRB directives. NPA and Total Loan are negatively related to each other while NPA and LLP are positively correlated.

NPA of the HBL and LBL are negatively related to credit expansion and net profit but positively related with Loan Loss Provision.

The past trend of NPA of HBL is fluctuating decreasing trend where as the profit are increasing following the increasing trend. NPA decreased by 0.41 times, and the total loan is increased by 1.63 times than the base year of the study i.e. the total loan follows the increasing trend and LLP decreasing respectively. The trend percent of Total Loan of LLP is in increasing and its loan portfolio is increased by 1.5 times. The trend of NPA is in increasing but finally follows the decreasing trend. LLP is found to be fluctuating and its Loan Loss Provision increases to 3.63 times as compared to base year .Trend of Net Profit of the bank is fluctuating over the years.

The study points out that the external factors are more responsible than the internal factors in the conversion of good loan o the bad one. External factors

that have been indicated as most crucial are related with political and economic situation of the country, economic recession, political instability, borrowers related factors, lack of assets Management Company, execution of the court proceedings and cumbersome legal procedure .While as the insufficient control and monitoring system are the most contributing internal factors in growth of NPA. Problems associated with the management of NPA are the proper documentation and strength of NRB guidelines has been pointed out.

2.3 Research Gap

Going through the review of literature, it has been found that some research in the related topic and have already been reviewed which helps to this study but no research was found exactly in detail research and analysis of non-performing assets on sample commercial bank Hence the researcher had attempted to fill this research gap by taking reference of NABIL, NSBIL, HBL, EBL and NIBL. This study will try to show the present issues, latest information on Bank's NPA and their ratios, data and real picture of loan and advances of Nepalese Commercial Banks.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is the way to solve systematically about the research problem. It is composed of two words, search and methodology which means the process of investigating in values a series of well thought and activates in gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. The entire process by which we attempt to solve the problem is called research while methodology is the method used to list the hypothesis.

3.1 Research Design

Research design is the overall framework of the activities to be undertaken for the course of research study. It is a strategy for the research work. It guides about the collection and analysis of data, the research instruments to be employed and the sampling plan to be followed. The research design describes about the general work plan for collection, interpretation, analysis and the evaluation of collected data. It is the core integrated system that is employed for overall research work.

“Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. The plan is the overall scheme or program of the research” (Kerlinger, 1994: 98).

For this study, descriptive research has been carried out. Under this research, both field and desk research has been adopted. The fieldwork has been conducted to collect necessary information and published documents from the experts and officials concerned, while desk work has been conducted to analyze and interpret the information so collected. In order to make the report meaningful and purposeful the following procedural methodology will have been adopted.

3.2 Populations and Sample

Population and sample are the completely very necessary terms in research work. Population, in research is the entire group of whole items in selected industry. In every case study each and every unit of population could not be carried out. Hence, only selected numbers are carried to study the problem of the whole industry as sample. The 31 banks operating in the Nepalese banking industry are the population of the study out of them, only five are selected for the study of problem as sample for this study. Meaning that, out of twenty eight commercial banks, banks which are operating in Nepalese banking industry since last decade and which are renounced as having comparatively good performance. The study helps to know the actual position of the banks in the market. Therefore, rather than random it may be purposive sampling.

The following are the banks, which are taken as sample for the study.

- Nabil Bank Limited
- Nepal SBI Bank Limited
- Himalayan Bank Limited
- Everest Bank Limited
- Nepal Investment Bank Limited.

3.3 Nature and Sources of Data

This research would include both primary and secondary data. Data collected by the researcher or through any agent for the first time from related field and possessing original character are known as primary data. The main sources of information are the concerned banks and their published documents, NRB and its published documents, experts' views, newspapers, and many other published and unpublished documents and many others if possible. The major sources of secondary data are:

- Annual reports, brochures and newsletters of the selected banks
- Articles published in news papers, journals and souvenirs
- NRB guidelines, acts and laws

- Unpublished thesis and reports
- Bank websites and other related websites
- Economic survey, MMG ministry of finance.
- Questionnaires are provided to different concerned people to collect primary information required for the study.

3.4 Analysis of Data

Presentation and the analysis of the available data is the major task of the study. The methods of analysis are applied as simple as possible so that it can be understood by the nonprofessionals and the students who want to study the subject individually for their knowledge to be strengthened. Every result are tabulated and clear interpretation on it are given simultaneously.

The necessary data collected from the different sources are presented and analyzed systematically. Data are presented simply and understood able pattern through different charts, diagrams, graphs & tables. For the purpose of analysis of collected data, appropriate mathematical, financial as well as statistical tools have been used where necessary. Data are analyzed through Ratio Analysis: Credit Deposit Ratio, Non-performing loan to total loans & advances, Provision held to non-performing loan, Loan loss provision to total loan & advances. Statistical Analysis: Correlation Analysis, Probable Error, Coefficient of Determination.

Tools for Analysis and Presentation

Few statistical packages such as Excel is used to process and analyze information. Secondary information collected from annual reports of the sample banks was first tabulated in Excel spreadsheet and then analyzed using formula and charts of the same software. For these statistical tools such as correlation analysis is done and in some cases, financial tools such as ratio analysis have also been made. Suitable tools such as descriptive statistics,

Mean, Standard deviation, etc were done wherever necessary. Ranking and t-test were also done to analyze the nonparametric tests.

3.4.1 Financial Tools

Financial analysis is the process of identifying the financial strength and weakness of a firm by properly establishing relationship between the items of the financial statements. To evaluate financial condition and performance of the bank, a financial analyst needs some yardsticks. The yardsticks frequently used are the ratios and index relating two pieces of financial data. Analysis and the interpretation of the various ratios should give experienced, skilled analyst and a better understanding of the financial condition and performance of the firm than they would obtain from the analysis of the financial data alone.

Credit Deposit Ratio

The core function of the bank is to mobilize its public deposit effectively so that the deposited money of customers is provided security as well increase the profitability of the bank. Credit Deposit ratio (CDR) is the parameter that reflects the efficiency of bank in term of mobilization of available deposit effectively. Mathematically, credit Deposit ratio is calculated by dividing total loans and advances by total deposit figure. Greater the CD ratio implies the greater utilization of total deposits and better earning and vice-versa.

$$\text{Credit Deposit Ratio} = \frac{\text{Total Loans and Advances}}{\text{Total Deposits}}$$

NPL to Total Loan & Advances

This ratio shows the quality of debts or assets in the form of loan & advances. The NPL to total loan & advances ratio is the arithmetical proportion of NPL to the total loan & advances. Hence lower the ratio is preferred. In real, there is not any standard about this ratio but as per the international standard and as per the NRB guidelines and circulars, 5% is appropriate.

$$\text{NPL to Total Loan \& Advances} = \frac{\text{Total Non Performing Loans}}{\text{Total Loans and Advances}}$$

Provision Held to NPL

Provision held to NPL is the proportion of volume held for the NPL of the bank. Provision for the NPL means the cushioned amount by the bank to safeguard the possible losses in future. Meaning that higher the portion signifies that the banks are safeguards against future contingencies and in another side it may reduce the efficiency of operation as well profit of the bank. Although higher the ratio refers better the financial strength of the bank. The provisions on Non Performing Loans are made as per the guidelines of the Central Bank of the country.

Loan Loss Provision to Total Loan & Advances

Loan loss provision indicates the cushion against the future risk created by the defaulters in the payments of loan & advances. Indirectly, this ratio describes the quality of assets in the form of total loan & Advances that a bank is holding. Since, as per the directives issued by NRB high provision should made for the NPL, the higher volume of provisioned amount implies increasing Non- Performing loan. Similarly, lower the provisioned amount implies lower amount of NPL and accordingly good quality of loan & advances. So, lower ratio is preferred.

$$\text{Loan Loss Provision to Total Loan \& Advances} = \frac{\text{Loan Loss Provision}}{\text{Total Loans and Advance}}$$

3.4.2 Statistical Tools

Statistical analysis is one of the particular languages, which describes the data and makes possible to talk about the relations and the differences of the variables. Statistical tools are the mathematical techniques used to analyze, communicate and interpret the numerical parts of the data.

Correlation Coefficient [r]

Correlation coefficient refers to the degree of relationship existing between the two variables. The value of correlation coefficient determines the associations

between the dependent and independent variables. It is the geometric mean of the two regression coefficients. When the change in the value of one variable is accompanied by the change in another variable, then the variables are said to be correlated. Meaning that, increase and decrease in one variable cause increase or decrease in another variable, then such variables are said to be correlated. The value of correlation coefficient is denoted by 'r'. The value of 'r' describes only the degree of relationship but it does not explain about the cause and effects of the relationship.

There are various techniques of calculating the value of correlation coefficient. Among the different techniques, Karl Pearson's coefficient of correlation is widely used. Following types of correlation coefficient are calculated for this study applying the Karl Pearson's techniques.

- Correlation coefficient between the Total Loan & Advances and Non-Performing Loan.
- Correlation coefficient between the NPL and Total Loan & Advances.
- Correlation coefficient between Loan Loss Provision and Total NPL.

Coefficient of Determination [r²]

The coefficient of Determination gives the percentage variation in the dependent variable that accounted for by the independent variable. In other words, the coefficient of Determination gives the ratio of explained variance to the total variance. The coefficient of determination is given by the square of correlation coefficient (Gupta, 1999: 585).

$$\text{Coefficient of Determination, } r^2 = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

Probable Error [P.E.]

Probable error is the mathematical expression that helps to judge the reliability and significance of the value of coefficient of correlation. It is denoted by P. Er. If the value of correlation is greater than six times of the value of the

Probable Error, then obtained correlation coefficient is significant. If it is not, then it is said to be insignificant and there is chance of correlation.

Probable Error = $0.6745 \times \text{S.E}(r)$,

where, r = observed correlation coefficient in a sample of 'n' pairs of observations (Gupta, 1999: 541).

3.4.3 Diagrammatic and Graphical Presentation

Collected data are presented through different charts and diagrams. These are the visual aids that give a bird eye view of a given sets of numerical data. Diagrams and charts are presented here so that the collected data could be read in a simple and readily manner. Lots of Bar Diagrams and Trend Liners are used for the presentation and analysis of the data.

Trend Analysis

Trend is the basic tendency of a series, to grow or decline over a period of time. The concept of trend does not include short-range oscillations, but rather the steady movement over a long time. It should be clearly understood that trend is the general, smooth, long term average tendency (Gupta, 1999: 755).

A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. It is one of the statistical tools, which is used to determine the improvement or deterioration of its financial situation. Trend analysis informs about the expected future values of various variables. The way from which the maximum information can be drawn from the figure collected is known as the analysis of time series. The least square root method has been adopted to measure the trend behaviors of the selected banks. This method is widely used in practices.

The formula of least square method for the straight line is represented by the following formula.

$$Y = a + bX$$

Where Y = Trend Values

a = Y intercept or the computed trend figure of the Y variable, when X = 0

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

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

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

$$\Sigma Y = Na + b\Sigma X \dots\dots\dots(i)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \dots\dots\dots(ii)$$

Where, N = number of years

But for the simplification, if the time variable is measured as a deviation from its mean i.e. mid point is taken as the origin the negative value in the first half of the series balance out the positive values in the second half so that $\Sigma X = 0$. The values of constants a and b can easily be determined by using following formula.

$$a = \frac{\Sigma Y}{N} \dots\dots\dots(iii)$$

$$b = \frac{\Sigma XY}{\Sigma X^2} \dots\dots\dots(iv)$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In this chapter, efforts have been made to present and analyze the collected data. Data collected from various sources such as primary and secondary sources were classified and tabulated as per the requirement of study and in accordance to the nature of the data. Different arithmetical and statistical tools are used to analyze the data collected under the study. To make easier and make clearer to the understanding of the study, data are presented in the tables and in figures also.

4.1 Descriptive Analysis

Descriptive analysis is carried out to assess the NPA level and its relationship with other key factors in the firms under study. Five year data relating to total asset, total deposit, total loan and advances, Provision held, NPL, Net profit of the sample banks have been obtained. Using different financial and statistical tools, analysis have been made and drawn the conclusion

4.1.1 Analysis of Total Lending

The total lending also known as the Total Loans and Advances is the sum of total credit granted by the commercial banks under different headings. Here under the study, we have taken this variable to explain the relationship between the NPA and Total lending, as theoretically, when lending increase NPA should also increase.

Table 4.1
Total Lending

(Rs. in million)

Year Bank	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V
NABIL	10586	12923	15546	21365	27590	17602	6878.7	39.08
SBI	6214	7627	9460	12114	15132	10109.4	3570.8	35.32
HBL	12425	14643	16998	19498	24793	17671.4	4775.0	27.02
EBL	7691	9801	13664	18339	23885	14676	6553.7	44.66
NIBL	10126	12776	17286	26997	36241	20685.2	10810.0	52.26

Source: Appendix - 1

The above table explains the total figure of total credit granted by the commercial banks under different subheadings. The figures of each of the bank were in increasing trend. Total Lending of NABIL Bank under the study was found to be Rs. 10,586 Million in the fiscal year 2004/05, which was increased to Rs. 27,590 Million in the fiscal year 2008/09, with an average of which is Rs. 17,602 Million and was following a good growth rate each year. The Lending figure of Nepal SBI Bank was also following an increasing trend. Total lending in the fiscal year 2004/05 was Rs. 6,214 Million and was increased to Rs. 15,132 Million with an average of Rs. 10,109 Million.

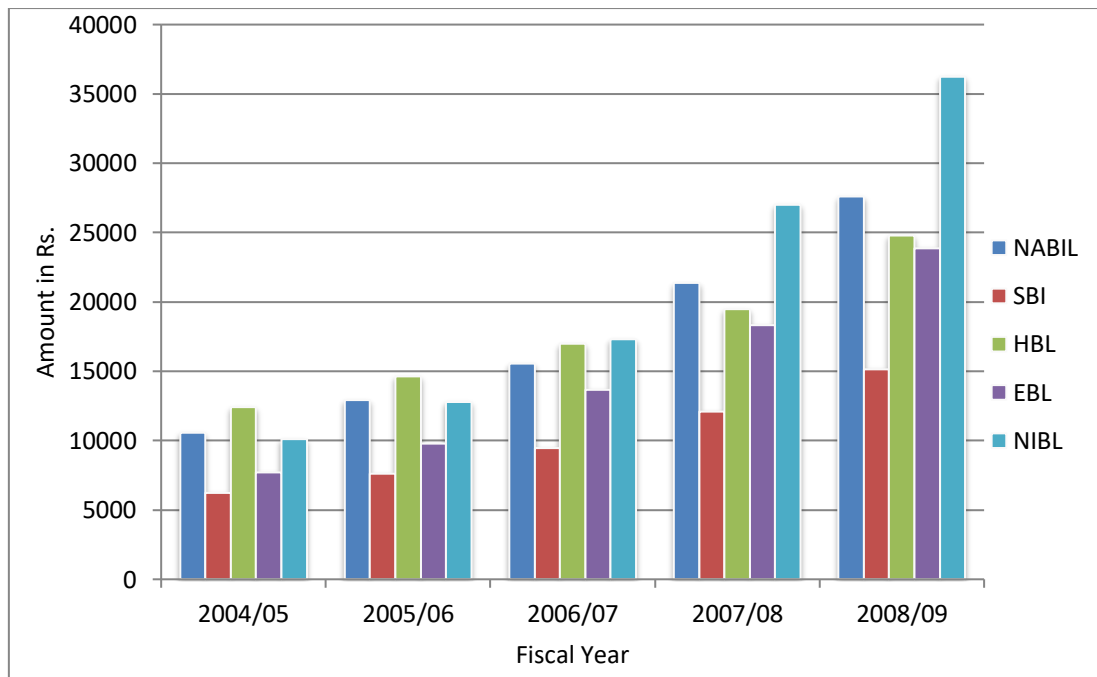
Total lending figures of Everest and Nepal Investment bank was also following a good increasing rate and nearly increased by three times. The TL of EBL and NIBL was found to be Rs. 7,691 Million and 10,126 Million respectively in the fiscal year 2004/05 and were found to be increased to Rs. 23,885 and Rs. 36,241 Million respectively. The average lending figures of each bank is Rs. 14,676 and Rs. 20,685.2 Million. For the data of lending for the different banks, they were following growth rate each year. This shows that the banks are able to grant loans despite of the various difficulties in lending procedures.

The standard deviation of Nabil, SBI, HBL, EBL and NIBL were 6878.7, 3570.8, 4775.0, 6553.7, 10810 and the coefficient of variation were 39.08,

35.32, 27.02, 44.66 and 52.26 respectively. From the above table we can observe that the standard deviation of the NIBL bank is highest with the highest C.V and the lowest is of Himalayan Bank limited. Meaning hereby the deviation from the mean from individual year's Total lending figures are highly volatile for NIBL and less volatile for Himalayan Bank Limited, and so is explained on the basis of calculation of Coefficient of Variation, C.V. Higher the figure of CV, higher is the variation from mean and higher the fluctuation.

