

# CHAPTER –I

## INTRODUCTION

### **1.1 Background of the Study**

Commercial banks are major financial institutions, which occupy quite an important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks to maximize quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

The SWOT analysis is related to loan management policy of a firm that provides the framework to determine whether or not to extend credit and how much credit to extend. The loan management policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis.

The wave of rising expectation and aspiration of people at present context of society, realized the need for rapid socio-economic development in the nation building process. The government has imparted a dynamic role and assigned the public sector with greater responsibility in fulfilling national goals and objectives. With this realization, the government initiated to build up multi-sector infrastructure in the fields of agriculture, industry, commerce, public works, transport, etc. In this context, banking was seen as a major supportive industry to uplift the economic condition of nation and its residents. Therefore, the government has adopted a liberal economic policy regarding operations of banks. About the financial liberalization process it is stated that the interest rate deregulation, curtailment or elimination of directed credits, lifting entry and

exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization. This led to the influx of commercial banks in Nepal resulting today into 32 commercial banks. NABIL (previously Nepal Arab Bank Limited), the first joint venture bank in Nepal which was established on 2041 B.S. after adopting financial and economic liberalization policy by the government.

The first financial institution was introduced during the prime-ministership of Ranodip Singh (1933 B.S.) in the name of “Tejrath Adda” for granting loan to employees and public against security of gold silver and other treasures. Banking in true sense started with the inception of Nepal Bank Limited (NBL), a semi-governmental bank in 1994 B.S. NBL had a responsibility of attracting public out from the dominance of Sahu Mahajans and introducing banking services as well. After 20 years having an objective of developing banking practice, Nepal Rastra Bank started its operations from 14<sup>th</sup> Baisakh, 2013 BS. Nepal Bank Limited was only one commercial bank until 2022 B.S. To develop a speedy and competitive banking service by reaching nooks and corners of the country, a fully government owned bank – Rastriya Banijya Bank was established in 2022 B.S.

Despite all these efforts, financial sector was found sluggish. The traditional financial system could not provide the public a quality service. Thus, the government initiates a liberal competition, which started to attract foreign investments. A foreign joint venture bank was established in 2041 B.S. with the name of Nepal Arab Bank Limited (now NABIL), which was the first joint venture commercial bank in Nepalese financial history. NABIL started knocking the doors of customers breaking the trend of knocking the doors of banks by customers (*Bhattarai, 2006: 4-6*).

It has been fully established that economic development of any country can be achieved only through a balanced growth in the field of industry, trade

commerce and agriculture. And it has equally self-evident that commercial banks play vital role in the development of these fields. Therefore, productivity and competitiveness of commercial banks is very essential.

Lending is the primary business of any commercial bank and interest earned from them is the main source of income. Once the loan is given, it is supposed that the repayment of interest and principal shall have to be served without any hindrance. But it is not always true. Loans and interests are not always paid so easily by all the customers. Loans landed to the customers come under the Assets heading of balance sheet; and those loans which are not paid in time are considered as Non Performing Loan or Non Performing Assets (NPA). The criteria that determine a loan as NPA varies in different countries. In Nepalese scenario, Nepal Rastra Bank has classified the loans and advances as Non Performing Assets which are due for more than 90 days. Whatever the criteria is, the unhidden fact is that the NPA affects the banks operation and growth adversely. NPA has several impacts on financial institutions. Investments become worthless as expected return cannot be realized on the one hand and on the other hand, due to provisioning required for the risk mitigation, the profitability is directly affected. Similarly, monitoring expenses of such loans are costly too. Therefore, proper management, cost efficiency and speedy disposal of Non Performing Assets (NPA) are the most critical tasks of banks today to remain competitive. The problem of NPA in banks and financial institutions has been a matter of grave concern not only for the banks but also the real economy in general, as NPA can choke further expansion of credit which would impede the economic growth of the country. Any bottleneck in the smooth flow of credit is bound to create adverse repercussions in the economy. NPA is not therefore the concern of only lenders but also the public at large. Similarly, profit making is one of the major mottos of commercial banks and reducing the operating cost is one of the main deterministic factors to increase profitability. So, cost efficiency is also a major area of concern of commercial banks (*Thapa, 2008:20-22*).

A number of international researches show that there is a negative relationship between cost efficiency and NPA. Cost-inefficient banks may tend to have loan performance problems for a number of reasons. For example, banks with poor senior management may have problems in monitoring both their costs and their loan customers, with the losses of capital generated by both these phenomena potentially leading to failure. Some other researches also show that there is a positive relationship between cost efficiency and NPA. They show that controlling extra cost such as underwriting and loan monitoring expenditures in order to achieve cost efficiency may reduce the operating cost in short run but it leads towards the increase in NPA in long run.

Till the date there are 32 commercial banks operating in Nepal. Janta Bank Limited has also been listed in 'A' class financial institutions few months ago. Therefore, there are 32 'A' class financial institutions (commercial banks). Till the period of this study, a new commercial bank has also been found to be licensed to practice commercial banking operations in Nepal.

By the end of mid July 2011 altogether 295 banks and non-bank financial institutions licensed by NRB are in operation. Out of them 32 are commercial banks, 58 are development banks, 78 are finance companies, 12 micro credit development banks, 16 co-operative societies and 46 NGOs (*Banking and Financial Statistics, Mid July 2011, NRB*).

This study “Comparative SWOT Analysis of Nepal Bank Limited (NBL) and Nepal Credit & Commerce Bank Ltd (NCCBL)” concentrates on the financial performance of NCCBL and NBL operating in Nepal and implications of new directives of Nepal Rastra Bank towards the performance. The performance of Nepal Bank Limited (NBL) and Nepal Credit & Commerce Bank Ltd (NCCBL) are evaluated along with the brief analysis of the state of the economy which provides the opportunities as well as threats to the commercial banks. This study is basically focused on the national economy as a whole. The financial performance of the banks can be evaluated on the basis of meeting of

their objectives and fulfilling of the function analyzing financial performance in a process of evaluating relationship between components parts of financial statements to obtain a better understanding of a banks position and performances.

The present research paper directly focuses on the financial performance of the economy in Nepal. The study on the financial strength and weakness of Nepal Bank Limited and Nepal Credit & Commerce Bank Limited as a Commercial Bank would be a dealt throughout the research process. For the purpose, the study evaluates the position of the banks with respect to liquidity, leverage, capital adequacy, turnover and profitability and tests the relationship between various variables. The study assumes the hypothesis that the performance of sampled banks does not differ significantly. Analyze the SWOT i.e. Company's strengths & weaknesses and opportunities & threats.

This study is basically focused on strength, weakness, opportunity and threat on the selected period to know its impact on the national economy as a whole. The financial performance of the bank can be evaluated on the basis of meeting of their objectives and fulfilling of the function Analyzing financial performance in a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a banks position and performances.

### **1.1.1 Introduction to Sample Banks**

#### **a) Nepal Bank Limited (NBL)**

The Nepal Bank Limited was established in 1994 B.S. with the government initiative as the first commercial bank of the country. It is the pioneer, oldest and well trusted bank in Nepal. The concept of banking introduced in Nepal with the establishment of Nepal Bank Limited. From the beginning years of operations, NBL has been semi private and semi-government organization. Although the bank has to pass through a number of difficulties during its early

years, yet it has done pioneering work in taking the banking habit to people, who were generally used to the traditional practices of monetary transactions in the non- monetized sector. Since NRB was founded only as late as 1956, for a few years the Nepal Bank Limited has to manage, apart from commercial functions almost all banking transactions including those of the government, however limited. The government to this bank also entrusted the entire business of note exchange and related activities. Up to 1965, before the establishment of the RBB, the bank was an authorized agent of the Rastra bank. In places where the RBB does not have branches, it undertakes a number of activities including the foreign exchange buying and selling business. The Nepal Bank has agencies in India, United States, Britain, Switzerland and West Germany. In those early years, the main functions of the bank were government exchange, business and the advancing the money to the public against gold and silver. Gradually, its transactions widened with expanding banking and commercial activities. The Nepal Bank was set up a time, when banking was little known in the country, all banking activities being limited to money lending. Nepal Bank Limited was headquartered in Kathmandu and was able to expand its 234 branch network in 75 districts. However due to political instability and various security reasons many branch offices of NBL were either closed down or merged with one another and ultimately number reached to 96. However, after restoration of peace in the country, it again started reinstating previous branches and thus currently NBL has been providing banking service from its 108 branch offices extended throughout the country.

Even being the largest and oldest bank of the country, the financial health of the bank was worsening day by day. Due to its ill health, under Financial Sector Reform Programme of NRB with technical assistance program of The World Bank, a management team namely “ICCMT “ consisting of International Banker’s from bank of Scotland (Ireland) was appointed on July 22, 2002 to restructure the bank on two years contract basis. Due to their satisfactory performance their contract period was extended for further few years which

finally concluded on July 21, 2007. Currently management team from Nepal Rastra Bank is handling the bank.

**b) Nepal Credit and Commerce Bank Limited (NCCBL)**

Nepal Credit & Commerce Bank Ltd. (NCC Bank) formally registered as Nepal - Bank of Ceylon Ltd. (NBOC), commenced its operation on 14th October, 1996 as a Joint Venture with Bank of Ceylon, Sri Lanka. It was the first private sector Bank with the largest authorized capital of NRS. 1,000 million. The Head Office of the Bank is located at Siddhartha Nagar, Rupandehi, the birthplace of LORD BUDDHA, while its Corporate Office is placed at Bagbazar, Kathmandu.

The name of the Bank was changed to Nepal Credit & Commerce Bank Ltd., (NCC Bank) on 10th September, 2002, due to transfer of shares and management of the Bank from Bank of Ceylon, an undertaking of Government of Sri Lanka to Nepalese Promoters.

Nepal Credit and Commerce bank is one of the associate companies of NB Group. Due to various reasons bank could not perform well during last couple of years. Thus, considering the deteriorating financial condition of the bank, new management team was hired on 2007 with Mr. Ratna Raj Bajracharya as the new Chief Executive Officer. Currently, NCC Bank is managed by a professional management team. The members of the management have proven track record in the banking sector.

NCC Bank provides banking facilities and services to rural and urban areas of the Kingdom through its 17 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

**1.2 Statement of the Problem**

Strength, weakness opportunity and threat (SWOT) of bank is the essence of commercial banking; consequently the formulation and implementation of

lending policies are among the most important responsibilities of directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit based on SWOT analysis. SWOT analysis effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks.

The need of financial resources in a developing country like Nepal is essential for the economic development of country. All the sectors from industrial and commercial to agriculture and infrastructure are in need of finance. Although the growth of industrial loans has not been encouraging in the recent years, there is sizable growth in the commercial and other short-term credits. Commercial banks are focusing loans on consumer loans like housing, vehicle, education loan etc. It is encouraging to explore new sector for loan management based on SWOT analysis but it should also be considered that industrial loan should be prime importance as the economy largely depends on this sector.

Lending policies are reported to be not systematic and no clear cut vision of policy is available on lending aspect. A new customer finds that loan providing process being very complicated and sometimes the documents submitted for loan sanctioning being fraudulent and for formality purpose only. In this perspective the study deals with the strength, weakness and opportunity and threat analysis (SWOT) of Nepal Bank Limited and Nepal Credit & Commerce Bank Limited.

Mainly the study emphasis lay upon the financial strength and weakness of Nepal Credit & Commerce Bank Limited and Nepal Bank Limited. Besides commercial banks, development banks and joint venture banks are also being registered by Nepalese and Foreign promoters. Other institutions offering similar nature of services like finance companies, co-operative societies and savings banks are growing in large number. The struggle and survival, pros and

Cons, ups and downs and ability of the bank to adopt in the changing economic condition effectively would be dealt and analyzed.

The main focus in this thesis is on the problem of Non-Performing Assets (NPAs) which seems to be confronting the Nepalese Banking Sector with several far-reaching implications. Taking cognizance of the fact that banking business involves a great deal of risk in terms of its borrowing and lending operations, it is observed that transactions involving credit risk are a key source of earnings in consonance with a bank's business strategy. It is argued that even though the banks conduct comprehensive risk management from the perspective of their overall credit risk portfolio in addition to an assessment of individual credit risk assets including loans and advances, in actual practice these turn out to be non-productive and non-rewarding and eventually tend to become Non-Performing Assets. Needless to emphasize, these Non-Performing Assets obviously have a deleterious impact on banks' ability in the matter of recycling of the credit as also on their overall profitability. It is mainly on account of the fact that the amounts of money get locked up in Non-Performing Assets and, as such, is not available for further productive use. In the ultimate analysis it also adversely impacts the profitability of our banking sector. Nepalese Banking Sector is set to be plagued to a considerable extent by the problem of NPA and is crying for the appropriate policy measures to cope with the said problem which is considered to be relatively more severe as compared to the international standards.

Against such a backdrop, an objective assessment of the problem and the search for appropriate remedial measures in respect of the commercial banks in Nepal is likely to be both informative and rewarding from the view point of its academic worth as also from that of policy making for the future.

Commercial banks are the apex entities of economy in any nation for prompting different business activities such as agriculture, trade, industry and commerce. As such activities get momentum; excess dependency on

agriculture sector about livelihood will automatically be reduced. Hence necessity of these institutions have been realized the must. In addition to this, NBL and NCCBL have been providing a nice platform for the businessmen who plan to capitalize future opportunities with both financial and technical support which helps on the increment of entrepreneurial activity.

As shown above, number of financial institution in the country is growing rapidly. Competition among such institutions is on a rise as all these institutions are elevating themselves in the financial market. In this taut environment, NBL and NCCBL are standing with weak financial position regarding to NPA. Endowing loan without proper analysis was the great error of both the banks. Even the banks have strong credit manuals, the NPA level of these banks are still high in comparison with the other banks in Nepal. No company can earn smoothly without well managed loan portfolio. With the prevailing economic condition of the country, the investment in manufacturing, productive, agriculture and industrial sectors has not grown satisfactorily. The problem of the study will be focused on finding out financial strengths, weaknesses, opportunities, and threats of the Nepal Credit and Commerce Bank Limited and Nepal Bank Limited.

With the prevailing economic condition of the country, the investment in manufacturing, productive, agriculture and industrial sectors has not grown satisfactorily. Hence, NCCBL is also not succeeding perfectly to shift the deposit in profitable sectors. The problem of the study will be focused on finding out the following reasons for the differences in their respective financial strengths, weaknesses, opportunities, and threats. In this perspective the study deals with the following issues:

- How far has NCCBL and NBL been able to shift the monetary resources from savers to users?
- What is the position of the concerned banks in terms of liquidity, leverage, capital adequacy, and profitability?

- How sound is the operational result in relation to profitability?

Hence, the NCCBL and NBL are also not succeeding perfectly to shift the deposit in profitable sectors. The problem of the study will be focused on finding out the reasons of the different financial performance.

### **1.3 Objective of the Study**

The general objective of this study is to examine the financial strength and weakness, opportunity and threat of Nepal Credit & Commerce Bank Ltd. (NCCBL) and Nepal Bank Limited (NBL). Therefore, to attain the mentioned objective, following specific objectives have been set:

- a) To evaluate the comparative financial Strength, Weakness, Opportunities and threats (SWOT) of NBL and NCCBL.
- b) To evaluate the financial position (liquidity and profitability position) of NCCBL and NBL.
- c) To evaluate effectiveness of monitoring and collecting policies of the sample bank.
- d) To examine the trend of deposit, lending and the deposit mobilization with reference to investment, loan and advance.

### **1.4 Significance of the Study**

There are few researches done in SWOT analysis of commercial banks. SWOT analysis is one of most important aspect of a bank. The study on analysis of SWOT of the chosen selected banks would be beneficial to the shareholders, banking professional, investors, teachers and students of banking management.

This study basically helps to ascertain the financial strength and weakness of the public bank as NBL and private bank as NCCBL. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Because of rapidly increasing financial institutions, other joint

venture banks. They are creating threats to the banks due to increasing competition. Most of the investors are investing their money and assets without any proper knowledge and information. So till now, investment seems just like “shooting in the dark”. So this study can become important to the management of the banks, financial institutions and other different groups. Likewise, it is also helpful for policy makers, academicians, professionals, bankers, shareholders, students etc.

This study focuses in the qualitative measurement of the Nepal Bank Limited and Nepal Credit and Commerce Bank Limited. Similarly, the finding of the study will equally important to other who is interest in knowing about this particular bank. Last but not least, it will provide relevant and pertinent literature for future research on the area of SWOT analysis of banks. Thus, the study of SWOT of NBL and NCCBL will be beneficial for:

**a) Shareholders:**

Shareholders are the true owners of the company. This study will be useful to them for acquiring answers to the following questions.

- What is the position of the loans given by the bank?
- Why the bank is not earning much?
- To what extent is the bank gaining from the loans?
- What is the financial position of the bank?

**b) Management:**

This study will be helpful to compare and analyze own with other regarding performance via: success or failure in loan management, effectiveness and own evaluations.

**c) Outsiders:**

Customers, creditors, competitors, investors, financing agencies, stock exchange, personnel can get information about the performance of NBL’s and NCCBL’s NPAs with the help of this analysis.