The Total Lending figures can be shown in the bar diagram as follows.

Figure 4.1
Total Lending



From the above figure presented we can observe that the Total Lending of the NABIL bank and NIBL Bank is increasing rapidly where as the increment of Total Lending of SBI Bank is not so much.

4.1.2 Analysis of Ratio of Total Lending to Total Deposit

The ratio between the total lending and total deposit explains how much has the individual bank invested or given loans to outsiders out of the deposits

collected by the bank. And the remaining portion of total deposit after the total lending is known as the liquidity portion for the bank.

Table 4.2
Ratio of Total Lending to Total Deposit

Year Bank	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V
NABIL	75.05	68.63	68.13	68.18	73.87	70.772	3.4	4.8
SBI	77.87	69.32	82.66	88.32	55.84	74.802	12.68	16.95
HBL	50.07	55.27	56.57	61.23	71.49	58.926	8.07	13.7
EBL	78.20	73.40	77.40	78.60	73.43	76.206	2.58	3.39
NIBL	73.33	69.63	72.56	79.91	78.86	74.858	4.37	5.84

Source: Appendix 2

From the above table we can find the ratio of total lending to the total deposit of the individual bank. The ratio of NABIL bank in the fiscal year 2004/05 was 75.05% meaning hereby, out of the total deposit 75.05% was the loan amount for the bank in that fiscal year. The ratio seems to be constant for the three consequent years at 68% and was found to be at 73.87% in the fiscal year 2008/09. The ratio for Nepal SBI bank Limited for the fiscal year 2004/05 was 77.87% and had much fluctuation over various years under study, it decreases to 69.32% at the year 2005/06 and reached to 82.66 % at the year 2006/07 and has its highest value of 88.32% in the fiscal year 2007/08 and at lowest of 55.84% in the fiscal year 2008/09.

The ratio of total lending and deposit for the Himalayan Bank was found to be 50.07% in the fiscal 2004/05 and was following a good increasing trend over the years. At year 2005/06 the ratio was 55.27% and 56.67% at the year 2006/07. For the fiscal year 2008/09 the ratio was found to be at 71.49%. Similarly, the ratio for the Everest Bank Limited in the fiscal year 2004/05 was 78.20% and was found to be at 73.40% in following year. It increases to 78.60 in year 2007/08 and 73.43 in the fiscal year 2008/09 with few fluctuations in the ratio each year. Finally the ratio for Nepal Investment bank Limited for the

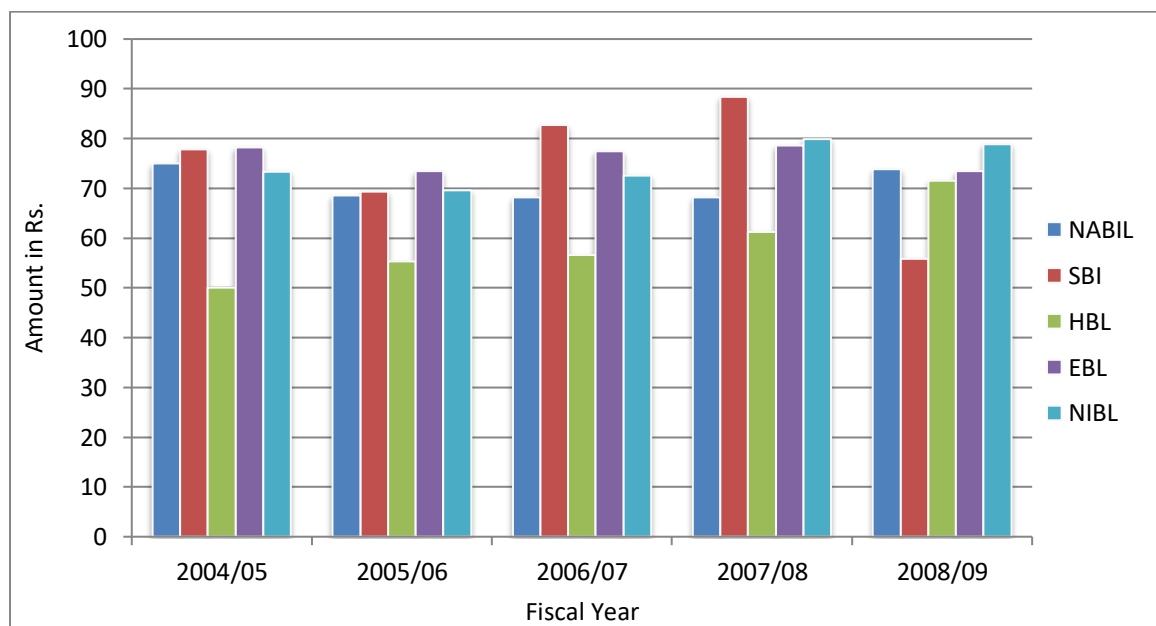
fiscal year 2004/05 was 73.33% and 69.63, 72.56, 79.91 and 78.86 in respective years.

Similarly, standard deviation of the NABIL, SBI, HBL, EBL, NIBL are 3.4, 12.68, 8.07, 2.58, 4.37 and the coefficient of variation of the respective banks are 4.8, 16.95, 13.7, 3.39, 5.84 respectively. the above table also explains that the standard deviation of the banks is highest of Nepal SBI Bank and the lowest is of Everest Bank limited, meaning hereby the deviation from the mean from individual year's Total Lending to Total Deposit ratio figures are highly volatile for Nepal SBI Bank and less volatile for Everest Bank Limited, and so is explained on the basis of calculation of Coefficient of Variation, C.V. Higher the figure of CV, higher is the variation from mean and higher the fluctuation. The CV of Nepal SBI Bank limited was found to be 16.95 the highest whereas the figure of Everest Bank Limited was found to be 3.39, the lowest among sample banks.

The over mentioned figures can be presented graphically on the bar diagram as follows, so that the trend of individual bank's Lending to deposit ratio of individual bank could be known at a glance.

Figure 4.2

Total Lending to Total Deposit Ratio



From the above figure presented we can observe that the highly volatile figures of the lending ratio were of Nepal SBI Bank Limited and the less volatile figures were of Everest Bank's.

4.1.3 Analysis of Non Performing Assets [NPA]

Non Performing Assets [NPA] has to be given higher consideration by all of the banks. Keeping this fact into consideration, a provision has set up by Nepal Rastra Bank in Fiscal Year 2057/58 to control the level of NPA of Nepalese commercial banks. According to that provision, every bank has to classify its total loan and advances [including purchased and discounted bills] as pass loan, substandard loan, doubtful loan and bad loan, on the basis of overdue aging schedule. Commercial banks are also directed to maintain loan loss provision as stated in section 11 of directives no. 2 of NRB's directives for commercial banks 2059. Main purpose was to find out the level of NPA in Nepalese commercial banks and to take necessary steps to control the level of NPA in future.

Here in the study, data of five fiscal years starting from F/Y 2004/05 to 2008/09 have been presented to study and analyze the level of NPA of five commercial banks. The mean, standard deviation and C.V. of individual banks are also presented in the table mentioned hereunder.

Table 4.3
Non Performing Assets [NPA]

(Rs. in million)

Year Bank	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
NABIL	144	180	178	159	225	177.2	30.52	17.22
SBIBL	441	505	459	488	316	441.8	74.58	16.88
HBL	1001	1041	642	477	551	742.4	261.34	35.20
EBL	129	129	113	127	118	123.2	7.29	5.92
NIBL	281	272	422	309	214	299.6	76.66	25.59

Source: Appendix 3

The above table is presentation of the Non Performing Assets of different commercial banks under the study. The NPA figure of NABIL Bank is found to be fluctuating over various years, but was found to be ultimately increased in comparison to the first year of the study. It was Rs. 144 Million in the fiscal year 2004/05 and is found to be Rs. 225 Million in the fiscal year 2008/09.

The NPA of Nepal SBI Bank Limited was found to be following a decreasing trend despite of the increment in the total lending of the bank. The NPA in the fiscal year 2004/05 was Rs. 441 million and slightly increased to the following fiscal year but was decreased to Rs. 316 Million in the fiscal year 2008/09. The case of Himalayan Bank is also same as SBI Bank, i.e. to say following a decreasing trend. In the fiscal year 2004/05 it was Rs. 1001 Million and was increased to Rs. 1041 million in following year. And after that the NPA of the bank was gradually decreasing and was found to be Rs. 551 Million in the fiscal year 2008/09.

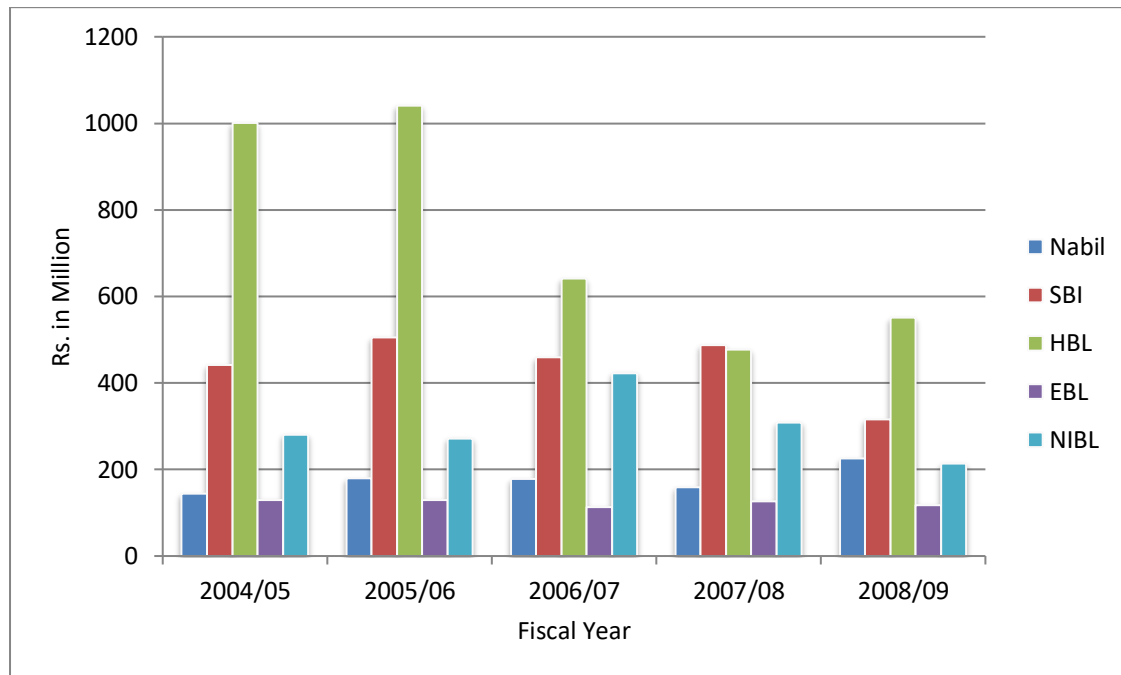
Similarly the NPA of Everest Bank was to some extent same as it was Rs. 129 Million in the fiscal year 2004/05 the same in the following fiscal year. The figure of NPA was found to be Rs. 118 Million in the fiscal year 2008/09. That means fluctuating slightly for the five years period. Finally in the case of Nepal Investment Bank limited, the NPA figure was Rs. 281 Million in the fiscal year 2004/05 and was decreased to Rs. 272 Million in the following fiscal year. Again increased to Rs. 422 Million in the fiscal year 2006/07 and finally was found to be Rs. 214 Million in the fiscal year 2008/09.

From the above table we can observe that the standard deviation of the banks is highest of Himalayan Bank and the lowest is of Everest Bank limited, meaning hereby the deviation from the mean from individual year's NPA figures are highly volatile for Himalayan Bank and less volatile for Everest Bank Limited, and so is explained on the basis of calculation of Coefficient of Variation, C.V. Higher the figure of CV, higher is the variation from mean and higher the fluctuation.

The over mentioned figures can be presented graphically on the bar diagram as follows, so that the trend of individual bank's Non Performing Assets could be known at a glance.

Figure 4.3

Non Performing Assets [NPA]



From the above figure presented we can observe that the highly volatile figure of NPA were of Himalayan Bank Limited and the less volatile figures were of Everest Bank's, which are always below Rs. 200 Million's trend line. The mean of the Everest Bank was Rs. 123.2 Million whereas the same for Himalayan Bank was Rs. 742.4 million.

4.1.4 Analysis of Ratio of NPA to Total Lending

Non Performing Assets, also known and/or explained as Non Performing Loans are that part of Total loans and Advances granted by the bank, which due to the provision of NRB are categorized under various substandard loan, doubtful loans and bad loans. The ratio between Non Performing Assets to Total Lending here is to know what portion of the loans of individual banks are non performing, i.e. to say extra burden for the commercial banks and remaining are the good or performing loans to them.

The table explained below explains the ratio of NPA to total lending of the five commercial banks over the five years period. Here, for the easy explanation of the data, the mean, standard deviation and CV are also calculated and explained.

Table 4.4
Ratio of NPA to Total Lending

Year Bank	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V
NABIL	1.32	1.38	1.12	0.74	0.8	1.072	0.29	27.05
SBIBL	6.54	6.13	4.56	3.83	2.02	4.616	1.83	39.64
HBL	7.44	6.6	3.61	2.36	2.16	4.434	2.44	55.02
EBL	1.63	1.27	0.8	0.68	0.48	0.972	0.47	48.35
NIBL	2.69	2.07	2.37	1.12	0.58	1.766	0.89	50.40

Source: Appendix -4

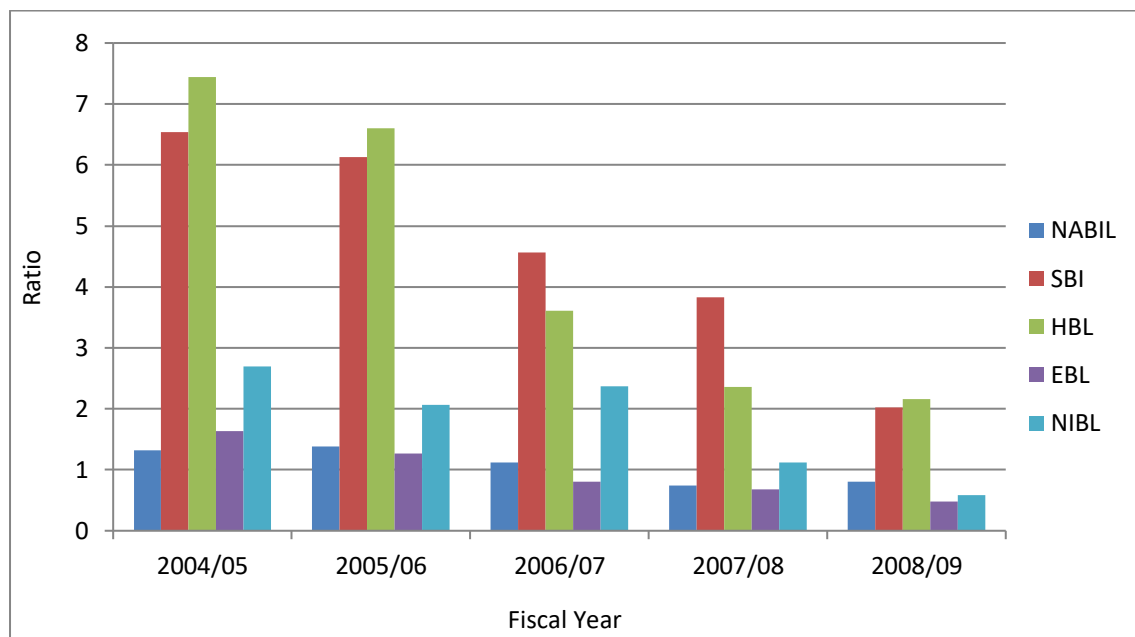
The above table is the presentation of the ratio of NPA to the Total Lending of the individual banks over the five years period. The ratio of NABIL bank was found to be fluctuating over the time. It was 1.32% in the fiscal year 2004/05 and was increased to 1.38% in the following year. Finally it was at 0.80% in the fiscal year 2008/09, meaning hereby decreased despite of the volume of lending over the various years under study. The ratio of Nepal SBI Bank Limited was found to be following decreasing trend over the various period. It was 6.54% in the fiscal year 2004/05 and was continuously decreasing and was 2.02% in the fiscal year 2008/09.

The ratio of Himalayan Bank Limited and Everest Bank Limited were just following the trend of SBI Bank, i.e. decreased over the various years under study. It was 7.44% & 1.63% respectively in the fiscal year 2004/05 and was found to be 2.16% & 0.48% respectively in the fiscal year 2008/09. Similarly the ratio of Nepal Investment Bank limited was at 2.69% in the fiscal year 2004/05 and was decreased to 0.58% in the fiscal year 2008/09. The ratio for this bank was steadily decreased over the years except in the fiscal year 2006/07 which was 2.37% in relation to the 2.07% in the preceding year.