**d) Policy Makers:**

Officers of government, ministry, central bank, and security exchange and tax office can formulate appropriate policy regarding commercial banks with the help of this study.

**e) Government:**

Government sector is responsible for making several kinds of policy decisions. This report comprising of the study of commercial banks may provide a beautiful insight to form and thus bring policies conducive to banking sector.

**f) All other interested individuals & parties:**

This study is also significant to all other interest individuals and parties those wishing to have some potential knowledge regarding profitability of the sampled commercial banks. This study may provide a valuable insight to the concerned parties who want to become investors in the shares of such companies.

**1.5 Limitations of the Study**

There are some inherent limitations in this research study which are presented below:

- i. The study is confined only to the fiscal years 2005/06 to 2010/11. So the generalization is based on these periods only.
- ii. Only two banks namely NBL and NCCBL have been selected for the study purpose. Comparison with only two out of so many contemporary firms may not be able to draw the clear position of the industry as a whole.
- iii. Reports are based mainly on the published data of the sampled banks, which may be manipulated with.
- iv. Most of the data collected are of secondary nature which itself is a limiting factor. But for the clarification purpose primary data have also been collected.

- v. There is a slight variation in data published in annual report of the concerned banks and data obtained from Banking and financial statistics published by Nepal Rastra Bank. However, data from both sources has been used in this study as per need basis. Due to this limitation factor, conclusion generated from this study may not reflect the accurate and clear status of loan and NPA of both selected banks.

## **1.6 Organization of the Study**

The study SWOT in NBL and NCCBL is presented in organized form. The whole research is divided into five chapters and they are as given below.

The first chapter comprises of general background entering the study, brief profile of the banks under study, significance of the study, objectives of the study, limitations of the study and organization of the study.

The second chapter includes the review of previous researches, reports and articles, books and journals on SWOT.

The third chapter includes the research method, research design, data collection procedure, tools for analysis (Statistical and financial tools), methods of analysis and presentation.

The fourth chapter includes presentations and analysis of data to indicate the computed facts on NPA level on NBL and NCCBL. It would be done to find out the indications of the bank's financial strength and weakness.

The fifth chapter summarized the whole thesis report, presenting findings of all analysis along with concluding remarks with recommendations. Bibliography and appendices are also enclosed at the end of the thesis.

## CHAPTER- II

### LITERATURE REVIEW

#### **2.1 Conceptual Review**

Bank is considered as the backbone in the development of the national economy. It is a financial institution, which act as a transaction of money by accepting various types of deposit, disbursing loans and rendering other financial services. So, among the various function to provide loan to the investors is the major function. Through the loan, there will be increase in the environment of the investment and the bank has the major role in creating such an environment (*Erich, 1992:27*).

Bank plays a vital role in the economic development of a country. In fact, in the modern industrialized and service oriented era, the availability of banks with competitive services is the measure of economic development of a country.

While many people believe that banks play only a narrow role in the economy taking deposit and making loans the modern banking has had to adopt new roles in order to responsive to public needs. The principal role that a bank today play are:

- **The Intermediation role:**

Transferring the saving received primarily from the households into credit (loans) for business firms and other in order to make investments in the new buildings, equipment and other capital goods.

- **The payment role:**

Carrying out payment for goods and services on behalf of their customer (such as by issuing and clearing cheque and dispersing currency and coins.)

- **The Policy Role**

Serving as a conduct for government policy in attempting to regulate the growth of the economy and pursue social goal. In the financing decision, the financial manager is concerned with determining the best financing mix of an optimum capital structure. If a company can change its total valuation by varying its capital structure, an optimal financing mix would exist; in which market price per share could be maximized.

Another important decision of the firm is the dividend decision which includes the percentage of earnings paid to stockholders in cash dividends. The dividend-payout ratio determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder's wealth (*Van Horne, 1996:153*)

- **The Guarantor role:**

Starting behind the customers to pay off the customers debt when those customers are unable to pay (such as by issuing letters of credit). Some of guarantees are big bond, performance bond etc.

- **The Agency role**

Acting on behalf of the customers to manage and protect their property or issue and redeem their securities.

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the terms of

the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm. The focus of the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis; they are responsible for the overall efficient and effective utilization of the available resource and the financial position of the firm (*Erich, 1992:39*).

The vertical and horizontal analysis could be done for the SWOT analysis. The vertical analysis consists on financial Balance Sheet, Profit and Loss account of a certain period time only, which is known as static analysis. Likewise, the horizontal analysis consists on a series of statement relating to the number of years are reviewed and analyzed. It is also known as dynamic analysis that measures the change of the position or trend of the business over the number of the years. In this study, the horizontal analysis has been adopted to find out the financial indicator of the Nepal Credit and Commerce Bank Limited and Nepal Bank Limited over the period of time. The steps of analysis are as follows:

1. Selection of the information relevant to the decision.
2. Arrangement of the selected information to highlight the significant relationship of the financial yardsticks.
3. Interpretation and drawing of inferences and conclusion.

To evaluate the financial performance of a firm, the analyst needs a certain parameters of the company by which the quantitative relationship and its position come out. The most widely used effective tool of the financial analysis is the ratio analysis. Financial ratio helps us to find the symptoms of the operational and financial problems of a corporation which can be ascertained by examining the behavior of these ratios (*Erich, 1992:25-28*).

Ratio analysis is the systematic way of financial indicator, which can achieve the information of the firm's strength and weakness as its historical

performance, and current financial condition can be determined. After calculation various ratios, we need to compare with the certain standard and draw out the conclusion of the result (*Erich, 1992:29*).

‘Investment of funds in assets determines the size of the firm, its profits from the operations, its business risk and its liquidity. Obtaining the best mix of financing and dividends determine the firm’s financial charges and its financial risk, it also impacts its valuation.’ He further incorporates other core financial areas, such as:

- Creation of Value;
- Investment Decision;
- Financing Decision;
- Dividend Decision; and
- Financial Management.

The objectives of a company must be to create value for its shareholders. Market price of company’s stock represents its value and this can be maximized by firm’s optimum investment, financing and dividend decisions.

The Capital Investment decision is the allocation of the capital to investment proposals whose benefits are to be realized in the future. As the future benefits are not known with certainty, investment proposals necessarily involve risk. Consequently they should be evaluated in relation to their expected return and risk (*Van Horne, 1996:115*).

In the financing decision, the financial manager is concerned with determining the best financing mix of an optimum ‘Capital Structure’. If a company can change its total valuation by varying its capital structure, an optimal financing mix would exist; in which market price per share could be maximized (*Van Horne, 1996:116*).

Another important decision of the firm is the dividend decision which includes the percentage of earnings paid to stockholders in cash dividends. The

dividend-payout ratio determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder's wealth (*Van Horne, 1996:153*).

SWOT as an acronym used to describe the particular strength, weakness, opportunities and Threat that are strategic factors for a company. The combination of internal factors (strength and weakness) and external factors (threat and opportunity) is SWOT analysis. It presents the information about external and internal environment in structured form by which key external opportunities and threats can be compared systematically with internal capabilities and weaknesses. SWOT analysis is not only used to identify the capabilities and resources that a firm possesses and the superior way in which they are used but also used in the identification of opportunities that the firm is not currently able to take advantages due to lack of appropriate resources. Therefore, the objectives of SWOT analysis is to provide a framework to reflect organizational capabilities to avail opportunities or to overcome threats presented by the environment (*Donald, 1989:17*).

The most crucial decisions of the firm are those which relate to finance, and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skillfully. There are two kinds of finance functions:

- Routine and
- Managerial finance functions.

The Routine Finance functions do not require a great managerial ability to carry them out and they are chiefly clerical in nature. Managerial Finance functions, on the other hand are so called because they require skillful planning, control and execution of financial activities. According to him, there are four important managerial finance functions:

- Investment or long-term asset mix decision.
- Financing or Capital-mix decision.

- Dividend or Profit allocation decision.
- Liquidity or short-term asset-mix decision (*Pandey, 1994:56*).

Investors in financial asset face many different kinds of risk, but one of the most important is default risk, the risk that a borrower will not make all promised payments at the agreed upon times. All debt except some government securities is subject to varying degrees of default risk (*Helfert, 1992:35*).

He raises the issue of risk management in the banking sector. According to him, “Risk should be taken as one of the challenges of the banking industry but it is not sufficient to minimize the potential disasters. Banking risk should be managed as a separate part of the management in order to avail opportunities or to overcome threats presented by the environment” (*Helfert, 1992:42*).

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the terms of the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm. Here the focus is SWOT analysis of NCCBL and NBL. Basically the researcher studies the following points of the bank.