From the above table we can observe that the standard deviation of the banks is highest of Himalayan Bank and the lowest is of NABIL Bank limited, meaning hereby the deviation from the mean from individual year's NPA to Total Lending ratio figures are highly volatile for Himalayan Bank and less volatile for NABIL Bank Limited, and so is explained on the basis of calculation of Coefficient of Variation, C.V. Higher the figure of CV, higher is the variation from mean and higher the fluctuation. The CV of NABIL Bank limited was found to be 27.05 whereas the same figure of Himalayan Bank Limited was found to be 55.02.

The over mentioned figures can be presented graphically on the bar diagram as follows.

Figure 4.4
Ratio of NPA to Total Lending



From the above figure presented we can observe that the highly volatile figures of NPA were of Himalayan Bank Limited and the less volatile figures were of NABIL Bank's. The mean of the ratio for NABIL bank was found to be 1.07%, whereas, the ratio for Himalayan Bank was 4.434%.

4.1.5 Analysis of Net Profit

Net Profit is the remaining of the total income of the organization which is the share for the investors for their investment. Here in the study, we have taken the figures of Net Profit, as it is directly related with the Non Performing Assets. Higher the amount of NPA lower will be the Profit and vice versa. The table shows the Net Profit for the different banks for the five years period.

Table 4.5
Net Profit

(Rs. in million)

Year Bank	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V
NABIL	520	635	674	746	1031	721.2	191.53	26.56
SBI	57	117	255	248	316	198.6	107.37	54.06
HBL	308	457	492	636	752	529	170.71	32.27
EBL	168	237	296	451	639	358.2	188.54	52.64
NIBL	232	351	502	697	901	536.6	267.83	49.91

Source: Appendix - 5

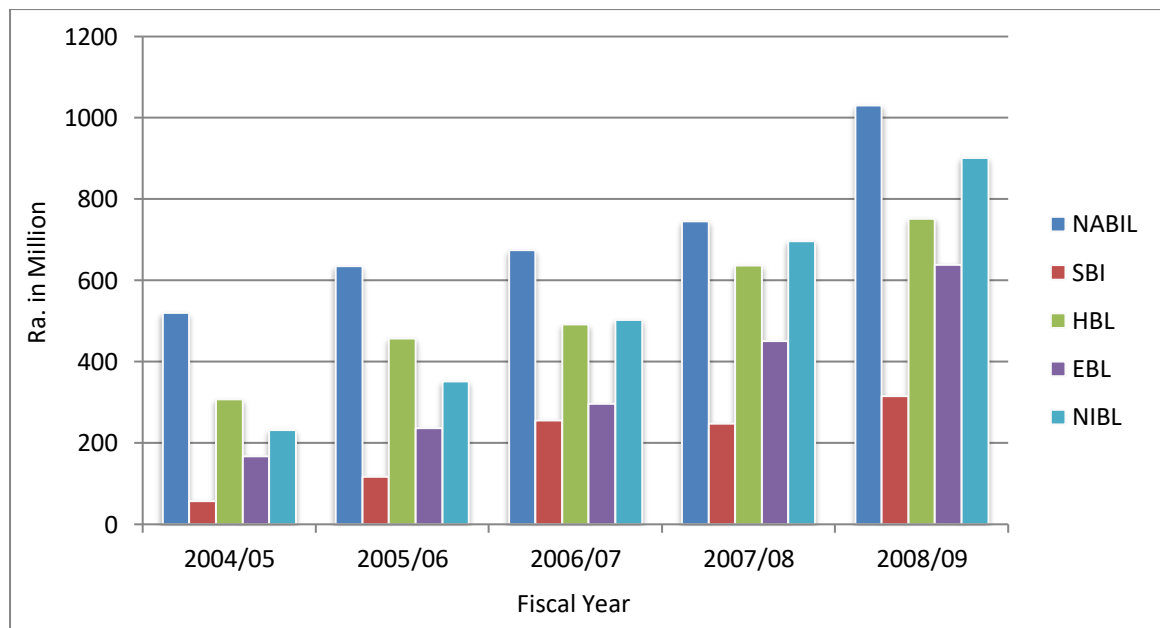
From the above table, we can observe that the Net Profit of the individual banks are increasing each year. Since the banks are established for the profit maximization, the profit is only the objective of commercial banks. Besides, the banks accepts deposits in the lower rates and grant loans out of the deposits in the higher rates, the different is always higher, which is known as profit. The net profit is Rs. 520, Rs. 57, Rs. 308, Rs. 168 and Rs. 232 Million for the NABIL bank, Nepal SBI bank, Himalayan Bank, Everest Bank and Nepal Investment bank respectively for the fiscal year 2004/05 and was increased to Rs. 1,031, Rs. 316, Rs, 752, Rs. 639 and Rs. 901 Million respectively for the fiscal year 2008/09. The profit figures of the individual banks have increased by at least by two times within short span of time of five years.

From the above table we can observe that the standard deviation of the banks is highest of Nepal Investment Bank and the lowest is of Nepal SBI Bank limited, meaning hereby the deviation from the mean from individual year's Profit

figures are highly volatile for Nepal Investment Bank and less volatile for Nepal SBI Bank Limited, and so is explained on the basis of calculation of Coefficient of Variation, C.V. Higher the figure of CV, higher is the variation from mean and higher the fluctuation. The CV is higher for the SBI Bank limited with 54.06% and less for HBL with 32.27%.

The Profit figures can be shown in the bar diagram as follows:

Figure 4.5
Net Profit



From the diagram above we can see that the Net Profit of all the banks is increasing. The profit of NIBL Bank is increasing rapidly following NABIL Bank whereas the profit of SBI Bank is not getting much pace.

4.2 Correlation Analysis

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

4.2.1 Correlation between Total Deposits to Total Lending

Total deposits and total lending are the two parts of a single bank which simultaneously increase or decrease; it means there is a positive relationship between these two variables. Here in the study, we have tried to show the significance of the change in their relationship.

Table 4.6

Correlation between Total Deposit and Total Lending

Banks	Coefficient of correlation	Relationship	Coefficient of Determination (r²)	P.E.	6 × P.E	Significant/ Insignificant
NABIL	0.99	Positive	0.98	0.006	0.036	Significant
SBI	0.90	Positive	0.82	0.055	0.33	Significant
HBL	0.98	Positive	0.96	0.012	0.072	Significant
EBL	0.20	Positive	0.04	0.289	1.734	Insignificant
NIBL	0.99	Positive	0.99	0.001	0.006	Significant

Source: Appendix - 7

The above table about the correlation coefficient between the Total Lending to the total deposits shows that there is positive relationship between these two variables. The established theory also states that the Total Lending and total deposits flow in the same directions. When the amount of deposit increases, the lending would be higher and whenever the amount of deposit decreases, the lending figure goes on decreasing, which is truly explained by the above table.

Every bank, NABIL, SBI, HBL, EBL and NIBL have the positive correlation coefficient more than 0.90 except that of EBL which explains the positive relationship between them. It means more than 90% of the lending is affected by the deposit and remaining portion is affected by the other factors. And since the six times of PE is not greater than that of Correlation, there is significant relationship between these two variables for all the banks except of Everest bank limited. But the relationship between the two variables in the case of EBL was found to be insignificant, for which only 20% of Lending is affected by the

deposit and remaining 80% is affected by other factor and is found to be insignificant.

From the above calculations, we can conclude that the lending of the individual bank is fully dependent in the amount of deposit and to some extent is affected by various other factors such as external and internal factors. For the Everest banks case, it is less dependent with the deposit whereas there is high degree of dependency in other factor than the total deposit.

4.2.2 Correlation between NPA to Total Lending

To analyze the relationship between Non Performing Assets and Total Lending, the correlation between these two factors has been presented in the table as follows.

Table 4.7
Correlation between NPA and Total Lending

Banks	Coefficient of correlation	relationship	Coefficient of Determination (r²)	P.E.	6 × P.E	Significant/ Insignificant
NABIL	0.75	Positive	0.56	0.13	0.78	Insignificant
SBI	-0.66	Negative	0.44	0.17	1.02	Insignificant
HBL	-0.81	Negative	0.66	0.11	0.66	Significant
EBL	-0.01	Negative	0.0001	0.30	1.8	Insignificant
NIBL	-0.38	Negative	0.14	0.26	1.56	Insignificant

Source: Appendix - 8

The above table about the correlation coefficient between the Non Performing Loans to the Total Lending and showed that there is negative relationship between these two variables in most of the banks. The established theory states that NPA and Total Lending flow in the same directions. When the amount of lending increases, the NPA would be higher and whenever the amount of Lending decreases, the NPA figure goes on decreasing, which is adversely explained by the above table.

Every bank, SBI, HBL, EBL and NIBL have the negative correlation coefficient except that of NABIL which explains the negative relationship between them. It means each bank has been facing the decrease in the figures of NPA in every increment in Lending figures. And since the six times of PE is greater than that of Correlation, there is insignificant relationship between these two variables for all the banks except of Himalayan bank limited. But the relationship between the two variables in the case of HBL was found to be significant, for which only 81% of NPA is adversely affected by Lending and remaining 19% is affected by other factor and is found to be significant.

From the above calculations, we can conclude that the increment of NPA of the individual bank is not fully dependent in the amount of lending and to some extent is affected by various other factors such as external and internal factors.

4.2.3 Correlation between NPA and ROA

Non Performing Assets and Return on Assets are adversely related with each other, so says the theory, here in the study, correlation analysis is preferred to identify the relationship between NPA and ROA and whether the relationship is significant or not. Here NPA denotes the percentage of NPA in total lending of the bank and ROA denotes the net profit as percentage of total assets of the bank.

Table 4.8
Correlation between NPA and ROA of the Bank

Banks	Coefficient of correlation (r)	Relation ship	Coefficient of Determination (r²)	P. E	6 × P.E	Significant/ Insignificant
NABIL	0.97	Positive	0.94	0.18	1.08	Insignificant
NSBIBL	-0.52	Negative	0.27	0.22	1.32	Insignificant
HBL	-0.83	Negative	0.69	0.09	0.54	Significant
EBL	-0.71	Negative	0.50	0.15	0.9	Insignificant
NIBL	-0.50	Negative	0.25	0.23	1.38	Insignificant

Source: Appendix - 9

The above table about the correlation coefficient between the Non Performing Assets to the Return on Assets shows that there is negative relationship between these two variables. The established theory also states that the profit and the Non-Performing Assets also flow in the opposite directions. When the amount of NPA is lesser, profit would be high and whenever the amount of NPA is more than profit goes on decreasing, which is truly explained by the above table.

NABIL Bank has the positive correlation coefficient of 0.97 which explains the positive relationship between the ROA and NPA of the bank. 94.1% of the profitability is affected by the NPA remaining portion is affected by the other factors. And since the six times of PE is greater than that of Correlation, there is insignificant relationship between these two variables.

HBL & EBL have the correlation coefficient of -0.83 and -0.71 which are categorized as having high degree of negative correlation. And 69% and 50% of the profitability is affected by the NPA to the respective banks and the rest are affected by the other factors. And the test so made for the bank EBL is found to have insignificant relationship as the correlation is lower than Probable Error [P.E.] multiplied by six times and the HBL bank has the significant relationship.

NSBIBL and NIBL have the correlation coefficient of -0.39 and -0.496 which are categorized as having moderate degree of negative correlation. Only 15.21% and 24.6% of the relationship is affected by the NPA in the increment of the profitability of the bank as the coefficient of determination of the bank is found to be 0.1521 and 0.246 and the remaining 84.79% and 75.4% for the individual bank is affected by the other factors. Furthermore, the value of P.E. is 0.256 and 0.227 for each of the bank indicating an insignificant relationship between them.

From the above calculations, we can conclude that the profitability of the individual bank is not fully dependent in the Non-Performing Assets but is affected by various other factors such as external and internal factors. For the NABIL banks case, Profitability is less dependent with the NPA whereas there is high degree of dependent in NPA in case of other banks.

4.2.4 Correlation between NPA and ROE of the Bank

The relationship between the NPA and Return on Shareholders equity is determined here in the study to whether there is any significant relationship between these two variables as due to the increment in NPA there is always loss for the shareholders.

Table 4.9
Correlation between NPA and ROE

Banks	Coefficient of correlation (r)	Relationship	Coefficient of Determination (r²)	P. E.	6 × P.E	Significant/ Insignificant
NABIL	0.43	Positive	0.19	0.24	1.44	Insignificant
NSBIB	-0.72	Negative	0.52	0.14	0.84	Insignificant
HBL	-0.44	Negative	0.19	0.24	1.44	Insignificant
EBL	0.80	Positive	0.63	0.11	0.66	Significant
NIBL	-0.23	Negative	0.05	0.29	1.74	Insignificant

Source: Appendix - 9

The above table about the correlation coefficient between the Non Performing Assets to the Return on equity shows that there is negative relationship between these two variables for the three banks under study and positive for remaining two commercial banks. The established theory states that the profit and the Non-Performing Assets also flow in the opposite directions. When the amount of NPA is lesser, profit would be high and whenever the amount of NPA is more than profit goes on decreasing, which is adversely explained by the above table for the three banks.

NABIL Bank and Everest Bank have the positive correlation coefficient of 0.43 & 0.80 respectively which explains the positive relationship between the ROA and NPA of the bank. But only 19% and 63% of the profitability is affected by the NPA remaining portion is affected by the other factors. And since the six times of PE is greater than that of Correlation, there is Insignificant relationship between these two variables for the NABIL Bank and is significant relationship between the variables for Everest Bank limited.

Nepal SBI, HBL & NIBL have the negative correlation coefficient of -0.72 and -0.44 & -0.23 which are categorized as having negative correlation. And 52%, 19% and 5% of the profitability is affected by the NPA to the respective banks and the rest are affected by the other factors. And the test so made for the bank are found to have insignificant relationship as the correlation is lower than Probable Error [P.E.] multiplied by six times and the HBL bank has the significant relationship.

From the above calculations, we can conclude that the profitability of the individual bank is not fully dependent in the Non-Performing Assets but is affected by various other factors such as external and internal factors. For the NIBL case, Profitability is less dependent with the NPA whereas there is high degree of dependent in NPA in case of other banks.

4.2.5 Correlation between NPA and Net Profit

Theory states that there is adverse relationship between the Net Profit and the NPA, when NPA increases, leads to decrease the level of income for the banks. The below table shows the relation between these two variables.

Table 4.10**Correlation between NPA and Net Profit**

Banks	Coefficient of Correlation	Relationship	Coefficient of Determination (r²)	P.E.	6 × P.E	Significant/ Insignificant
NABIL	0.89	Positive	0.79	0.06	0.36	Significant
NSBIBL	-0.52	Negative	0.27	0.22	1.32	Insignificant
HBL	-0.82	Negative	0.67	0.99	5.94	Insignificant
EBL	-0.01	Negative	0.0001	0.30	1.8	Insignificant
NIBL	-0.28	Negative	0.08	0.28	1.68	Insignificant

Source: Appendix - 10

The above table about the correlation coefficient between the Non Performing Assets to the Net Profit shows that there is negative relationship between these two variables for the four banks under study and positive for remaining one commercial bank. The established theory states that the profit and the Non-Performing Assets also flow in the opposite directions. When the amount of NPA is lesser, profit would be high and whenever the amount of NPA is more than profit goes on decreasing, which is adversely explained by the above table for most of the banks.

NABIL Bank has the positive correlation coefficient of 0.89 which explains the positive relationship between the Net Profit and NPA of the bank. But 79% profitability is affected by the NPA remaining portion is affected by the other factors. And since the six times of PE is less than that of Correlation, there is significant relationship between these two variables for the NABIL Bank.

Nepal SBI, HBL, EBL & NIBL have the negative correlation coefficient of – 0.52, -0.82, -0.01 & -0.28 respectively, which are categorized as having negative correlation. And 27%, 67%, 0.1% and 8% of the profitability is affected by the NPA to the respective banks and the rest are affected by the other factors. And the test so made for the bank are found to have insignificant

relationship as the correlation is lower than Probable Error [P.E.] multiplied by six times.

From the above calculations, we can conclude that the profitability of the individual bank is not fully dependent in the Non-Performing Assets but is affected by various other factors such as external and internal factors. For the NABIL Bank case, Profitability is less dependent with the NPA whereas there is high degree of dependent in NPA in case of other banks.

4.3 Trend Analysis

Trend analysis is a statistical tool which helps forecast the future values of different variables on the basis of past tendencies of variable. Trend analysis informs about the expected future values of various variables. Amongst the various methods to determine trend the least square method is widely used in practices. Hence in this study also least square method has been adopted to measure the trend behaviors of these selected banks. However trend analysis is based on the assumption that past tendencies continues in the future. Under this heading the effort has been made to calculate trend values of following variables from mid July 2009/10 to mid July 2013/14.

4.3.1 Trend Analysis of NPA

The calculated values of average NPA (a), rate of change of NPA (b) and trend values of NPA of the banks for ten years From mid July 2004/05 to Mid July 2013/14 are as follows.