### **Strengths, Weaknesses, Opportunities and Threats (SWOT)**

**SWOT** analysis is a tool for auditing an organization and its environment. It is the first stage of planning and helps marketers to focus on key issues. SWOT stands for **strengths, weaknesses, opportunities, and threats**. Strengths and weaknesses are **internal** factors. Opportunities and threats are **external** factors (*Erich, 1992:12*).

**In SWOT, strengths and weaknesses are internal factors. For example: strength could be** (*Erich, 1992:15-18*):

- Your specialist marketing expertise.
- A new, innovative product or service.

- Location of your business.
- Quality processes and procedures.
- Any other aspect of your business that adds value to your product or service.

**A weakness could be:**

- Lack of marketing expertise.
- Undifferentiated products or services (*i.e. in relation to your competitors*).
- Location of your business.
- Poor quality goods or services.
- Damaged reputation.

**In SWOT, opportunities and threats are external factors. For example: An opportunity could be:**

- A developing market such as the Internet.
- Mergers, joint ventures or strategic alliances.
- Moving into new market segments that offer improved profits.
- A new international market.
- A market vacated by an ineffective competitor.

**A threat could be:**

- A new competitor in your home market.
- Price wars with competitors.
- A competitor has a new, innovative product or service.
- Competitors have superior access to channels of distribution.
- Taxation is introduced on your product or service.

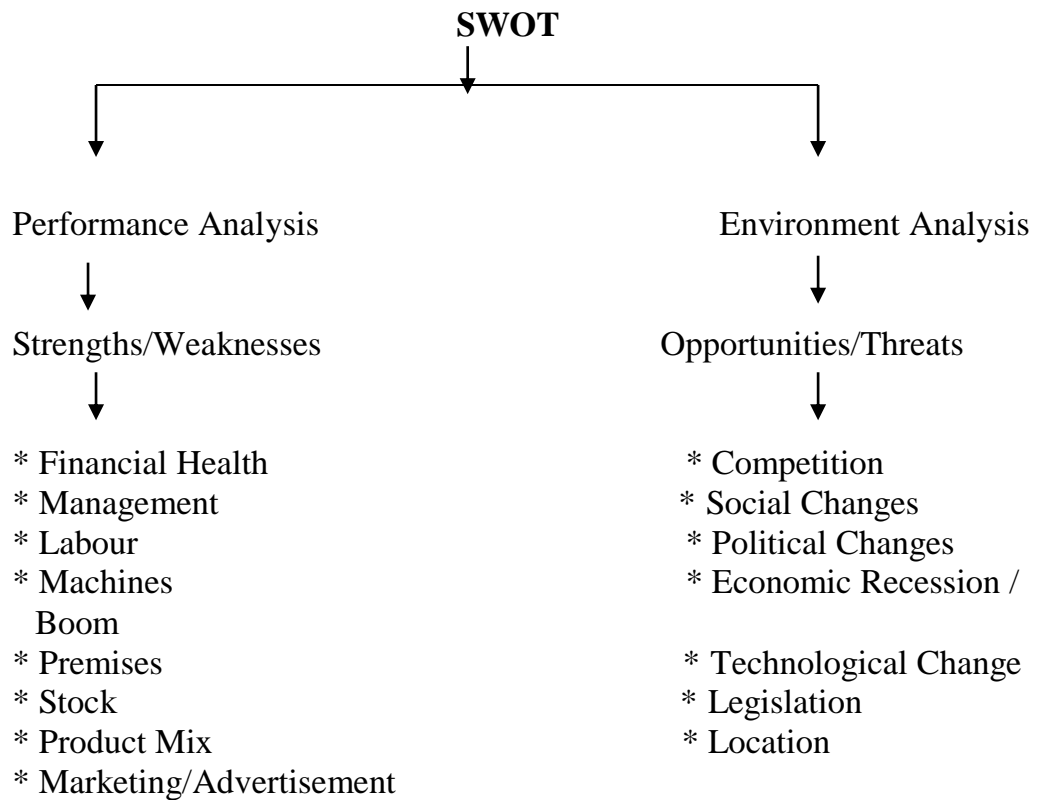
A word of caution, SWOT analysis can be very subjective. Two people rarely come-up with the same final version of SWOT. It simply looks at the negative factors first in order to turn them into positive factors. So use of SWOT should be as guide and not a prescription.

### **Simple rules for successful SWOT analysis**

- Be realistic about the strengths and weaknesses of your organization when conducting SWOT analysis.
- SWOT analysis should distinguish between where your organization is today, and where it could be in the future.
- SWOT should always be specific. Avoid grey areas.
- Always apply SWOT in relation to your competition i.e. better than or worse than your competition.
- Keep your SWOT short and simple. Avoid complexity and over analysis
- SWOT is subjective.

Once key issues have been identified with your SWOT analysis, they feed into marketing objectives. SWOT can be used in conjunction with other tools for audit and analysis, such as PEST analysis and Porter's Five-Forces analysis. So SWOT is a very popular tool with marketing students because it is quick and easy to learn (*Erich, 1992:21-22*).

Here, the focus is on the Financial SWOT which analyses basically on the financial aspects



### Strengths

- Prime Location
- Proper Accommodation and Lay Out
- Adequate room for the expansion and growth
- Service oriented and competent Human resources
- Attractive interest rate in the deposit
- Diversified lending so far
- Diversified risk regarding lending
- Small and medium scale lending
- Prompt decision from corporate office
- 66 hrs banking a weak

### Weakness

- Lack of online connection with Outstation branch
- Sluggish foreign Trade transactions

- Weak in the remittance business due Commission Structure and alliance with the Indian Bank having wide network in India
- High interest rate in lending
- Commissions high comparatively with Banks next door.
- Lack of updated modern banking facilities.
- Insufficient Junior Staff.
- Non- Alliance with any corporate business house
- Lease line connection to the system server
- Lack of rebate system which motivates to settle the dues in time

### Opportunities

- Revival of Trade Finance
- Increase in the lending with medium scale

### Threats

- High rates of Interest and commissions
- Aggressive marketing of branches of other banks
- Problems arising with the repayment problems due to current situation of the country and global situation (*Erich, 1992:27-31*)

## **2.2 Review of Rules, Regulation and Directives of NRB of Regarding Credit**

Management of Commercial Banks Various rules, regulations, Acts and directives are reviewed while preparing the commercial to manage the credit in the proper way. Obviously, these directives and actions towards the commercial banks by NRB are playing the great role for the comparative analysis of credit management of the commercial bank.

### **2.2.1 NRB Rules Regarding Fund Mobilization of Commercial Banks**

To Mobilize bank's deposit in different of the different parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal framework by formulating various rules and regulations (prudential norms). These directives must have direct or indirect impact while making decisions to discuss those rules and regulations which are formulated by NRB in term of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision , capital adequacy ratio, interest spread, productive sector investment etc. a commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and the counters, how much flexible and helpful the NRB rules are important. But we discuss only those, which are related to investment function of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant areas are briefly discussed here (*NRB, 2008:15*).

### **2.2.2 Directives Relating to Loan classification and Loan Loss Provisioning**

Effective from FY 058/059(2001/2002), Bank should classify outstanding loan and advances on the basis of aain of principal amount. Loans and advances should be classified into the following four categories:

- a) Pass:** Loans and Advances whose principal amount are not past due and the past due for a period up to 3(three) months shall be included in this category. These are classified and defined as performing Loans.
- b) Substandard:** All loan and advances that are past due for a period of 3 months to 6months shall be included in this category.
- c) Doubtful:** All loan and advances that are past due for a period of 6 months to 1 year, Should be included in this category.

**d) Loss :** All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category. Loans and advances falling in the category of sub-standard, doubtful and loss are defined as non- performing loan.

Here, if it is appropriate in the views of the bank management, there is not restriction in classifying the loan and advances from new risk category to high risk category. For stance loan falling under sun-standard category may be classified in to doubtful of loss and loans falling under Doubtful may be classified into loss category. And the term Loans and advances also include bills purchased and discounted.

**Loans loss Provisioning:**

The Loans provisioning, on the basis of the outstanding loans and advance and bills purchased as above should be provided as follows:-

<b>Classification of loan</b>	<b>Loss provision</b>
pass	1%
Sub- Standard	25%
Doubtful	50%
Loss	100%

Loan loss provision set aside for performing loans is defined as General Loan loss provision and loan loss provision set aside for non-performing loan is defined as Specific Loan Loss provision.

Before this arrangement was in force i.e. up to 2057.3.31, the classification and provisioning of loans and advances as per circular dated 2047.12.8 (July 15, 2001) was as follows:

Classification of Loans	Time	Provision Required
Good	Not overdue	1%
Acceptance	Overdue up to 1 month	1%
Evidence of sub-standard	Overdue 1-6 months	5%
Sub standard	Overdue 6 months- 1 year	25%
Doubtful	Overdue 1 to 5 years	50%
Bad	Overdue more than 5 Years	100%

### **2.2.3 Directive Relating to Capital Adequacy Norms for Commercial Banks**

Circular dated 2057.12.2 /March 15, 2001, revised by circular dated 2058.5.29/ Sept.14, 2001

Maintenance of the minimum capital fund: The total capital fund is the sum of core capital and supplementary capital.