Table 4.11
Trend Analysis of NPA

(Rs. in million)

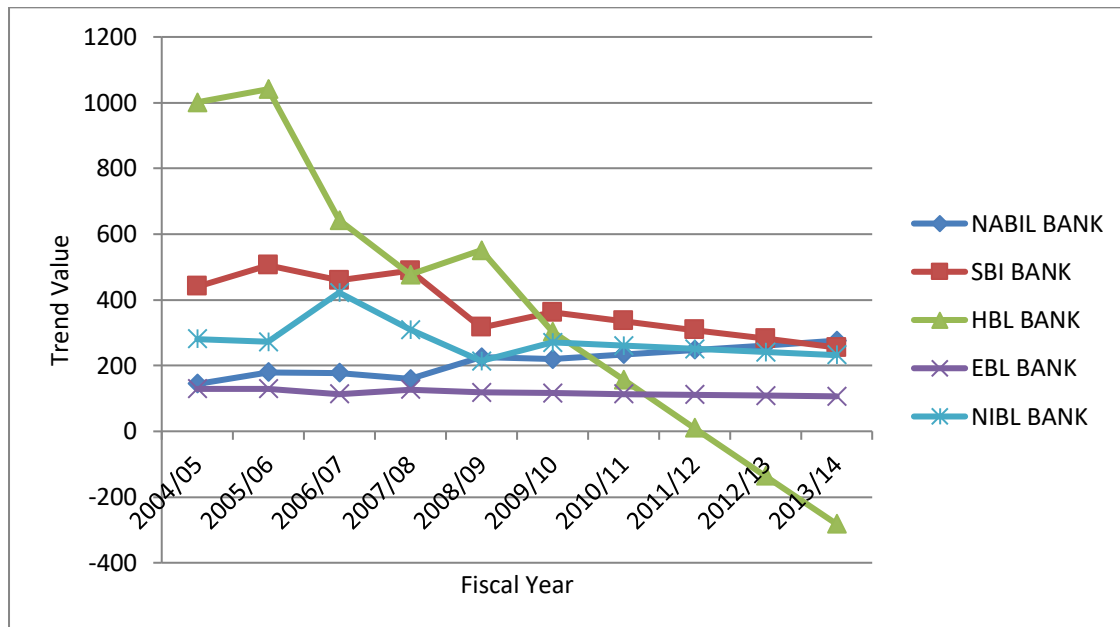
Bank/ Year	NABIL a =177.2 b =14.1	SBI a =441.8 b =26.7	HBL a =742.4 b =146.4	EBL a =123.2 b =2.4	NIBL a =299.6 b =9.7
2004/05	144	441	1001	129	281
2005/06	180	505	1041	129	272
2006/07	178	459	642	113	422
2007/08	159	488	477	127	309
2008/09	225	316	551	118	214
2009/10	219.5	361.7	303.2	116	270.5
2010/11	233.6	335	156.8	113.6	260.8
2011/12	247.7	308.3	10.4	111.2	251.1
2012/13	261.8	281.6	(136)	108.8	241.1
2013/14	275.9	254.9	(282.4)	106.4	231.7

Source: Appendix – 3

The table shows that the Nabil Bank has the increasing trend of non-performing assets. The average non-performing assets of the Nabil Bank is Rs. 177.2 Million. The increment rate of NPA of the NABIL Bank is Rs.14.1 Million. The NPA of the Nabil was Rs 225 Million at the year 2008/09 which reaches to Rs. 275.9 Million at the year 2013/14. It shows that Nabil Bank has to improve the loan recovery procedure to control NPA. SBI Bank has average NPA of Rs. 441.8 Million and the decreasing rate of NPA by Rs. 26.7 Million. In the year 2008/09 the NPA of the bank was Rs. 316 Million which decreases to Rs. 254.9 Million at the year 2013/14. It shows that the NPA of SBI bank has tried to control its NPA. The average NPA of the HBL is Rs.742.4 Million which is the highest among the five listed banks but it has the decreasing, which reaches to Rs. 10.4 million at the year 2011/12 and then to nil having decrement rate Rs. 146.4 Million. The average NPA of the EBL is 123.2 Million having the least decrement rate of Rs. 2.4 Million reaches to Rs. 106.4 Million of NPA at the year 2013/14. The average NPA of NIBL is Rs. 299.6 Million having moderate rate of decrement i. e Rs. 9.7 Million and reaches to

Rs. 231.7 Million at the last year of the trend. Following figure represent the trend line of NPA of the sample banks for 10 consecutive years.

Figure 4.6
Trend Analysis of NPA



The above figure depicts that HBL Bank is ahead of in minimizing the NPA and the NPA of the NABIL Bank is at increasing trend while others bank have the decreasing trend of NPA.

4.3.2 Trend Analysis of CD Ratio

The CD ratio is the ratio between the total deposit and the total credit or lending by the commercial banks. This explains how liquidity the bank has been maintaining.

Table 4.12
Trend Analysis of CD Ratio

Bank/ Year	NABIL a =70.772 b =-0.278	SBI a =74.802 b =-2.51	HBL a =58.93 b =4.89	EBL a =76.21 b =-0.39	NIBL a =74.59 b =2.234
2004/05	75.05	77.87	50.07	78.2	73.33
2005/06	68.63	69.32	55.27	73.4	68.63
2006/07	68.13	82.66	56.57	77.4	72.56
2007/08	68.18	88.32	61.23	78.6	79.91
2008/09	73.87	55.84	71.49	73.43	78.86
2009/10	69.932	67.272	73.6	75.024	81.562
2010/11	69.65	64.762	78.49	74.63	83.796
2011/12	69.37	62.252	83.38	74.236	86.03
2012/13	69.09	59.742	88.27	73.842	88.264
1013/14	68.812	57.232	93.16	73.45	90.5

Source: Appendix – 2

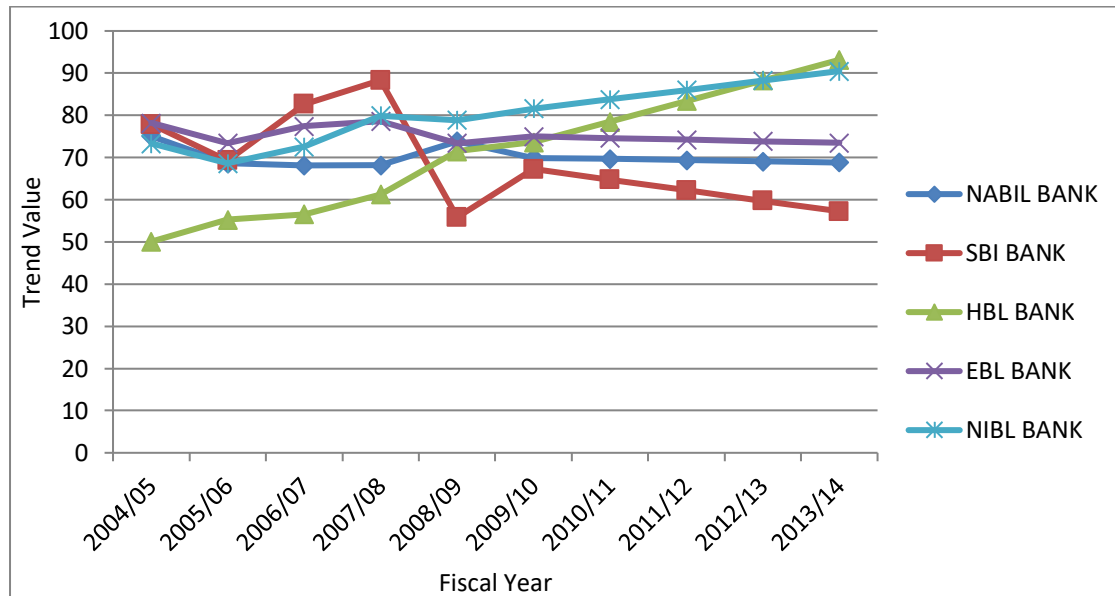
The trend analysis shows that NABIL Bank has decreasing trend of total lending to total deposit ratio. It decreased by 0.281 per year and reaches to 68.812 at the year 2013/14, which is not favorable for the bank. Liquidity has been maintained more which has negative impact in income generation. SBI Bank has decreasing trend of ratio by 2.506. By the year 2013/14 the ratio reaches to 57.232.

Because 57.232 of lending to deposit ratio is very less than the standard management should think of increasing loan and advances. HBL has the increasing trend of the ratio. The ratio has been increased by 4.88. By the year 2011/11 the ratio is 78.49% and reaches to 93.16% at the year 2013/14. EBL has the most consistent but decreasing trend of ratio by 0.394. At the year 2004/05 it has the ratio of 78.20 which is 73.43 at the year 2008/09 and reaches to 73.45 at the year 2013/14. The lending policy and its management seem very strong among all other banks. NIBL has the increasing lending deposit ratio. It increased by NPR 20,234 Million. The trend shows that at the year 2009/10 the ratio is 81.562 and by the year 2013/14 it reaches to 90.50.

The above data can be plotted in the trend line as follows:

Figure 4.7

Trend Analysis of CD Ratio



4.3.3 Trend Analysis of Total Net Profit

Net Profit is the crucial part of the banks and our attempt here is to find the main crucial part of the banks existence for the next five years for the commercial banks. The table under mentioned states the trend of the banks for the last five years and with relation to the historical data, the forthcoming five years data have been calculated.

Table 4.13
Trend Analysis of Total Net Profit

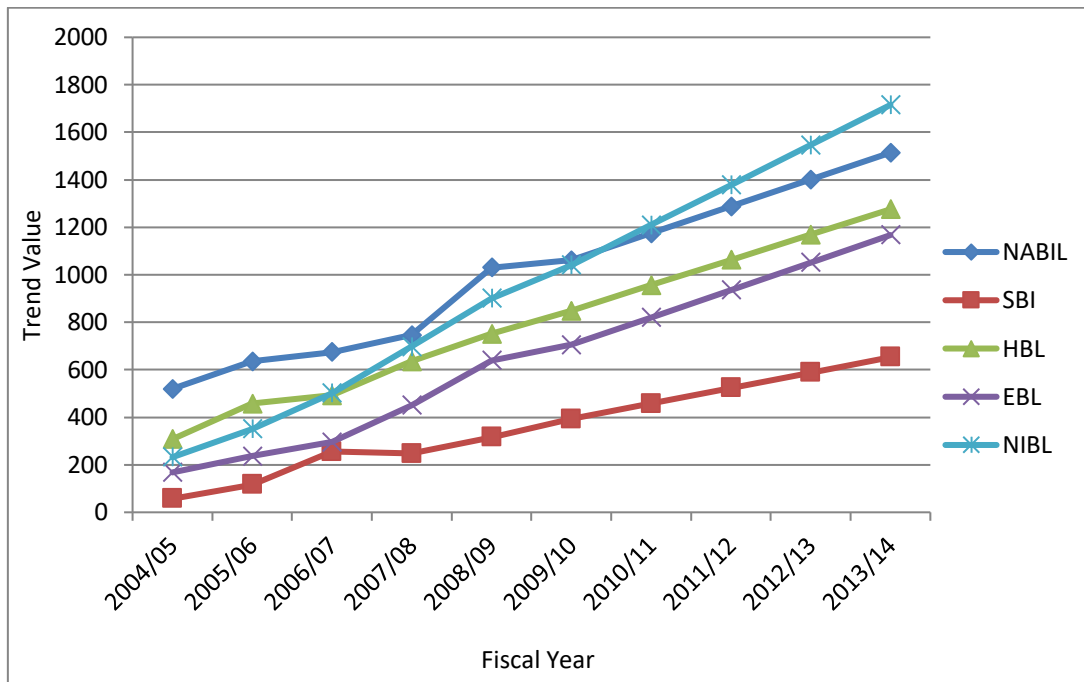
(Rs. in million)

Bank Mid Year	NABIL a =721.2 b =113.3	SBI a =198.6 b =64.9	HBL a =529 b =106.7	EBL a =358.2 b =115.6	NIBL a =536.6 b =168.4
2004/05	520	57	308	168	232
2005/06	635	117	457	237	351
2006/07	674	255	492	296	502
2007/08	746	248	636	451	697
2008/09	1031	316	752	639	901
2009/10	1061.1	393.3	849.1	705	1041.8
2010/11	1174.4	458.2	955.8	820.6	1210.2
2011/12	1287.7	523.1	1062.5	936.2	1378.6
2012/13	1401	588	1169.2	1051.8	1547
2013/14	1514.3	652.9	1275.9	1167.4	1715.4

Source: Appendix – 5

The table shows that all the banks have the increasing trend of total profit. NABIL Bank has the highest average net profit of Rs. 721.2 Million and its increment rate is Rs.113.3 Million per year. SBI Bank has average net profit of Rs. 198.6 Million lowest among all and has increment rate of Rs. 64.9 Million. HBL, EBL, NIBL have average net profit of Rs.529 million, Rs. 358.2 Million and Rs.536.6 Million respectively. The increment rate of Net profit of HBL and EBL are Rs.106.7 Million and Rs.115.6 Million respectively. Increment of Net profit is the highest of NIBL Bank among all i.e. Rs.168.4 Million per year.

Figure 4.8
Trend lines of Total Net Profit



The table over shown shows the increasing trend of the net profit each year. The increasing rate is higher of Nepal Investment bank's and the lowest is that of Nepal SBI Bank's.

4.3.4 Trend Analysis of Return on Assets [ROA]

The trend lines give the future footmark for the data under the analysis of the historical data. Here under the study, we have taken the five years' historical data and have tried to shape out the foot mark of the return on assets for the next five years for the five commercial banks under the study.

Table 4.14
Trend Analysis of ROA

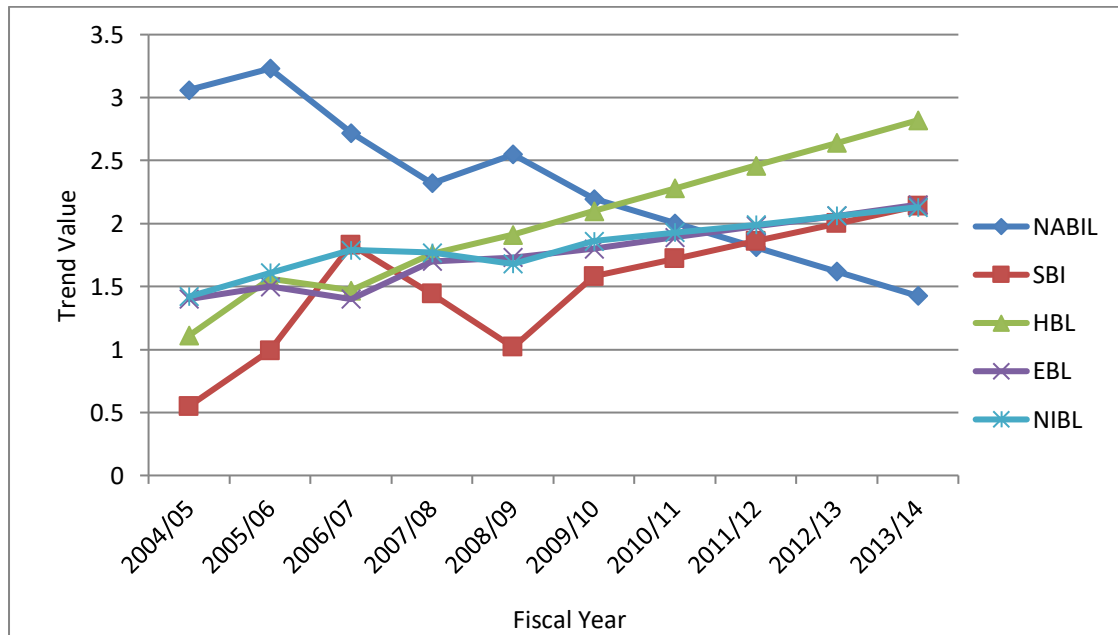
Bank Mid year	NABIL a = 2.776 b = -0.193	SBI a =1.166 b =.139	HBL a =1.562 b =0.18	EBL a =1.546 b =0.086	NIBL a =1.654 b =0.068
2004/05	3.06	0.55	1.11	1.4	1.42
2005/06	3.23	0.99	1.56	1.5	1.61
2006/07	2.72	1.83	1.47	1.4	1.79
2007/08	2.32	1.44	1.76	1.7	1.77
2008/09	2.55	1.02	1.91	1.73	1.68
2009/10	2.197	1.58	2.10	1.8	1.86
2010/11	2.004	1.72	2.28	1.89	1.93
2011/12	1.811	1.86	2.46	1.98	1.99
2012/13	1.618	2	2.64	2.06	2.06
2013/14	1.425	2.14	2.82	2.15	2.13

Source: Appendix – 6

The table shows that all the banks have more fluctuations in the Return on assets on different years. NABIL Bank has the highest average rate of fluctuation of -0.193 per year. SBI Bank has average fluctuation of 0.139 but the lowest among all is of NIBL and has increment rate of 0.068 each year. HBL & EBL, have average fluctuation of Rs.0.18 & 0.086 respectively. This trend lines shows that there is not any fixed trend lines following in case of return on assets of the commercial banks under the study.