On the basis of the risk- weighted assets, the banks should maintain the prescribed proportion of minimum capital funds as per the following time table:

Time Table	Core capital	Capital Fund
For FY 2058/59	4.5%	9%
For FY 2059/60	5%	10.0%
For FY 2060/61	6%	12%

#### **2.2.4 Directives Relating to Interest Rates**

According to previous directives, the differences between the interest provided and interest charged (spread rate) should not more than 5% These differences are calculated on this of the weighted interest too the directives of circular issued on 16th July 2002 (32 Ashadh 2059), the requirement to maintain average interest spread at 5% has been with draw from the time being.

#### **2.2.5 Directives to cash Reserve Ratio Requirements (CRR)**

To ensure adequate Liquidity in the commercial banks, to meet the depositors' demand for the cash at any time to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to have maximum CRR. In this regard Nepal Rastra Bank has directed commercial banks to deposits in their own bank's vault. Cash reserve ratio has been reduced by one percentage point effective beginning of new FY 2059/060

#### **2.2.6 Directives to Raise Minimum Capital Fund**

Nepal Rastra Bank has directed all the commercial banks under operation and established to operate in national level and having low capital base have been directed to raise their capital fund at a minimum level of Rs. Five hundred million by the end of the fiscal year 2000/001. The amount under the headings of the paid-up capital, general reserve, share premium, no redeemable preference share and retained earning included in the core capital fund to the extent of the minimum capital funds of five of Rs. Five hundred million fill the end of fiscal year 2000/001, they would not allowed to declare and distribute dividend and bonus shares. It has further directed all the commercial banks to increase their paid up capital (not the total fund) to Rs. 1000 million by 2009 by increasing paid up capital at minimum of 10% percent annually.

### **2.2.7 Directives Regarding Investments in Shares and Securities by Commercial Banks (*directives no. 8 of circular no. 70/05/8, Effective 2058/5/7*)**

Banks should prepare written policy relating to investment in the shares and securities of other organized institutions. Such policies should be implemented only under the approval of the Board of Directors. There should be no restrictions as to investment by the banks in the securities of organized Nepal government and securities issued by Nepal Rastra Bank. Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution.

## **2.3 Review of Related Studies**

### **2.3.1 Review of Journals**

Several studies were conducted on scope and performance of Banking and Financial institutions. Those studies have shown that a huge amount of deposit is concentrated in urban areas especially in Kathmandu Valley and other cities. The banking and financial institutions, therefore have established at the potential sector (Kathmandu Valley and major cities). Customers of urban areas have received modern and sophisticated banking services. Rural people are yet to benefit from the banking and financial services to the fullest. However, the government is trying to expand the banking institutions to rural areas. The commercial bank and agriculture bank both are playing vital role in the economic and financial market development and vice-versa. They are both trying to expand their services to the rural areas and have several banking units set up in those areas to contribute to the development of those areas for the sector they serve (*Rastriya Banijya Bank Upahaar, 2054:124*).

There are many threats and opportunities in the banking sector. A proper analysis of these factors is a must for any bank to be on the cutting edge. One of the most trusted tools is the SWOT analysis.

SWOT is an acronym for:

S= Strength: Higher deposits assuming huge inward remittance.  
Qualified and skilled staff

W= Weakness: Less earnings through forex transactions.

O= Opportunities: Can make use of the excess deposit concentrating more on lending to various viable projects or to businessmen and entrepreneurs.

T= Threats: Unfavorable economic condition, favorable business is unpredictable.

The objective of banks is to disburse more loans and advances. As the banks have acquired more deposits, they can lend the funds to businessmen/ entrepreneurs and earn interest based income. On the other hand, the banks should try to boost export business in order to gain more foreign currency, which ultimately increases its interest and commission-based earnings and FCY revaluation gains (*Himalayan Bank Report, 2004:8*).

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the terms of the balance sheet and profit & loss account. Management of the firm can undertake it or by parties outside the firm. The focus of the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis they are responsible for the overall efficient and effective utilization of the available resources and the financial position of the firm.

According to the SWOT Analysis report of the NCCBL, Thankot Branch: “To identify the actual strength (to fight), weakness (to improve), opportunity (to grab) and threats (to warn) of the branch, we have done SWOT analysis, which

precisely gives an idea where the branch standing at and what are the measurements to be taken for further improvements or better performance.”

**Strength:**

- Good/strong base of saving depositors
- Qualified/dedicated staff members
- Team spirit
- Efficient & accurate customer service
- Heavy deposit collecting branch
- Profit making branch
- Maintaining ideal CD ratio (84.71% as of Poush End 2059)
- Maintaining acceptable COD (3.74% as of Poush End 2059)
- Very good return on lending (14.23%) as of Poush End 2059)
- Nepal Oil Corporation (NOC) daily collection in as average of Rs. 90 Lakhs

**Weakness:**

- Lack of adequate equipments for smooth operation
- Lack of proper job description
- Weak recovery system
- Higher interest rates even in consumer nature of lending
- Congested place for security documents & volume of cash
- Improper seating arrangement
- NCCPS with minimum balance of Rs. 25,000/-
- No place for Big/Corporate deposits

**Opportunities:**

- Opportunities for Hire Purchase lending
- Priority sector/deprived sector lending
- Deposits from schools
- Deposits from co-operatives
- Small deposits in remote villages but different accessibility
- Lending to retailers to nearby are

- Opportunities for mushroom farming/ poultry farming/ feed industries/ stone crushers

**Threats:**

- Some Chronic NPAs
- Lack of proper security arrangements
- Articles and rumors jeopardizing the image of the bank
- EBL with competitive interest rates in consumer nature and lending

Thankot branch encompasses almost all of the above-mentioned indicators to be acclaimed as good & successful branch. However, SWOT analysis of the branch shows weaknesses & threats equally (*Khatri, 2004:25*).

**2.3.2 Review of Articles**

After reviewing the books, certain useful journals on domestic market, banking financial statement analysis and monetary credit situation of Nepal are studied. There has been substantial growth in the number of joint venture banks in Nepal since 1990. The basic reason behind this is the governments' deliberate policies of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt computer services by setting them to the exposure of the joint venture banks (*Shrestha, 2005:31*).

Pradhan, (1996) on his study entitled “*Stock market behaviour in a small capital market: A case of Nepal*” in 1996, the study mainly dealt with financial function. Sources and types of financing, financing decisions debt effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy. The major finding of study connected with financing management is given as:

1. Banks and retained earning are the two most widely used financing sources.
2. The enterprises have a definite performance for bank loans at a lower level of debt.
3. Generally, there is no definite time to borrow the issues stocks, which is majorities of respondents are unable to predict when interest rate will low or go up are unable to predict when the stock will go down or up.
4. Most enterprises do not borrow from one bank only and they do switch between banks whenever offer best interest rates.
5. Most enterprises find that are flexible in interest rates and convenience.

To sum up it can be said that out of numbers studies on the capital market in Nepal, this study is established itself as a milestone and an outstanding one.

Mr. Morrios (2006) on his article "*Latin America's banking system in the 1980's*" has concluded the profit earned by the bank is the main financial indicator of business. Profit is the result of successful management, cost control, credit risk management, efficiency of operation etc. Profit is essential for a bank to survive, growth and to maintain capital adequacy through retained earnings. Profit is essential to raise the market price of shares and to attract additional capital investment. In this regard American Institute of Banking says "under the free enterprise systems of the U.S.A, the interest of the nation as well as those of individual stock holders are supposed to be best served by vigorously seeking profit. But the profit cannot be sole objective of an enterprise and enterprise should not be evaluated just on the ground of the profit it makes. Neither bank nor the communities are best served if the banker unreasonably sacrifices the safety of funds or the liquidity of the bank in an effort to increase income. He has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has been largely over looked. The huge losses now find in the bank's portfolio in many

developing countries and testimony to the poor quality of this oversight investment function.

Bajracharya, (2007), "*Monetary policy and deposit mobilization in Nepal*" Has conducted that mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal commercial banks and the more active financial intermediary for generating resource in the form of deposit of private and providing credit to the invest in different sectors of the economy.

Similarly, Shrestha (2008), in his article," *A study on deposit and credit of commercial banks in Nepal,*" concluded the credit deposit ratio be 51.30 percent, other things remaining the same, in 1990 AD, which was the lowest under the period of review. So he had strong recommended that the commercial banks should try to give more credit earning new filed as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Shrestha, (2008) in her article, "*Lending operation of commercial banks of Nepal and its impact on GDP*", has presented the objective to make and analysis of contribution of commercial banks lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various, industrial, viz. Agriculture, industries, commercial, service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all variables expected sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e., there has been positive on GDP by the lending of commercial banks in various sector of economy, expected service sector investment.

She had made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that bank

portfolio (loans & investment) of commercial banks has been influenced by the variable securities rate. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory of the central bank (Nepal Rastra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility. To overcome this problem, she suggested, “commercial banks should take their investment with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.”

Jha, (2009) in his article “*Nepali Banking Sector, Challenges and Opportunities*”, in any economy, the important of financial sector in general and the banking sector in particular cannot be undermined. The banking sector definitely plays an able role in the overall development of an economy. The economic reforms initiated by the government more than a decade ago have changed the landscape of several sector of the Nepali economy. The Nepal Banking is no sector is any exception. This sector is going through major changes as a consequence of economic reforms. Over the years, the banking sector in Nepal has evolved as a distinct, sizeable and profitable sector. Relatively speaking, it is the most transparent sector, thanks to stringent regulatory norms of Nepal Rastra Bank. Today, anyone can go through the annual report of a bank and get an overall feel of its operations. We are not in a position to make a similarly statement for any other industry in Nepal. However, there are number of challenges facing this sector. Few of these are highlighted below.

Nepali Banking sector has always been stuck with the plain vanilla product like credit and deposits in on-balance sheet and LC's and guarantees in off-balance sheet items. Yes, over the last years, retail segment has been identified as a separate and distinct segment and some clearly identifiable retail products have been offered to this segment. Consumer loans (home, car and personal ) along

with credit cards are few example of some specific consumer products being offered however, the banking sector has not been able to diversify itself in terms of bringing innovative and more sophisticated in the areas of global market, foreign exchange and international trade. Unavailability of structure debt and Forex market in the country along with lack of adequate knowledge and infrastructure in these areas are the major obstacles for its growth. Few examples are outlined below”

1. Banks are investing in plain low interest yielding foreign currency deposit products and not going into high-interest yielding structure deposit products. As a result of this, they are losing out on the opportunity for maximizing returns.
2. In the absence of structured foreign exchange market, banks have not been able to offer too many Forex risk-hedging products to the ultimate customers. Lack of intent on the part of banks and regulator is considered as the major hindrance for this.
3. In trade finance, banks have not been able to provide structured trade solutions, which are considered highly essential in international trade.

There is not much research paper of article published about investment policy in Nepal. In the context of Nepal, there has been needed the research of investment in commercial banks and financial institutions in the routine work.

Shrestha (2009) on his article “*Commercial bank comparative performance evaluation*” has concluded that Joint Venture Banks (JVBs) are new, operationally more efficient, having superior performance while comparing with local banks. Better performance of JVBs is due to their sophisticated technology modern banking methods and skills. Their better performance is also due to burden, the banks facing governments’ branching policy in rural sector, but having number of deficiencies, so local banks have to face growing constraints of social, economical and political system on one hand spectrum

and that of issues and challenges of JVBs commanding significant banking business on other spectrum.

Pradhan (2010), on his article, “*Deposit Mobilization, its problem and prospects.*” has presented a short glimpse on investment in different sectors, its problem and prospects through his article, On this he has expressed that, “Deposit is the life blood of any financial institutions, and be it commercial bank, finance company, co-operative or non- government organization.” He also added, in consideration of 12 commercial banks and nearly three dozens of finance companies, the latest figure does produce a strong felling that a serious review must be made of problems and prospects of deposit sector. Expected few joint banks, other organizations rely heavily on the businessman deposit receiving and credit disbursement.

In the light of this, Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:

1. Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
2. Unavailability of the institutional services in the rural areas.
3. No more mobilization and improvement of the employment of deposits in the loan sectors.
4. Due to the lack of education most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

Pradhan mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to

informal sector. That is why higher priority to deposit mobilization has all the relevance.

Sapkota (2010) in his article published on 19 May, 2010 in Rajdhani National Daily entitled "Portion of NPA in commercial banks-high in public, low in private" has highlighted the fact of NPA as being less in private banks in comparison to public banks. He has mentioned that the NPA of two big nationalized banks (NBL and RBB) was about 60% and the loans were in very serious situation. He further added that in order to improve this situation and to make healthy banking environment, financial reform program had been brought, as its consequences, the management of these two big banks were handed to foreign company on a contract but the ration of NPL was not reduced (*Sapkota, 2010*).

The supervisory authorities impose strict regulations for the income recognition of NPLs. Loans which are classified as substandard, doubtful or loss requires suspension of interest payment and if the interest is not collected it would be considered as non-accrued interest which is erased from the income. Normally, uncollected interests are put on memorandum accounts where NPLs are restored on accrual basis after the full settlement on all uncovered principal and interest. So it would be useful if footnotes are kept which explains the accounting policies followed with observance of recognition of income from NPAs. The interest income of the bank should replicate only interest income which are realized and should exclude accrued interest in order to avoid overstatement of interest (*Sapkota, 2010*).

When bad loans are to be written off, the decision is done by the BODs relying on the established legal systems and the repayment culture. It is hard to advise to the authority to regulate guidelines as to when a loan could be considered as unrecoverable.

The banks should report NPAs under the three categories and it would be preferable to categorize NPA in accordance with the industrial sector. It is to be noted that the total amount of NPAs should not include non-accrued interest.

### **2.3.3 Review of Thesis**

There are a lot of researches that have been performed on investment policy of commercial banks. The findings of some of the studies are presented below:

Lila Prasad Ojha (2006) conducted a study on “*Lending Practice: A Study on NABIL Bank Limited, SCB Nepal Limited, and Himalayan Bank Limited.*” With the objective of:

- To determine the liquidity position, the impact of deposit on liquidity and its effect on lending practices.
- To measure the bank’s lending strength.
- To analyze the profit behavior of lending and measuring the ratio and volume of loans & advances made in agriculture, priority and productive sector.
- To measure the lending performance in quality, efficiency and its contribution in total income.

The study was conducted on the basis of secondary data. The research findings of the study are:

The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable of discharging their current liability by current assets. The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCNBL has the highest ratio. The high ratio is the result of a high volume of shareholders’ equity in the liability mix. Himalayan Bank Limited has a high volume of saving and fixed deposits as compared to current deposits, resulting in a low ratio of non-interest bearing deposits to total deposits compared to the combined

mean. SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loan & advances to total assets whereas. NABIL Bank Limited. Has the highest due to steady and high volume of loan & advances throughout the years. The ratio of investment on loan & advances has measured the total portion of investment in total of investment and loan Advances. The mean ratio among the bank does not have deviated significantly. The loan & advances and investment to deposits ratio has shown that NABIL Bank Limited has deployed the highest proportion of its total deposits in earning activities. This is indicative of that in fund mobilizing activities NABIL Bank Limited is significantly better.

The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is higher in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Limited is the least to the low share of capital, reserves & surplus in its capital mix. But the volume contributed by Himalayan Bank Limited. In case of loan & advances is highly appreciable compared to its net assets. The volume of loan & advances contribution by NABIL Bank Limited is the greatest in five years of study period. The mean investment of NABIL Bank Limited is the highest but the investment on government securities of SCBNL is the highest. The portfolio analysis has revealed that the flow of loan & advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of the entire bank in industrial sector is appreciable. The contribution made by Himalayan Bank Limited. In industrial sector is the greatest that of SCBNL is the least. The lending in commercial purpose is the highest in case of NABIL Bank Limited and least in case of SCBNL has highest contribution in service sector lending. It has contributed 34.86 % of its total credit in general use and social purpose. The measurement of efficiency in lending has revealed that the loan loss provision to loan & advances analysis shows NABIL Bank Limited has the highest mean ratio. According to Nepal Rastra Bank directives, the loan loss provision indicates the provision made against the performing loan (pass loan

and sun-standard loan) only. It indicates that the volume of sub-standard loan in the loan mix on NABIL Bank Limited. Is higher and the volume of non-performing loan in the mix of NABIL Bank Limited is likely to increase in coming future. The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Limited. And lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in Himalayan Bank Limited. Is the highest and that of SCBNL is the least. The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total reflects the capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best. The performance of SCBNL is significantly better than two banks in case of profitability. EPS is the highest in the case of SCBNL.