The trend figures of the ROA of different banks can be plotted in the graph lines as under mentioned.

Figure 4.9
Trend Chart of Return of Assets



4.3.5 Trend Analysis of NPA Ratio

The trend lines give the future footmark for the data under the analysis of the historical data. Here under the study, we have taken the five years' historical data and have tried to shape out the foot mark of the NPA for the next five years for the five commercial banks under the study.

Table 4.15

Trend Analysis of NPA Ratio

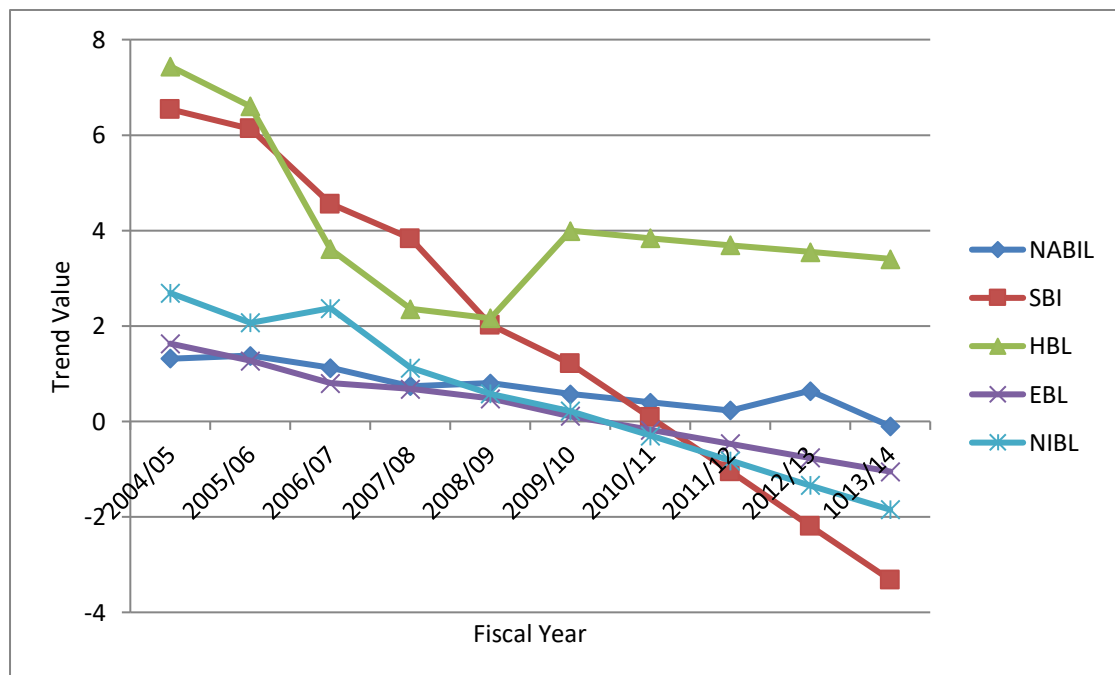
Bank	NABIL	SBI	HBL	EBL	NIBL
Mid year	a = 1.072 b = -0.148	a = 4.616 b = -1.134	a = 4.434 b = -0.148	a = 0.972 b = -0.289	a = 1.766 b = -0.517
2004/05	1.32	6.54	7.44	1.63	2.69
2005/06	1.38	6.13	6.6	1.27	2.07
2006/07	1.12	4.56	3.61	0.8	2.37
2007/08	0.74	3.83	2.36	0.68	1.12
2008/09	0.8	2.02	2.16	0.48	0.58
2009/10	0.57	1.21	3.99	0.11	0.22
2010/11	0.4	0.08	3.84	(0.18)	(0.30)
2011/12	0.23	(1.05)	3.69	(0.47)	(0.82)
2012/13	0.64	(2.19)	3.55	(0.76)	(1.34)
2013/14	(0.10)	(3.32)	3.4	(1.05)	(1.85)

Source: Appendix – 4

The table shows that all the banks have the decreasing trend of NPA for the commercial banks under the study. NABIL Bank has the average NPA ratio of 1.072 and are declining the ratio by 0.148 points per year, reached nil by the year 2013/14. SBI Bank has its highest average decline rate of 1.134 among all sample banks. Its average NPA ratio is 4.616 and reached 0.08 at the year 2010/11 and nil there after. HBL, EBL, NIBL have average decline in the NPA ratio of 0.148%, 0.289% & 0.517% respectively. The average NPA ratio of HBL is 4.434 and will reached to 3.4 by the year 2013/14. Average NPA ratio of EBL and NIBL are 0.972 and 1.766. Trend for the year 2009/10 is 0.11 and 0.22 respectively and then to the nil. The data so presented showed that there is decrement in the NPA ratios for the banks despite of the increment in the loans and advances for the banks under the study.

The above trend of NPA ratio can be plotted in the Trend lines as under mentioned.

Figure 4.10
Trend Lines of NPA Ratio



4.4 Analysis of Primary Data

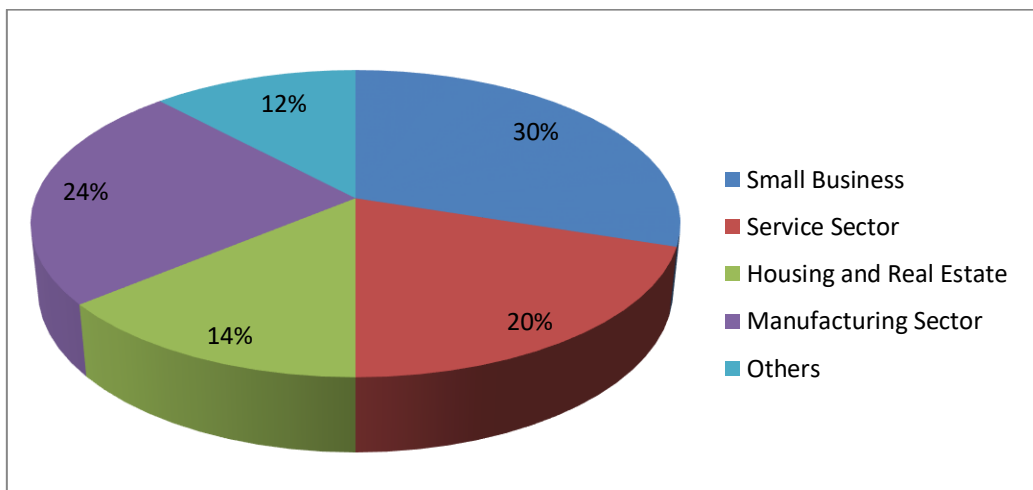
Option survey is done to explore the various factors contributing in the growth of NPA with their immediate effect, to find out the major problems area in the management of NPA and find out the solution to manage the NPA in banking sector. For the survey, questionnaires are provided to 50 professional bankers who are working in the credit department of different commercial banks in the country. The data has been collected by dropping the set of questionnaire individually.

From the analysis of the data collected from different primary sources, the following analysis has been found:

Sector for Granting Loan

In response to the sector for lending loans by the individual respondents, majority were on the small businesses having 30% respondents followed by manufacturing sector with 24% respondents. The third important sector for granting loan is service sector with 20% respondents and again this is followed by 14% housing and real estate sector. Finally the least important sector for lending is others with 12% respondents.

Sector for Lending

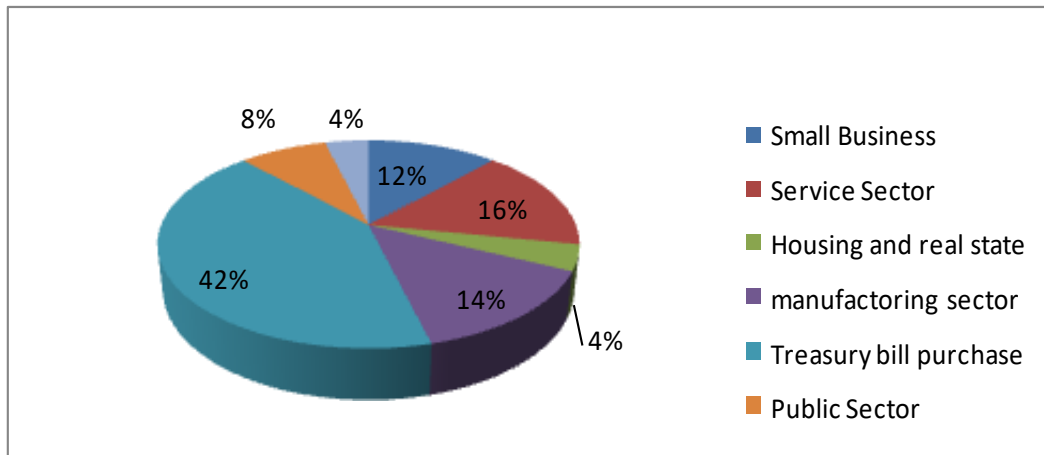


Safe Sector of Lending

In response of the safe sector for lending, majority of respondents are in favor of treasury bills as the most safe sector of lending having 42% respondents

followed by service sector with 16% of responses, 14% are on manufacturing sector and 12% on small business. The least safe sector of lending is public sector and housing sector with 8% and 4% of respondent's response respectively.

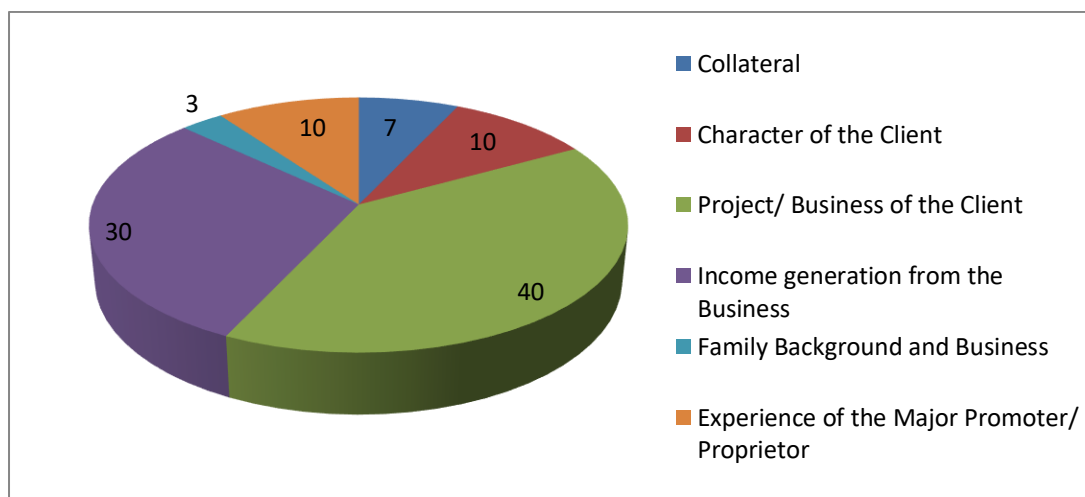
Safe Sector Interm of Lending



Factors considered while sanctioning of Loan

In response to the factor that individual respondent consider while granting loan and advances to the clients, majority of the respondents, i.e. 40% were in favor of Project/ Business of the client, followed by 30% of the respondents in favor of Income generation from the Business. Character of the client and experience of the major promoter/ proprietor are supported by 10% of the respondents, 7% of respondents are in favor of collateral and 3% supported on Family back ground and business.

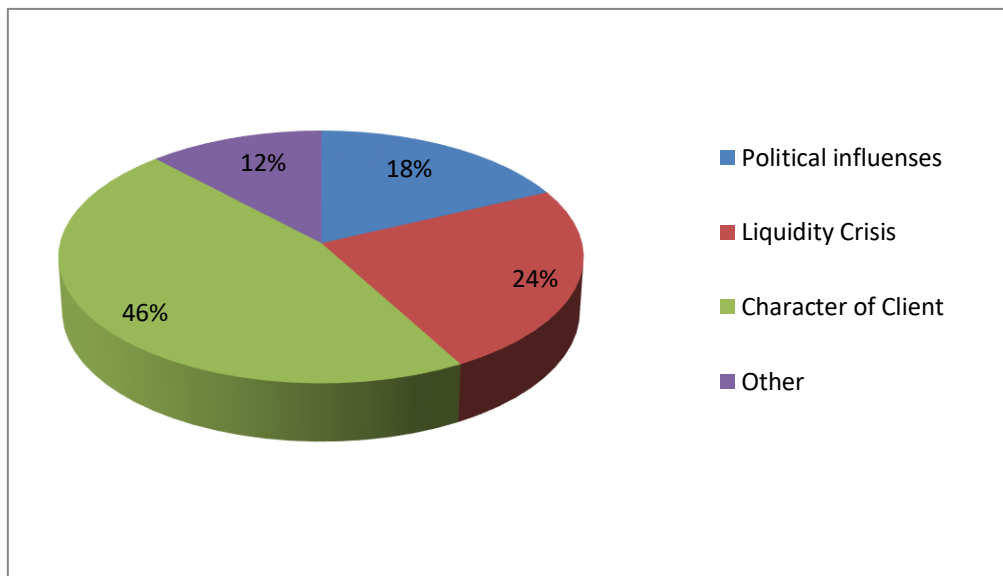
Factors considered while sanctioning of Loan



Major Factors for Increment of NPA

In response of the major factor for the increment of NPA, majority of respondents i.e. 46% have with view that the character of the loan client plays the vital role and is followed by current liquidity crisis which contribute 24%. 18% respondents were in favor of political influences having the least factor is others having 12% responses.

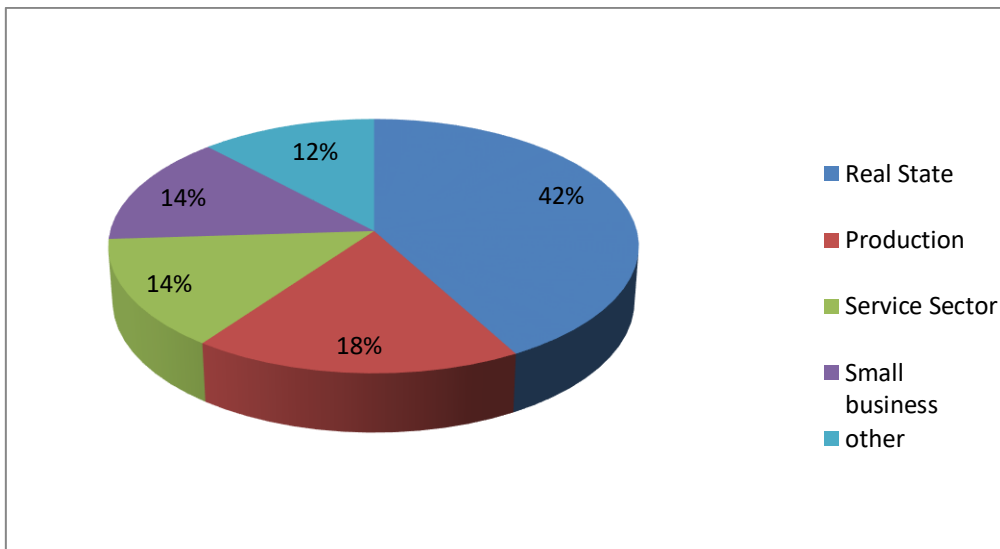
Major Factors for Increment of NPA



Factors Contributing to NPA

In responses of the factor that influence most in your bank, majority of respondents i.e. 42% were on the view that NPA is due to real state and housing business followed by production sector with 18% respondent's response. 14% of respondents' responded on service sector and small business sector and the least contributing factors is categorized as other factor having only 12% responses.

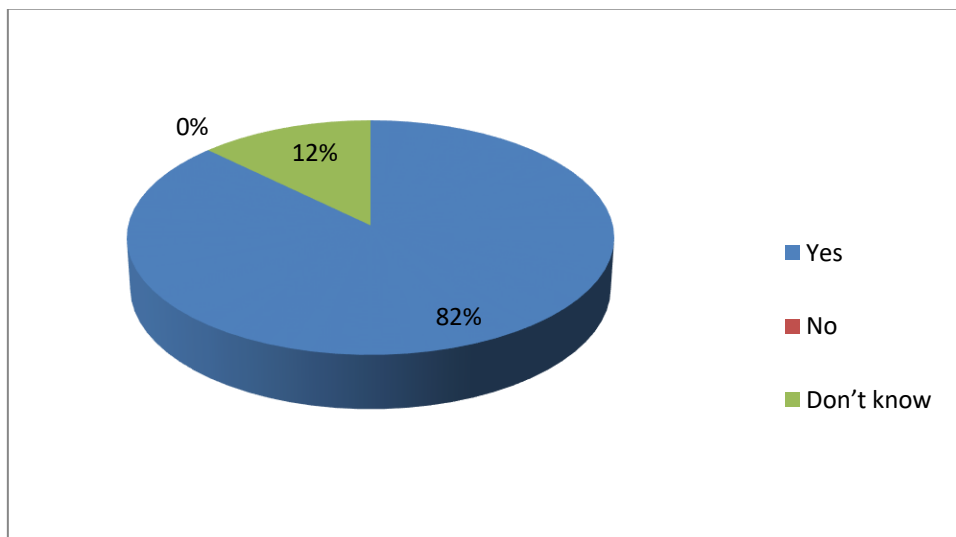
Factors Contributing to NPA



Loan Loss Provision as NRB Directives

In response of if your bank follow the proper Loan Loss Provision as per guide lines of NRB, most of the responses i.e. 82% of the respondents responses that their bank has properly followed NRB directives regarding LLP and 12% respondents didn't opinioned on the question.