Samiksha Thapa (2007) conducted a study on “*Investment Policy of Nepal Bangladesh Bank Limited and other Joint Venture Banks (NABIL and Grindlays Bank Limited.)*” with the objective of:

- To examine the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparisons NABIL and NGBL.
- To analyze the relationship between loan & advances and total investment with other financial variables of NB Bank Limited and compare them with NGBL.
- To examine the fund mobilization of investment policy of NB Bank through off-balance sheet activities in comparison to the other two banks.
- To study the various risks in investments of NB Bank in comparison with NABIL and NGBL.
- To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare them with NABIL and NGBL.

The study was conducted through secondary data. The research findings of the study are as follows:

The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL. NB Bank is not better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL. NB Bank dose not seem to follow any definite policy regarding the management of its assets. Profitability position of NB Bank is comparatively worse than that of NABIL and NGBL. NB Bank has maintained high growth rates comparison to other banks through it is not successful to make enough investment. The position of NB Bank in regard to utilization of the fund to earn profit is not better to compare to NABIL and NGBL.

Shrijana Shrestha (2008) conducted a study on “*Nepal Rastara Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A Case Study of Nepal Investment Bank limited.)*” With objective of

- To highlight the NRB directives regarding investment policy (*Loan, advances and investment*)
- To analyze the liquidity of NIBL.
- To find out relationship between total deposit total and loan and advances, total deposit and total investment.
- To make the trend value analysis of deposit utilization and its projection for next five years.
- To find out whether NRB guidelines are actually being implemented.

The study was conducted on the basis on secondary data.

The main finding of the study is:

Bank in good position to meet the daily cash requirement as bank maintain the average cash and bank balance in respect to total deposit. The performance of NIBL regarding deposit collection, granting loan and advances and investment

is quite satisfactory but does not seem to follow a definite policy. NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL is high. However, bank failed to maintain net profit on the study. From the analysis of coefficient of correlation, there is positive and significant relation between total deposit and loan and advances and current assets and current liabilities and loan loss provision and loan advances but there is negative and no significant relationship between outside assets and net profit. Trend analysis and projection for next year of total deposits, loan and advances, investment and net profits are in increasing trend.

Kafle (2009) in his study entitled “*Non-performing Loans of Nepalese commercial banks.*”

The researcher’s main objectives of the study are:

- i) To know the problems of the non-performing loans and its effect in the ROA and ROE of the Nepalese commercial banks
- ii) To find out whether the Nepalese commercial banks are following the NRB directives regarding loan loss provision for non-performing loan or not.

The major findings of the study are:

Through the research he has found that the no banks have been following NRB’s directives regarding the loan loss provision. He also conclude that the return on assets (ROA) and return on equity (ROE) of the bank deposited upon the NPLs. The high degree of negative correlation between NPL and ROA and the NPL and ROE clearly indicates that there is inverse relation between them. He has recommended that for the smooth operation of the commercial banks, the NPLs should be controlled for this bank should provide necessary training

regarding loan management to the manpower's. In order to remove, the NPLs, banks should take enough collateral so that banks can recover its loan amount. For the loan loss provision as per the NRB directive and to reduce the NPL, the bank management should be effective and the NRB's monitoring and regulation is necessary.

Thapa (2010) entitled "*A Study of Non-performance Assets of Nepalese Commercial Banks in Nepal*" of the period from FY 2002 to FY 2009.

The objectives of the study are as below:

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

The major findings of his study are as follow:

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

- In the current fiscal year deposit mobilization of commercial bank marginally increased by 15.88 percent compare to 15.39 percent growth in the previous year. By the end of mid July 2006 it reached to Rs. 337497.2 million from Rs. 291245.6 in the last year. Of the component of deposit, current deposit celebrated by higher rate of 20.45 percent compared to 7.91 percent in last year. Fixed deposit increased slightly higher of 13.89 percent compared to 13.75 percent in the previous year. However, saving and call deposit growth rate slipped to 15.23 percent and 18.62 percent compare to 16.65 percent and 28.51 percent respectively.
- Liquid funds increased by 14.45 percent and reached to Rs.44089.7 million in mid-July 2006 from Rs. 38842.1 million in mid-July 2005.
- In the current fiscal year the net profit of the banking system grew by slower rate of 10.20 percent compared to 53.38 percent in the last year. By the end of mid July 2007 the net profit amounted to Rs. 8797.9 million from Rs 7983.5 in mid July 2006.

Shrestha (2011) conducted a study on “*SWOT Analysis of Nepal Bank Limited*” with the objective of:

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

On the basis of the various studies and analysis major findings of this study are presented below:

- i) Liquidity Position of sample bank seems quite near or an average. It is obvious that in the present situation of the

country, investment potentiality is not favourable so the liquidity in the commercial banks is sufficient.

- ii) The sample commercial bank has high volume of non - performing assets with respect to the total assets i.e. 0.30.
- iii) There was a situation of continuously negative profit in Nepal Bank Limited till the FY 2059/60. Therefore, all the indicating factors to represent the profitability are in negative in Nepal Bank Limited. NBL was generating interest income from its credit on average of 7.0%. If we take the volume of net profit in NBL, It was 1323 million in the FY 2061/62.
- iv) Because of the negative profit up to 2059/60, NBL has negative earning per share. But from the FY 2060/61, it can earn profit and its earning per share is positive. But average EPS of NBL was Rs 307 in the study period.
- v) Credit and Investment to total deposit ratios of Nepal Bank Limited was 78% on an average for the study period. Similarly correlation between deposit and loan and advance was negative correlation in Nepal Bank Limited for the study period. This indicates that trend of deposit utilization in RBB was poor.
- vi) Nepal Bank Limited was not being able to maintain the preferred provision apart from for pass loan. Similarly NBL was high provision for non - performing loan. As far as directive credit is concern NBL could not provide any kind of figure for directive credits.

Devekota (2011) conducted a study on “*Comparative SWOT Analysis of Nepalese Commercial Joint Venture Banks (Standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd. and Himalayan Bank Ltd.)*” “with the objective of:

- To study and analyze the growth, objectives, functions, and role of the commercial Joint Venture Banks

- To evaluate the comparative financial strengths & weakness of three competitive JVBs.
- To provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of their shareholders based on the findings of the study.

On the basis of the various studies and analysis conducted above, the following are findings of the study:

- a) Banks are primarily profit making organizations that provide a range of financial services to their customers. On the basis of the profitability, the selected JVBs are among the top five commercial Banks operating in the country, Standard Chartered Bank Nepal Ltd., being the top one. The profitability position of SCBNL & NABIL is better than that of HBL in terms of Return on total assets and total deposits.
- b) Interest incomes form the major portion of the total income in all these selected JVBs during this study period. Likewise, interest expenses cover the major portion of total expenses in these banks.
- c) During the study period, HBL is found to be the highest Deposit holding bank. In other words, Total deposits of HBL exceeded the other two banks under study, SCBNL & NABIL, in all of the years taken for this analysis. *In the trend analysis section*, it is noticeable that the Total Deposits for NABIL is in the decreasing trend. The Total deposits trend of NABIL explains that its deposit is declining by NRs. 389.22 million each year. The Total deposits trend of HBL shows that the trend line almost fits with the actual Total deposits which have been increasing by NRs. 1795.42 million each year.
- d) HBL has been seen to adopt the aggressive lending policy during the period of this analysis. It has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & Advances of HBL has always been greater as compared to SCBNL & NABIL during this whole period under analysis.

- e) In case of all three JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to finance Total Assets. The high 'Total Outsiders' Fund to Total Assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.
- f) The analysis reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.
- g) The investments of all these JVBs are found to be more or less volatile. In some years, they are in the increasing trend whereas in other years, they are in the decreasing trend. This might be due to the instability in the political & economic situation of the country, which created an environment of chaos in the overall economy including the banking industry.
- h) Other financial indicators like Earning per share (EPS), Dividend per share (DPS) and Book Value per share of SCBNL is found in the better position as compared to that of NABIL & HBL. The DPS of SCBNL & NABIL is in the increasing trend as compared to that of HBL, which is rather volatile.
- i) The comparative strength of SCBNL is better as compared to NABIL & HBL as per data and as per the analysis done in the various sections. One the primary objective of the commercial bank is to maximize the profit. The SCBNL has dominated in this regard during almost the whole period of study except for one or two cases where NABIL took off. However, the profit before tax of all three banks is in the increasing trend.
- j) The loan loss provision of SCBNL has always been least (during the whole period under analysis) among these three selected Joint Venture Banks signifying that it has less amount of bad loans, which is obviously good for

any bank. This also proves the greater strength of SCBNL in mobilizing its deposits in the more beneficial manner.

- k) Since all the three Banks selected for study are among the top banks operating in Nepal, their relative financial strength is better in the economy as compared to the other banks. But while comparing these selected banks alone, SCBNL, NABIL & HBL can be ranked chronologically as banks with higher strengths and lower weaknesses. Opportunities & Threats are present in the external environment. It is very probable that the bank with higher strength can grasp excellent opportunities and avoid redundant treats present in the economy.