Loan Loss Provision

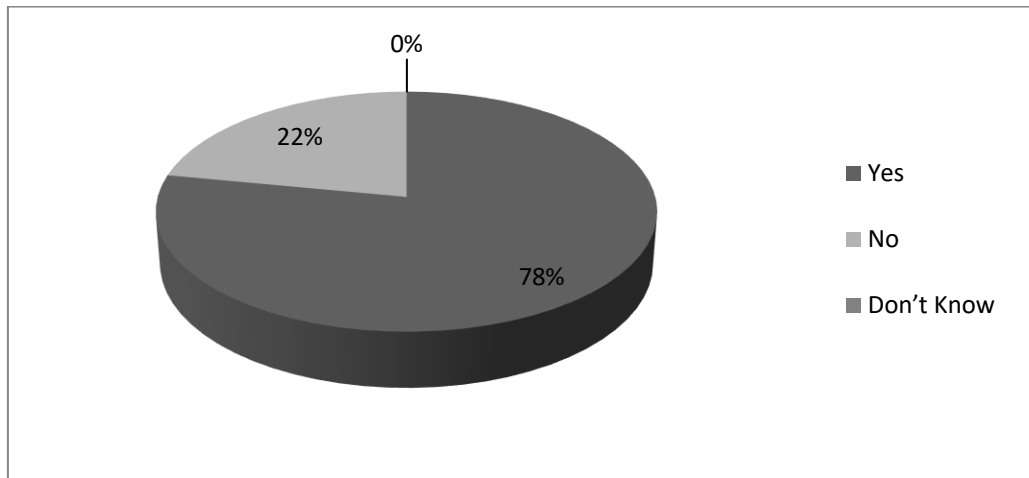


Effects of NPA on Profitability

In opinion if NPA have any effect on the profitability of the bank, 78% of the respondents agreed that there is certain effects on profitability whereas

remaining 22% agreed that there are other factors rather than NPA for the profitability of the banks.

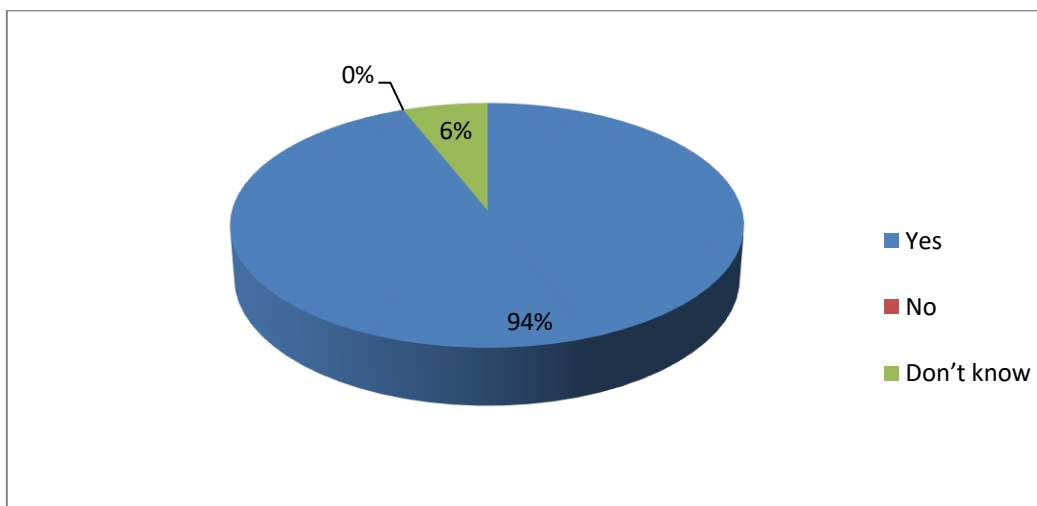
Effects of NPA on Profitability



Impact of NPA on Overall Performance

In opinion to the impact of NPA on overall performance of the bank, 94% of the respondents were on the view that it has certain impact on the overall performance of the bank as a whole and remaining 6% respondents were not informed about the case.

Impact of NPA on Overall Performance

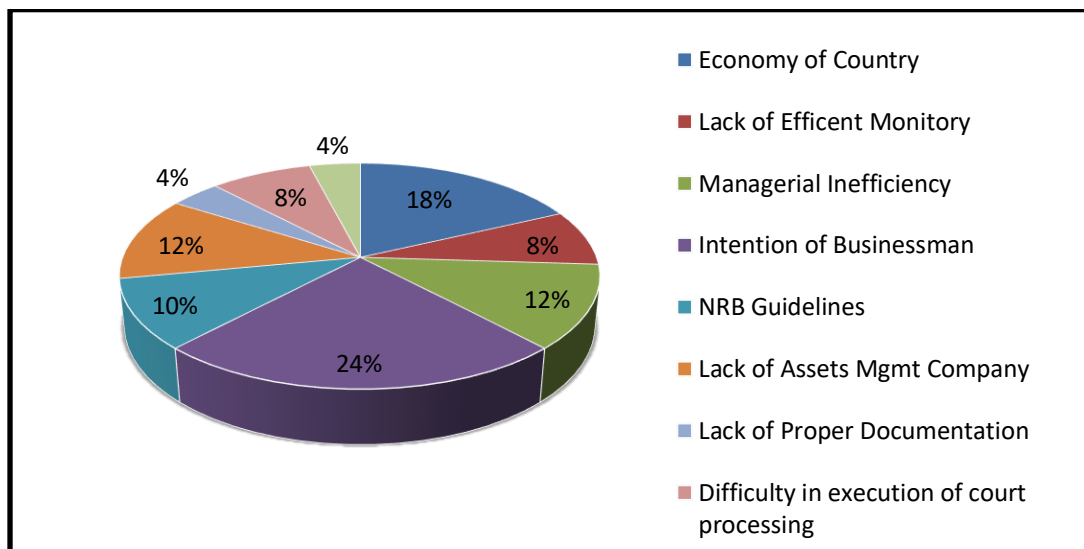


Cause and Problems of NPA

In response to the answer for the cause of increment of the NPA in the particular bank in which the respondent works, majority of them are in favor of

intention of the businessman, having 24% responses followed by economy of the country with 18% respondents. Managerial inefficiency and lack of assets Management Company have 12% respondents each. NRB guidelines is the next important cause with 10% respondents which is again followed by lack of efficient monitory and difficulty in execution of court processing having 8% respondents each. The least important cause of NPA is lack of proper documentation and others having only 4% respondents responses respectively.

Cause and Problem of NPA



4.5 Major Findings of the Study

From the analysis of the data of banks under the study, we have been able to find the following findings of the study.

1. NABIL Bank has total lending of average of Rs. 17,602 million with the CD ratio of 70.77. Favorable lending ratio with standard deviation of 3.4 and CV 4.8 is the most consistency of the CD ratio. NPA of the bank is Rs. 177.2 million in average with deviation of 30.52 and variance of 17.22. NPA to total lending ration is 1.072 on an average, with the deviation of 0.29 and 27.05 variance. Bank has the highest average Net Profit among sample banks of Rs. 721.2 million. The bank is found to be overcoming the risk adverse attitude.

NSBI Bank has total lending of Rs. 10109.4 million in an average with CD ratio of 74.802 with most fluctuating ration with standard deviation of 12.68 and CV of 16.95. The NPA of the bank is 441.8 million in an average with standard deviation of 74.58 and variance of 16.88. NPA to total lending ratio of the bank is 4.616 in an average with average Net Profit of 198.6 million rupees.

HBL has total lending of Rs. 17671.4 million in an average increasing every year with CD ratio of 58.926. The CD ratio of the bank is below the standard which shows the risk adverse attitude of the management of the bank. It indicates that the bank has the policy of investing low in risky assets. NPA of the bank is Rs. 742.4 million in an average with standard deviation of 261.34. The NPA to total lending ratio of the bank is 4.434, with the highest standard deviation of 2.44 and variance of 55.02. The bank has increased its Net Profit every year by the average of 529 million rupees.

EBL has the total lending of Rs. 14,676 million in an average with the CD ratio of 76.206. It has fluctuating CD ratio with deviation of 2.58 and variance of 3.39. The NPA of the bank is 123.2 million in an average with least SD of 7.29 and the variance of 5.92. NPA to total lending ratio is 0.972 in average with 0.47 SD and variance of 48.35. The Net Profit of the bank is 358.2 million rupees in an average over the various years of study.

NIBL has total lending of Rs. 20,685.2 Million in an average. The CD ratio of the bank in an average is 74.86 with the standard deviation of 4.37 and variance of 5.84. NPA of the bank is 299.6 million in average. The NPA to total lending ratio of the bank is 1.766 in average with standard deviation of 0.89 and 50.4 of variance. The Net Profit of the bank is Rs. 536.6 Million in an average.

2. The correlation between Total Deposit and Total Lending of NABIL bank was found to be significant with coefficient of 0.99 and the determination of 0.98 points. The correlation between NPA and Total Lending was found to be insignificant with the P.E. of 0.13, coefficient of 0.75 positive and the determination of 0.56. Similarly the correlation between NPA to ROA, NPA to ROE and NPA to Net Profit were found to be positive for all the cases with 0.97, 0.43 and 0.89 correlation and determination of 0.97, 0.19 and 0.79 respectively. There is insignificant relation between the NPA and ROA and NPA to ROE but the significant relations between NPA to Net Profit.

The correlation between Total Deposit and Total Lending of Nepal SBI bank was found to be significant meaning hereby the lending increase due to increment of deposit with P.E. of 0.055, the correlation is highly positive of 0.90 and the determination of 0.82 points. The correlation between NPA and Total Lending was found to be insignificant with the P.E. of 0.17, coefficient of -0.66 and the determination of 0.44. Similarly the correlation between NPA to ROA, NPA to ROE and NPA to Net Profit were found to be insignificant with P.E. of 0.22, 0.14 & 0.22 respectively. The correlations were -0.52, -0.72 and -0.52 and determination of 0.27, 0.52 and 0.27 respectively.

The correlation between Total Deposit and Total Lending of HBL was found to be significant with P.E. of 0.012, the correlation is highly positive of 0.98 and the determination of 0.96 points. The correlation between NPA and Total Lending was found to be significant with the P.E. of 0.11, coefficient of 0.81 and the determination of 0.66. Similarly the correlation between NPA to ROA, NPA to ROE and NPA to Net Profit were found to be significant and insignificant for the last two ratios with P.E. of 0.09, 0.24 & 0.99 respectively. The correlations were -0.83, -0.44 and -0.82 and determination of 0.69, 0.19 and 0.67 respectively.

The correlation between Total Deposit and Total Lending of EBL was found to be insignificant with P.E. of 0.289, the correlation is 0.20 and the determination of 0.04 points. The correlation between NPA and Total Lending was found to be insignificant with the P.E. of 0.30, coefficient of -0.01 and the determination of 0.0001. Similarly the correlation between NPA to ROA, NPA to ROE and NPA to Net Profit were found to be insignificant, significant and insignificant with P.E. of 0.15, 0.11 & 0.30 respectively. The correlations were -0.71, 0.80 and -0.01 respectively.

The correlation between Total Deposit and Total Lending of NIBL was found to be significant with P.E. of 0.001, the correlation is highly positive of 0.99 and the determination of 0.99 points. The correlation between NPA and Total Lending was found to be insignificant with the P.E. of 0.26, coefficient of -0.38 and the determination of 0.14. Similarly the correlation between NPA to ROA, NPA to ROE and NPA to Net Profit were found to be insignificant with P.E. of 0.23, 0.29 & 0.28 respectively. The correlations were -0.50, -0.23 and -0.28 and determination of 0.50, 0.05 and 0.08 respectively.

3. From the trend analysis we found that Nabil Bank's CD ratio is at decreasing trend by 0.281 point, so that the bank should give efforts to its lending procedures. NPA of the bank is also decreasing with decreasing ROA. The Net Profit of the bank is found to be increasing by Rs. 113.3 Million in the following year. This indicates that the bank should emphasize in the overall performance of the bank.

Nepal SBI Bank has most negative CD ratio trend of 2.506 points. From the trend analysis, it has been found that by the year 2013/14 the CD ratio dropped down to 57.232 million, which is very lower than the standard. NPA of the bank is also decreasing which is favorable for the bank. ROA

and Net Profit of the bank is found to be increasing by 0.139 and 64.9 respectively.

The trend analysis shows that CD ratio of HBL is following the increasing trend by 4.88. By the year 2013/14 it will reached to 93.16. The NPA trend shows the decreasing trend. The increasing loan and the decreasing NPA are the favorable condition of the bank. The ROA and Net Profit of the bank is also following increasing trend by 0.18 and 106.7 respectively.

EBL has the most consistent CD ratio trend. Though the ratio is following the decreasing trend of 0.394 by the year 2013/14 it will reached to 73.45 which exactly meets the standard. The decreasing trend of NPA describes that the bank is able to handle its lending and recovery. The ROA and NPA of the bank are following the increasing trend of 0.086 points and 115.6 respectively. NIBL has the increasing trend of CD ratio by 2.234. By the year 2013/14, the CD ratio will reach to 90.50, the NPA of the bank is decreasing by 0.517, which is the most amount all other sample banks. The trend line shows that by the year 2013/14 the NPA will be NIL and the highest CD ratio. The ROA and Net Profit of the bank is following increasing trend by 0.068 and 168.4 respectively. To maintain such position in such the condition of the market is very challenging job which the bank has fulfilling and seems to be fulfilling in the future too.

4. NPA lessen the profitability of the bank and financial institutions. From the analysis we can easily find that the external factors like economy of the country, NRB directives and guideline, court processing have influence the NPA of the commercial banks but internal monetary system and documentation have also important role in the increment of the NPA in the banks.

5. From the analysis we have found out that NPA of the banks under the study are decreasing trend. Therefore, it seems that the banks no impact of NPL on its performance. But in such political and economical situation of the country, Banks need to exercise a lot to hold the present condition of NPA.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Finally an attempt is made in this chapter to summarize the whole study and findings, make general conclusions based on the finding presented in previous chapter and also to suggest some recommendations based on the result of the analysis of data.

5.1 Summary

Economy of the country is the back bone of the nation. As the economic condition of the country gives identity to the country itself and its people of the country ,the activities and performance of the commercial banks, and the organization in banking sector gives clue and information about the economic condition of the market and the nation. The information in m market seems not so favorable for the business or for the expansion of the business. Different articles on Newspaper, issues, talk programme3s conducting are based on these issues these days. In such condition the questions like what is the position of banks, and how they are performing are getting more priority. One of the factors that affect the performance of the bank is NPA. NPA are the assets which cannot generate income for the bank. Non Performing Loans are the loans made by t he banks or financial company on which repayments or interest payments are not being made on time. The risk involve in this is so high that it can bring bank to a verge of bankruptcy.

The main objectives of the study is to know the impact of Non Performing Assets on the performance of the bank, to know the relationship of NPA with different indicators and to know the cause that play the vital role in increasing NPA. The study will be able to deliver some of the present issues, latest information and data regarding Non Performing Loan. The study will be significant to bankers, its share holders, depositors and general public who are interested on this current affair of banking industry and it provides literature to

the researchers who want to carry further research in this field. To make the study understandable and clear descriptive cum analytical research design was adopted. Out of the population of 31 commercial banks, the oldest and renowned five banks were taken as sample using judgmental sampling method as the new banks are taking remedial actions for NPA from the initial days of operation to know the impact of NPA on those banks which are operating from early days of private commercial banking industry. The banks selected as sample are Nabil Bank, SBI Bank, Himalayan Bank, Everest Bank and Nepal Investment Bank.

For study, the data has been collected from different sources. Both secondary data and primary data have been used in the study. The sources of secondary data are Annual reports, other websites of concerned banks. Besides this newspaper, relevant thesis, journals are also taken for the research. The data collected from various sources are recorded systematically and presented in appropriate forms of tables and charts and appropriate mathematical, statistical, financial, graphical tools have been applied to analyze the data. To collect the primary data on factors effecting NPA, and factors effecting on performance of the bank, questionnaire has been dropped to 50 individual personnel's handling the credit department of different banks. And the data collected are presented in tabulated form.

5.2 Conclusion

The NPA to total lending ratio of NABIL Bank was fluctuating by lower ratio. The mean of the NPA ratio is only 1.072. Total lending to total deposit is fluctuating and below general standard. It is decreasing. We can explain this as bank was lending in lower ratio and is lower risky business only. The net profit of the bank was increasing year by year which is good condition for the bank. The NPA to total lending of Nepal SBI Bank was decreased in remarkable way every year and reaches to 2.02 at the year 2008/09. The total lending to total deposit of the bank was highly fluctuating every year. Highly fluctuating

lending ration may affect the performance of the bank. So the bank needs improvements in lending policy. Net Profit of the bank was found to be increased by at least 500% over the study period. The NPA to total lending of HBL was found to be decreasing. The total lending to total deposit of the bank was found to be increasing every year. But the ratio was below the standard lending ratio. In the year 2008/09, the CD ratio meets the standard. So, we can say that the bank was improving its lending policy and its recovery policy as well. The net profit of the bank is increasing every year.

The NPA to total lending of EBL was found to be decreasing over the year. It reached to 0.48 in the year 2008/09 which is very good condition of NPA for the bank. The lending to deposit ratio was fluctuating but always in between 73 to 78. Though the ratio was fluctuating the lending position of the bank was good. The net profit of the bank is also increasing. The bank's lending policy and its management seems very sound or good. The NPA to total lending of NIBL was found to be decreasing over the year under study. It reaches to 0.58 in the fiscal year 2008/09. The lending to deposit ratio was found to be fluctuating. So bank needs to improve the lending policy. Net Profit of the bank was increasing every year. Despite of the liquidity crisis, current political scenario there is a continuous increasing trend in total deposits, Net Profit and decreasing of NPA of all sample banks, which explains the good position and performance of the banking industry.

The total loan and total deposit of NABIL Bank is positively related with significant relationship, meaning hereby while increasing the total deposit, the total lending of the bank is also increasing. NPA and lending of the bank is positively related but 6 times of P.E. is greater than correlation, the relation is insignificant and there is no evidence of correlation. NPA is positively related with ROA, ROE and Net Profit of the bank. Since 6 times of P.E. is greater than correlation the relation is again insignificant, this is because increment in NPA will adversely affect the profitability of the bank. NPA has significant

relationship with the Net Profit. The main reason behind this is that banks lending is relatively high than its NPA, so even the NPA increased there is increment in the Net Profit for the bank.

The total lending and total deposit of Nepal SBI Bank limited is positively related with significant relationship. The relation of total lending with NPA is found to be negative and significant. This is because the bank is able to recover loan along with the loss loans as it seems that the bank is able to manage its bad and doubtful debts in the increasing lending portfolio as well. NPA has negative relationship with ROA, ROE and Net Profit. The 6 times of its P.E. are greater than the correlation with them. So the relation is significant. This is because NPA is not only the reason which affects the profitability of the bank. Total lending and total deposit of the Himalayan Bank limited is highly positive relationship and is significant. The total lending and NPA of the bank is highly negative related and the 6 times of its P.E. is less than the correlation which shows the relation as significant. This is because while lending increases, the NPA of the bank also found to be increased. NPA of the bank is highly negative relationship with ROA and Net Profit while moderate relationship with ROE. The relationship of NPA with ROA is found to be significant which is because increment of NPA has adverse affect in ROA. But the relationship of NPA with ROE and Net Profit is insignificant which explains that there is no evidence of correlations with these two variables.

The total lending and total deposit of Everest Bank limited is positively relation but the correlation is very low. The 6 times of its P.E. is greater than the correlation, so, the relation is found to be insignificant. In theoretical aspect, the relation between lending and deposit is found to be positive, but the relations for this particular bank seems to be insignificant as it has lesser impact in increment of lending due to the increment on deposit. Similarly NPA has positive relation with ROE and 6 times of its P.E. is lower than correlations it explains that there is significant relationship between these two variables.

NPA is lowering negatively related with the Net Profit and this relation is found to be insignificant. The total lending and total deposit of Nepal Investment Bank limited is found to be highly positive relationship with significant relation. The total lending of the bank is negatively related with NPA and the relation is found to be insignificant. Since NPA is only caused due to the increment of lending, the relationship between these two variables are found to be negative. The relationship of NPA with ROA, ROE and Net Profit is moderately negative and the relations thereof found to be insignificant. The relation between NPA and Profitability is found to be negative and insignificant, so we can conclude that there is no evidence of their correlations.

The CD ratio of the NABIL Bank is declining. The trend shows the CD ratio of the bank is lower than the NRB standard. Bank has declining trend of NPA but the Net Profit is increasing and ROA is decreasing. It summarizes the positions of the bank as risk adverse attitude, it lends on less risky assets, so, NPA of the bank is decreasing and profit is increasing but return of assets describes that there might be additional reasons for the decreasing the ROA. Nepal SBI Bank has decreasing CD ratio over the years. The CD ratio is found to be lower than the industry standard. NPA of the bank is also decreasing which defines that the bank's management needs to avoid the risk adverse attitude. Though the Net Profit and ROA of the bank is increasing, risk adverse attitude can endanger the bank anytime as it has higher level of liquidity positions and effect on overall performance of the bank.

The trend of CD ratio of HBL is following an increasing path and reached to the highest point. NPA is found to be following the decreasing trend. It is obvious that banks lending policy seems so sound and the management is so perfect that the indicators of the bank are positive. But to maintain this position is very challenging job where the bank has to exercise a lot. The CD ratio of EBL is slightly decreasing but has the most consistent and found to be within the standard of the industry. NPA is decreasing by the year and NPA and ROA

are found to be increasing. It shows that the bank is able to handle its lending and its recovery. The lending and recovery is found to be very strong and seems it can follow the same trend in future too. The NIBL has decreasing trend of CD ratio NPA. Its lending ratio is higher than that of the standard. The Net Profit and ROA is following the increasing trend. It shows that the bank has made the strong policy for lending recovery and its management.

The Primary data had been collected from 50 respondents and was able to analyze that the real estate sector was giving trouble to the bankers most and they prefer to grant loans to small business rather than non productive areas such as housing and real-estate sectors. From the respondents, it had been analyzed that while granting loans and advances, character of the client , business project should be scrutinize before lending to a particular sector and only then NPA would not be increased.

5.3 Recommendations

High level of non-performing assets not only decreases the profitability of the banks but also affect the entire financial as well as operational health of the country. The steps taken by the central bank, Nepal Rastra Bank in the downsizing the level of NPA in commercial banks are praiseworthy. But still the condition of government owned commercial banks are beyond the specific limit. If the NPA were not controlled immediately, it would be proved as a curse for the banks in near future. The foremost problem seen in some of the commercial banks is the loan and advances given in the real estate sector. Loans are provided haphazardly in this sector and the recovery on this sector is found to be critical in the recent days. Due to the economic crisis in Nepal, the transactions of purchase and sale of land and buildings have been slowed down. At the meantime, NRB also has made the ceiling in this sector. In this condition, the main challenges of commercial banks are the real estate exposure and should be handled with care, so that the further loss of the bank and financial institutions would be minimized. Loan must be given only if the

banker is satisfied that the borrower can repay money from the cash flow generated from operating activities. Therefore, following are some of the recommendations, which will help to reduce the level of NPA of the Nepalese commercial banks.

1. The standard rate of NPA as suggested by NRB is 5%, which the sample banks are maintaining. The NPA of the banks were found to be drastically decreased. But due to the liquidity crisis currently the banks are facing, there is a challenge for the banks to maintain the same level. So, it is recommended for the banks to scrutinize the loan proposals while sanctioning the loans and should launch the customer friendly procedures and products.
2. The CD Ratio for the commercial Banks has recently been recommended to be within the limit of 80% in all the time by the central bank of the country. However the ratio of the banks under study were found below the standard suggested by NRB, and the banks here by recommended maintaining the same level of CD Ratio all the time.
3. The fluctuation and the low level of CD ratio show the risk adverse attitude of the banks. As the banks are the important sector of overall economy of the country, they should not run away from the risk. They have to invest different development projects of the country and create such environment to the other investors and businessmen.
4. The cost of capital for the commercial banks is increasing. Whatever be the reason for such increment the banks are increasing the interest rate to their client. Due to which banks are able to maintain the increasing trend of Net Profit but at a time the trust worthiness of the client is deteriorating. So it is here by recommended for the banks to gain credit worthiness of the client with maintenance of adequate level of profitability.
5. The banks should upgrade with new visions and should encourage the microfinance investment such as agriculture and other priority sectors, so that the deprived sectors are benefited.

6. It is stated that real estate sector's ceiling by the NRB is the major factor effecting the lending of the banks. But the concept is found incorrect for the sample banks. Since the major portion of lending in industrial and other productive sector is dominated by old and renowned banks, the overstated case may be true for the recently opened banks. So, they should invent the new sectors for their lending.
7. Nepal Rastra Bank, the central bank of Nepal is only the regulatory body of the commercial banks in case of the country. Due to the increase number of banks and financial institutions in the recent years, the control mechanism adopted by the bank is found to be somehow ineffective. So the central bank should initiate a good mechanism of control over the commercial bank as well as other different class of financial institutions. The one and the major condition of control could be banned of loans and banking facility to the black listed customers of any of the banks and financial institutions. Liquid Political condition of the country all the other areas such as employee's trade unions, are found to be strong in any of the banks and financial institutions which should be properly handled. Besides that the undue influences in lending and any other job areas and well as operation of the financial institutions should be properly handled or eliminated so that the working environment of the organization would be good.
8. It is often said that "Prevention is better than cure," hence it is recommended for all banks under the study to take preventive measures before the loan goes to bad and it become unmanageable. All the banks are recommended to have a make sound information system to gather all the possible information about its borrowers so that necessary precautions can be taken in time. Because this is an age of information so banks should update with various business related information. For this, following Directive of NRB of KYC (Know your Customer), seems important and necessary.

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APPENDICES

Calculation of Mean (\bar{Y}), Standard Deviation (σ), Coefficient of Variance (C.V) is presented below:

Appendix-1

**Calculation of Mean (\bar{Y}), Standard Deviation (σ) and C.V of
Total Lending for NABIL Bank**

(Rs. in Million)

Year (t)	Total Lending (Y)	y= (Y- \bar{Y})	y ²	X= t-2006/07	XY	X ²
2004/05	10586	-7016	49224256	-2	-21172	4
2005/06	12923	-4679	21893041	-1	-12923	1
2006/07	15546	-2056	4227136	0	0	0
2007/08	21365	3763	14160169	1	21365	1
2008/09	27590	9988	99760144	2	55180	4
	ΣY =88010		Σy^2 =189264746	$\Sigma X=0$	ΣXY =42450	ΣX^2 =10

Here,

n = Number of Year

\bar{Y} = Mean of Total Lending

Where,

$$\text{Mean } (\bar{Y}) = \frac{\Sigma Y}{n} = \frac{88010}{5} = 17602$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma y^2}{n-1}} = \sqrt{\frac{189264746}{4}} = \sqrt{47316186.2} = 6878.67$$

$$\text{Coefficient of Variance (C.V)} = \frac{\sigma}{\bar{Y}} \times 100 = \frac{6878.67}{17602} \times 100 = 39.08\%$$

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation of other banks.

ii) Data have extracted from the annual reports of concern banks.

Appendix - 2

Calculation of Mean (\bar{Y}), Standard Deviation (σ) and C.V of

Total Lending to Total Deposit Ratio for NABIL Bank

Year (t)	CD ratio (Y)	$y=(Y-\bar{Y})$	y^2	X=t- 2006/07	XY	X^2
2004/05	75.05	4.278	18.30	-2	-150.1	4
2005/06	68.63	-2.142	4.59	-1	-68.63	1
2006/07	68.13	-2.642	6.98	0	0	0
2007/08	68.18	-2.592	6.72	1	68.18	1
2008/09	73.87	3.098	9.59	2	147.74	4
	$\sum Y$ =353.86		$\sum y^2$ =46.18	$\sum X=0$	$\sum XY$ =-2.81	$\sum X^2$ =10

Here,

n = number of Year

\bar{Y} = Mean of CD Ratio

Where,

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{n} = \frac{353.86}{5} = 70.772$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum y^2}{n-1}} = \sqrt{\frac{46.18}{4}} = \sqrt{11.545} = 3.41$$

$$\text{Coefficient of Variance (C,V)} = \frac{\sigma}{\bar{Y}} \times 100 = \frac{3.41}{70.772} \times 100 = 4.81\%$$

For the calculation of Trend Analysis

Computations for straight line trend by Least Square method. The normal equations for estimating a and b are given by:

$$\sum Y = na + b\sum X \dots\dots\dots 1$$

$$\sum XY = a\sum X + b\sum X^2 \dots\dots\dots 2$$

$$a = \frac{\sum Y}{n} = \frac{353.86}{5} = 70.772$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{-2.81}{10} = -0.281$$

The trend line be given by the equation: $Y = a + bX \dots\dots\dots 3$

Substituting the value in equations we get trend of NPA for the following years as follows:

Year	X = t-2006/07	Y = a + bX
2009/10	3	69.93
2010/11	4	69.65
2011/12	5	69.37
2012/13	6	69.09
2013/14	7	68.81

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation and to analyze the trend of different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

Appendix-3

Calculation of Mean (\bar{X}), Standard Deviation (σ) and C.V of NPA for NABIL Bank

(Rs. in Million)

Year (t)	NPA (Y)	y= (Y- \bar{Y})	y ²	X= t- 2006/07	XY	X ²
2004/05	144	-33.2	1102.24	-2	-288	4
2005/06	180	2.8	7.84	-1	-180	1
2006/07	178	0.8	0.64	0	0	0
2007/08	159	-18.2	331.24	1	159	1
2008/09	225	47.8	2284.84	2	450	4
	ΣY =886		Σy^2 =3726.8	$\Sigma X=0$	ΣXY =141	ΣX^2 =10

Here,

n = Number of Year

Mean \bar{Y} = Mean of NPA

Where,

$$\text{Mean } (\bar{Y}) = \frac{\Sigma Y}{n} = \frac{886}{5} = 177.2$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma y^2}{n-1}} = \sqrt{\frac{3726.8}{4}} = \sqrt{931.7} = 30.52$$

$$\text{Coefficient of Variance (C.V)} = \frac{\sigma}{\bar{Y}} \times 100 = \frac{30.52}{177.2} \times 100 = 17.22\%$$

For the calculation of Trend Analysis

Computations for straight line trend by Least Square method. The normal equations for estimating a and b are given by:

$$\sum Y = na + b\sum X \dots\dots\dots 1$$

$$\sum XY = a\sum X + b\sum X^2 \dots\dots\dots 2$$

$$a = \frac{\sum Y}{n} = \frac{886}{5} = 177.2$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{141}{10} = 14.1$$

The trend line be given by the equation: $Y = a + bX \dots\dots\dots 3$

Substituting the value in equations we get trend of NPA for the following years as follows:

Year	X = t-2006/07	Y = a + bX
2009/10	3	219.5
2010/11	4	233.6
2011/12	5	247.7
2012/13	6	261.8
2013/14	7	275.9

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation and to analyze the trend of different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

Appendix - 4

Calculation of Mean (\bar{Y}), Standard Deviation (σ) and C.V of

NPA to Total Lending Ratio for NABIL Bank

Year (t)	Ratio (Y)	$y=(Y-\bar{Y})$	y^2	X= t- 2006/07	XY	X^2
2004/05	1.32	0.248	0.062	-2	-2.64	4
2005/06	1.38	0.308	0.095	-1	-1.38	1
2006/07	1.12	0.048	0.0023	0	0	0
2007/08	0.74	-0.332	0.110	1	0.74	1
2008/09	0.8	-0.272	0.074	2	1.6	4
	ΣY =5.36		Σy^2 =0.3433	$\Sigma X=0$	ΣXY =-1.68	ΣX^2 =10

Here,

n = number of Year

Mean \bar{Y} = Mean of NPA to Total Lending

Where,

$$\text{Mean } (\bar{Y}) = \frac{\Sigma Y}{n} = \frac{5.36}{5} = 1.072$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\Sigma y^2}{n-1}} = \sqrt{\frac{0.3433}{4}} = \sqrt{0.086} = 0.29$$

$$\text{Coefficient of variance (C,V)} = \frac{\sigma}{\bar{Y}} \times 100 = \frac{0.29}{1.072} \times 100 = 27.05\%$$

For the calculation of Trend Analysis

Computations for straight line trend by Least Square method. The normal equations for estimating a and b are given by:

$$\sum Y = na + b\sum X \dots\dots\dots 1$$

$$\sum XY = a\sum X + b\sum X^2 \dots\dots\dots 2$$

$$a = \frac{\sum Y}{n} = \frac{5.36}{5} = 1.072$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{-1.68}{10} = -0.168$$

The trend line be given by the equation: $Y = a + bX \dots\dots\dots 3$

Substituting the value in equations we get trend of NPA for the following years as follows:

Year	X = t-2006/07	Y = a + bX
2009/10	3	0.568
2010/11	4	0.064
2011/12	5	(0.44)
2012/13	6	(0.944)
2013/14	7	(1.118)

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation and to analyze the trend of different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

Appendix - 5

Calculation of Mean (\bar{Y}), Standard Deviation (σ) and C.V of

Net Profit for NABIL Bank

(Rs. in

Million)

Year (t)	Net Profit (Y)	y =(Y- \bar{Y})	y^2	X=t- 2006/07	XY	X^2
2004/05	520	-201.2	40481	-2	-1040	4
2005/06	635	-86.2	7430.44	-1	-635	1
2006/07	674	-47.2	2227.8	0	0	0
2007/08	746	24.8	615	1	746	1
2008/09	1031	309.8	95976	2	2062	4
	ΣY =3606		Σy^2 =146730.24	$\Sigma X=0$	ΣXY =1133	ΣX^2 =10

Here,

n = number of Year

\bar{Y} = Mean of Net Profit

Where,

$$\text{Mean } (\bar{Y}) = \frac{\Sigma Y}{N} = \frac{3606}{5} = 721.2$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma y^2}{n-1}} = \sqrt{\frac{146730.24}{4}} = \sqrt{36682.56} = 191.53$$

$$\text{Coefficient of Variance (C.V)} = \frac{\sigma}{\bar{Y}} \times 100 = \frac{191.53}{721.2} \times 100 = 26.56\%$$

For the calculation of Trend Analysis

Computations for straight line trend by Least Square method. The normal equations for estimating a and b are given by:

$$\sum Y = na + b \sum X \dots\dots\dots 1$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots 2$$

$$a = \frac{\sum Y}{n} = \frac{3606}{5} = 721.2$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{1133}{10} = 113.3$$

The trend line be given by the equation: $Y = a + bX \dots\dots\dots 3$

Substituting the value in equations we get trend of NPA for the following years as follows:

Year	X = t-2006/07	Y = a + bX
2009/10	3	1061.1
2010/11	4	1174.4
2011/12	5	1287.7
2012/13	6	1401
2013/14	7	1514.3

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation and to analyze the trend of different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

Appendix-6

Calculation of Mean (\bar{Y}) Standard Deviation (σ) and C.V of ROA for NABIL Bank

Year (t)	ROA (Y)	y =(Y- \bar{Y})	y ²	X=t- 2006/07	XY	X ²
2004/05	3.06	0.284	0.081	-2	-6.12	4
2005/06	3.23	0.454	0.21	-1	-3.23	1
2006/07	2.72	-0.056	0.003	0	0	0
2007/08	2.32	-0.456	0.21	1	2.32	1
2008/09	2.55	-0.226	0.05	2	5.1	4
	ΣY =13.88		Σy^2 =0.554	$\Sigma X=0$	ΣXY =-1.93	ΣX^2 =10

Here,

n = number of Year

\bar{Y} = Mean of ROA

Where,

$$\text{Mean } (\bar{Y}) = \frac{\Sigma Y}{N} = \frac{13.88}{5} = 2.776$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma y^2}{n-1}} = \sqrt{\frac{0.554}{4}} = \sqrt{0.1385} = 0.37$$

$$\text{Coefficient of Variance (C.V)} = \frac{\sigma}{\bar{Y}} \times 100 = \frac{0.37}{2.776} \times 100 = 13.33\%$$

For the calculation of Trend Analysis

Computations for straight line trend by Least Square method. The normal equations for estimating a and b are given by:

$$\sum Y = na + b\sum X \dots\dots\dots 1$$

$$\sum XY = a\sum X + b\sum X^2 \dots\dots\dots 2$$

$$a = \frac{\sum Y}{n} = \frac{13.88}{5} = 2.776$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{1.193}{10} = 0.193$$

The trend line be given by the equation: $Y = a + bX \dots\dots\dots 3$

Substituting the value in equations we get trend of NPA for the following years as follows:

Year	X = t-2006/07	Y = a + bX
2009/10	3	2.197
2010/11	4	2.004
2011/12	5	1.811
2012/13	6	1.618
2013/14	7	1.425

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation and to analyze the trend of different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

APENDIX- 7

Calculation of Correlation of Coefficient between Total Deposit and Total Lending of NABIL

Fiscal Year	Total Deposit(X ₁)	Total Lending (X ₂)	(X ₁) ²	(X ₂) ²	(X ₁) × (X ₂)
2004/05	14587	10586	212780569	112063396	154417982
2005/06	19347	12923	374306409	167003929	2480865811
2006/07	23342	15546	544848964	241678116	362874732
2007/08	31915	21365	1018567225	456463225	681863975
2008/09	37348	27590	1394873104	761208100	1030431320
	Σ X ₁ = 126539	Σ X ₂ =88010	Σ(X ₁) ² = 3545376271	Σ(X ₂) ² = 1738416766	Σ X ₁ X ₂ = 24776745900

Here,

n = Number of year

\bar{X}_1 = mean of the Total Deposit

\bar{X}_2 = Mean of the Total Lending

$$\bar{X}_1 = \frac{\sum X_1}{n} = \frac{126539}{5} = 25307.8$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = \frac{88010}{5} = 17602$$

$$r = \frac{5 \sum X_1 X_2 - \sum X_1 \cdot \sum X_2}{\sqrt{5 \sum X_1^2 - (\sum X_1)^2} \times \sqrt{5 \sum X_2^2 - (\sum X_2)^2}}$$

$$= \frac{11747222950 - 10256597390}{\sqrt{(17726881355 - 16012118521)} \times \sqrt{(8692083830 - 7745760100)}}$$

$$= \frac{1261349060}{\sqrt{946323730} \sqrt{1714762830}}$$

$$= \frac{1261349060}{30762.38 \times 41409.69}$$

$$= \frac{1261349060}{1273860619}$$

=0.99 (Positively Correlated)

Calculation of P.E to find the reliability of the value of Pearson Coefficient of Correlation.

n=5

$$r=0.99$$

$$\begin{aligned} P.E &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{0.0199}{\sqrt{5}} \\ &= 0.006 \end{aligned}$$

Now,

$$6 \times P.E (r) = 0.036$$

Since, $r=0.99 > 6 \times P.E (r)$, r is highly significant, hence this conclusion is correct.

In the case $r < 6 \times P.E (r)$, r is insignificant and the conclusion is incorrect.

Note: i) Same Process has been adopted to calculate the correlation coefficient, P.E. and 6P.E. between different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

APPENDIX-8

Calculation of Correlation of Coefficient between NPA and Total Loan of NABIL

Fiscal Year	NPA (X ₁)	Total Loan (X ₂)	(X ₁) ²	(X ₂) ²	(X ₁)(X ₂)
2004/05	144	10586	20736	112063396	1524384
2005/06	180	12923	32400	1647003929	2326140
2006/07	178	15546	31684	241678116	2767188
2007/08	159	21365	25281	456463225	3397035
2008/09	225	27590	50625	761208100	6207750
	Σ X ₁ = 886	Σ X ₂ =88010	Σ(X ₁) ² = 160726	Σ(X ₂) ² = 1738416766	Σ X ₁ X ₂ =16222497

Here,

n = Number of year

X₁= NPA

X₂= Total Loan

\bar{X}_1 = Mean of NPA

\bar{X}_2 = Mean of Total Loan

$$\bar{X}_1 = \frac{\sum X_1}{n} = \frac{886}{5} = 177.2$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = \frac{88010}{5} = 17602$$

$$r = \frac{5 \sum X_1 X_2 - \sum X_1 \cdot \sum X_2}{\sqrt{5 \sum X_1^2 - (\sum X_1)^2} \times \sqrt{5 \sum X_2^2 - (\sum X_2)^2}}$$

$$= \frac{81112485 - 77976860}{\sqrt{(803630 - 784996)} \times \sqrt{(8692083830 - 7745760100)}}$$

$$= \frac{3135625}{\sqrt{18634} \times \sqrt{946323730}}$$

$$= \frac{3135625}{136.5 \times 30762.38}$$

=0.75 (Positively correlated)

Calculation of P.E to find the reliability of the value of Pearsonian Coefficient of Correlation.

$$n=5$$

$$r=0.75$$

$$\begin{aligned} P.E &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{0.4375}{\sqrt{5}} \\ &= 0.132 \end{aligned}$$

Now,

$$6 \times P.E (r) = 0.792$$

Since, $r=0.96 < 6 \times P.E (r)$, r is highly insignificant, hence this conclusion is incorrect

In the case $r > 6 \times P.E (r)$, r is significant and the conclusion is correct.

- Note: i) Same Process has been adopted to calculate the correlation coefficient, P.E. and 6P.E. between different variables of other banks.*
- ii) Data have extracted from the annual reports of concern banks.*

APPENDIX- 9

Calculation of Correlation of Coefficient between NPA Ratio and ROA of NABIL

Fiscal Year	NPA Ratio (X ₁)	ROA (X ₂)	(X ₁) ²	(X ₂) ²	(X ₁) (X ₂)
2004/05	1.32	3.06	1.7424	9.3636	4.0392
2005/06	1.38	.023	1.9044	10.4329	4.4574
2006/07	1.12	2.72	1.2544	7.3984	3.0464
2007/08	0.74	2.32	0.5476	5.3824	1.7168
2008/09	0.8	2.55	0.64	6.5025	2.04
	∑ X ₁ = 5.36	∑ X ₂ =13.9	∑(X ₁) ² = 6.0888	∑(X ₂) ² = 39.0798	∑ X ₁ X ₂ = 15.2998

Here,

n = Number of year

\bar{X}_1 = Mean of NPA Ratio

\bar{X}_2 = Mean of ROA

$$\bar{X}_1 = \frac{\sum X_1}{n} = \frac{5.36}{5} = 1.072$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = \frac{13.88}{5} = 2.776$$

$$\begin{aligned}
 r &= \frac{5 \sum X_1 X_2 - \sum X_1 \sum X_2}{\sqrt{5 \sum X_1^2 - (\sum X_1)^2} \times \sqrt{5 \sum X_2^2 - (\sum X_2)^2}} \\
 &= \frac{76.499 - 74.3968}{\sqrt{(30.444 - 28.7296)} \times \sqrt{(195.399 - 192.654467)}} \\
 &= \frac{2.1}{\sqrt{1.7144} \times \sqrt{2.745}} \\
 &= \frac{2.1}{1.31 \times 1.66} \\
 &= 0.96 \text{ (Positively Correlated)}
 \end{aligned}$$

Calculation of P.E to find the reliability of the value of Pearsonian Coefficient of Correlation.

n=5

$$r=0.96$$

$$\begin{aligned} P.E &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{0.0784}{\sqrt{5}} \\ &= 0.024 \end{aligned}$$

Now,

$$6 \times P.E (r) = 0.144$$

Since, $r=0.96 > 6 \times P.E (r)$, r is highly significant, hence this conclusion is correct.

In the case $r < 6 \times P.E (r)$, r is insignificant and the conclusion is incorrect.

Note: i) Same Process has been adopted to calculate the correlation coefficient, P.E. and 6P.E. between different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

APENDIX - 10

Calculation of correlation of coefficient between NPA and Net Profit of NABIL

Fiscal Year	NPA (X ₁)	Net Profit(X ₂)	(X ₁) ²	(X ₂) ²	(X ₁) × (X ₂)
2004/05	144	520	20736	270400	74880
2005/06	180	635	32400	403225	114300
2006/07	178	674	31684	454276	119972
2007/08	159	746	25281	556516	118614
2008/09	225	1031	50625	1062961	231975
	Σ X ₁ = 886	Σ X ₂ =3606	Σ(X ₁) ² = 160726	Σ(X ₂) ² = 2747378	Σ X ₁ X ₂ =659741

Here,

n = Number of year

\bar{X}_1 = Mean of NPA

\bar{X}_2 = Mean of Net Profit

$$\bar{X}_1 = \frac{\sum X_1}{n} = \frac{886}{5} = 177.2$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = \frac{3606}{5} = 721.2$$

$$\begin{aligned}
 r &= \frac{5 \sum X_1 X_2 - \sum X_1 \cdot \sum X_2}{\sqrt{5 \sum X_1^2 - (\sum X_1)^2} \times \sqrt{5 \sum X_2^2 - (\sum X_2)^2}} \\
 &= \frac{3298705 - 3194916}{\sqrt{(803630 - 784996)} \times \sqrt{(13736890 - 13003236)}} \\
 &= \frac{103789}{\sqrt{18634} \times \sqrt{733654}} \\
 &= \frac{103789}{136.5 \times 856.54} \\
 &= 0.89
 \end{aligned}$$

Calculation of P.E to find the reliability of the value of Pearson Coefficient of Correlation.

$$n=5$$

$$r=0.89$$

$$\begin{aligned} P.E &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{0.2079}{\sqrt{5}} \\ &= 0.063 \end{aligned}$$

Now,

$$6 \times P.E (r) = 0.38$$

Since, $r=0.89 > 6 \times P.E (r)$, r is highly significant, hence this conclusion is correct.

In the case $r < 6 \times P.E (r)$, r is insignificant and the conclusion is incorrect.

Note: i) Same Process has been adopted to calculate the correlation coefficient, P.E. and 6P.E. between different variables of other banks.

ii) Data have extracted from the annual reports of concern banks.

QUESTIONNAIRE

Dear Sir,

This questionnaire is for the partial requirement under the thesis preparation under the topic, Non Performing Assets of commercial banks, to be submitted to the Tribhuvan University, Faculty of Management.

You are requested to tick each of the alternatives given or supply the short answers, if required to the questions so supplied.

Name of Respondent:

Name of Organization:

Position:

1. Which sector will you choose for the granting loan? Supply your list from 1 to 5. 1 being the most important factor and 5 for the least.

- a. Small businesses (.....)
- b. Service sector (.....)
- c. Housing and real estate (.....)
- d. Manufacturing Sector (.....)
- e. Others. Please Specify (.....)

2. In your opinion which sector is safe in terms of lending?

- a. Small Businesses (.....)
- b. Service sector (.....)
- c. Housing and real estate (.....)
- d. Manufacturing sector (.....)
- e. Treasury Bills Purchase (.....)
- f. Public Sectors (.....)
- g. Other. Please Specify (.....)

3. What factors do you consider while sanctioning loan to the client?
Supply your list from 1 to 7. [1 being the most important factor and 7 for the least.]

- a. Collateral (.....)
- b. Character of the client (.....)
- c. Project/Business of the client (.....)
- d. Income generation from the business (.....)
- e. Business & Family Background (.....)
- f. Experience of the major promoter/Proprietor (.....)
- g. Other. Please Specify

4. What are the major factors of NPA in the most of the banks?

- a. Political Influences (.....)
- b. Character of Client (.....)
- c. Liquidity Crisis (.....)
- d. Others. Please Specify

5. In your organization, which sector is contributing more in the NPA?

- a. Real estate (.....)
- b. Production (.....)
- c. Service Sector (.....)
- d. Small Businesses (.....)
- e. Others. Please Specify

6. Does your bank follow the proper Loan Loss Provision [LLP] as per the guidelines of the NRB?

- a. Yes. (.....)
- b. No. (.....)
- c. Don't know (.....)

7. Does NPA have any effect on the profitability of the banks?
- a. Yes (.....)
 - b. No (.....)
 - c. Don't Know (.....)
8. Does NPA have any impact on overall operation of the banks?
- a. Yes (.....)
 - b. No (.....)
 - c. Don't know (.....)
9. Rate the causes of problems associated with NPA in your organization, on important basis. 1 being the most likely.
- a. Economy of the country (.....)
 - b. Lack of efficient monetary (.....)
 - c. Managerial Inefficiency (.....)
 - d. Intention of businessman (.....)
 - e. NRB Guidelines (.....)
 - f. Lack of Assets Management Company (.....)
 - g. Lack of Proper documentation (.....)
 - h. Difficulty in execution of court processing (.....)
 - i. Others. Please Specify (.....)

Thank you

Response of Questionnaire

Questions No.	a	b	c	d	e	f	g	h	i	Total
1	15 (30%)	10 (20%)	7 (14%)	12 (24%)	6 (12%)	-	-	-	-	50 (100%)
2	6 (12%)	8 (16%)	2 (4%)	7 (14%)	21 (42%)	4 (8%)	2 (4%)	-	-	50 (100%)
3	3 (6%)	5 (10%)	20 (40%)	15 (30%)	2 (4%)	5 (10%)	-	-	-	50 (100%)
4	9 (18%)	12 (24%)	23 (46%)	6 (12%)	-	-	-	-	-	50 (100%)
5	21 (42%)	9 (18%)	7 (14%)	7 (14%)	6 (12%)	-	-	-	-	50 (100%)
6	41 (82%)	-	9 (18%)	-	-	-	-	-	-	50 (100%)
7	39 (78%)	11 (22%)	-	-	-	-	-	-	-	50 (100%)
8	47 (94%)	-	3 (6%)	-	-	-	-	-	-	50 (100%)
9	9 (18%)	4 (8%)	6 (12%)	12 (24%)	5 (10%)	6 (12%)	2 (4%)	4 (8%)	2 (4%)	50 (100%)

Note: Figures in brackets reveals the percentage of respondents