Yadav (2011) in his thesis entitled “*A Study on Non-performing Assets- with Special Reference to Nepal Bank Limited and Rastriya Banijya Bank Limited*”

The objectives are specified as below:

- a) To study the general reasons for assets become NPA in RBB and NBL
- b) To point out the level of NPAs in NBL and RBB banks after financial sector reform program
- c) To find out the problems of banks due to NPAs

The major findings are as follows:

- The share of RBB and NBL in the assets and liabilities of the banking sector is around 50%. Although international financial experts have been managing these banks, the performance especially for reducing NPA is not satisfactory.
- The management teams were supposed to bring NPA level to 5% level. The NPA total credit ratios of RBB increased from 20.17% in FY 1997/98 to 60.15% in FY 2002/03. It increased by 5% points in FY 2002/03 than the previous year. Like wise, the NPA / total credit ratio of

NBL also increased from 27.46% to 60.47% in FY 2002/03, which shows the rising trend.

- Both of them has negative net worth since FY 1998/99 and the net worth figures continuously increased in the last five years. Although financial performance of both the management teams is totally unsatisfactory, they have improved in other areas. People are questioning the returns of such a huge expense. Is it going to be a futile exercise, suppose they brought down the NPA level to a satisfactory level? But what will happen after the management teams leave the banks? Questions are still remaining unanswered.
- The net profit trend of NBL and RBB is highly negative in first three fiscal year because more than 60% non performing asset. But now, NBL and RBB is earning profit from last two years.
- Total deposit is not correlated with this two banks' loan and advance. This is very serious matter and the main cause of over liquidity.
- Situation of deposit mobilization is poor in NBL and RBB. NBL and RBB was not focusing on the quality of loan rather focusing on the volume of loan.
- After the implementation of financial sector reform NBL and RBB is able to earn profit from 2060/61 and also able to decreasing volume of non - performing assets. But NBL and RBB have to more focus to improve the credit management because NBL and RBB are not able to maintain NPA as the specified standard of NRB i.e. 5 %.
- Credit related financial indicators in NBL and RBB seem irrelevant in comparison with the specified standard of NRB.
- Various acts and regulations are enacted for the financial sector reform but implementation of policies and directives like directed sector credit, sufficient provision for loan loss, volume of NPA is vital because of the increasing trend of NPA in commercial banks.

## **2.4 Research Gap**

This research paper is mainly focused on the banks' strength, weakness, opportunity and threat. The researcher has found various studies conducted in the field of financial performance of joint venture banks. But there is very few studies regarding SWOT analysis were found. However, different pilot studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created for serving the objective set.

Similarly, Bipul Devkota and Panchskar Shrestha have confined his study to the examination and evaluation of financial operation, financial position and performance of Standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd., Himalayan Bank Ltd. and Nepal Bank Limited. They have assessed their strengths, weaknesses and opportunities and attempted to find out reasons of changes on profitability and liquidity trends of the both.

In conclusion, the researcher is trying to clear that whether it is focused to the deposit mobilization, generating more profitability, giving more loan and advances to customers or not. So, it is trying to evaluate the effectiveness of monitoring and collective policies of the banks especially of Nepal Credit & Commerce Bank Ltd. (NCCBL) and Nepal Bank Limited (NBL). So, this study will be fruitful to those interested person parties scholars, professor, students, businessman and government for academically as well as policy perspective.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

This chapter is designed to throw light on the methodology used to undertake this study which aims at analyzing the overall financial performance of Nepal Credit & Commerce Bank Ltd. (NCCBL) and Nepal Bank Limited (NBL) using SWOT analysis and drawing some patient conclusion from this. Research methodology understands for the research technique used thought the research process. The basic objective of the study is to determine the financially strengths & weaknesses and opportunities & threats of the bank under study, evaluating its respective performance and to offer suggestion packages for better financially strengths & weaknesses. “Research methodology is the process to solve the research problems systematically.” (Kothari, 1994:39) Research methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objective/objectives in view. Therefore this chapter deals with the following aspects of methodology.

#### **3.1 Research Design**

Research design serves as a framework for the study, guiding the research instruments to be utilized, and the sampling plan to be followed. In other word research design describes the general plan for collecting, analyzing and evaluating data. Research design understands for definite sets of procedures, processes, and a technique that guides the research process and propounds the ways for research’s viability. Since, the study is mainly focused on finding out the appropriate path for improving the performances of the bank under study named Nepal Credit & Commerce Bank Limited (NCCBL) and Nepal Bank Limited (NBL) and their respective role in the economy. The study is so designed as to give a clear picture of the bank’s financial statement. Both the descriptive as well as analytical methods have been applied wherever necessary.

### **3.2 Population and Sample**

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The population for this study comprises 32 commercial banks currently operating in the country. The sample selected only two banks- Nepal Credit & Commerce Bank Ltd. (NCCBL) and Nepal Bank Limited (NBL).

### **3.3 Nature and Sources of Data**

The study is mainly based on secondary sources of information, which provides insights into financial performance of the bank under the study (NCCBL and NBL). The supplementary data and information have been collected from unpublished official annual reports of the respective bank, information from Nepal Rastra Bank and other reports, magazines and dissertations and bulletins of the concerned organization. The research is based on secondary source of data. For research purpose, published financial statements (i.e. Annual report) of concerned banks were collected. Similarly, financial statement of selected commercial banks and various markets related information were collected and tabulated in spreadsheet. Such secondary information was gathered from the share department of the concerned banks and Security Board of Nepal. In addition, an answer on certain queries made to staffs of concerned organization personal enquires and discussions were also being conducted for clarification and verification of collected data and for recommendation.

### **3.4 Data Collection Procedure**

The problem of the study lies on the issues related to the strengths and weakness of the bank. As a consequence of liberal policy adopted by the government, financial institutions have been emerging in the country. The sample bank has been facing threats from such institutions. Therefore, the study is also intended to find the weaknesses and strengths so that appropriate suggestion can be provided to enhance the performance of the bank in coming days.

For this purpose, various data are required with the view of obtaining the data, researcher made several visits of the sample bank. In first visit, the researcher consulted the concerned authority of the bank and explained about the above stated problems and objectives of the study. Researcher also explained why she is interested in this bank and what she wishes to analyze. After keeping the view of researcher the authorities got convinced and appraised the efforts. They assured that they would help as far as possible. Regarding the information needed they said that they would make them available up to the extent that doesn't affect the privacy and secrecy of the bank. Researcher got pleased with the response shown by them and started the work.

In another visit, researcher approached to the share department and asked profit and loss account and balance sheet of the bank of last five years. After explaining the need of such information, the related staff provided the necessary statements. Likewise, the researcher visits the accounting expert in the bank for the clarification of the components items of the statements so as so avoid the ambiguity and confusion. In this way the researcher got the available data for his study.

### **3.5 Data Analysis**

Any statistical tools can be used in solving the problem of the study. For the purpose of the study, all collected primary as well as secondary data are arranged, scanned, tabulated, under various heads and then after descriptive cum statistical analysis have been carried out to enlighten the study. Mean and trend analysis are being calculated under statistical analysis.

#### **3.5.1 Financial Tools**

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of balance sheet and profit & loss account, while adopting financial tools, a ratio is used as benchmark for evaluating the financial position and performance of any firm. Financial analysis is the use of financial statement to analyze a

company's financial position and performance and to assess future financial performance.

**Ratio Analysis:** Ratio analysis is the numerical relationship between any two given variables of financial statement, which serve meaningful purpose for study. Ratios are expressions of coherent relationship between items in the financial statements of a fiscal year.

### 3.5.2 Statistical Tools

#### Correlation Analysis

“When the relationship is of a quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a brief formula is known as correlation.” (Gupta, 2000:258) Among different methods of calculating correlation, Karl Pearson’s Method also popularly known as Pearson’s Coefficient of Correlation is widely used statistical tool. This method measures the intensity or the magnitude of linear relationship between two variable series. The formula used for computation of Karl Pearson’s Correlation Coefficient (r) is as follows:

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

Where,

N = number of observation in series X and Y

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

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

$\sum X^2$  = Sum of squared observations in series X

$\sum Y^2$  = Sum of squared observations in series Y

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

Value of r lies between -1 and +1. r = 1 implies that there is a perfect positive correlation between the variables. r = -1 implies that there is a perfect negative correlation between the variables r = 0 means the variables are uncorrelated. But r = 0 does not always mean that the variables are uncorrelated; they may be related in some other form such as logarithm, quadratic, exponential etc.

## Probable Error

Probable error of coefficient correlation helps in interpreting errors value. With the help of probable error it becomes possible to determine the reliability of the coefficient. The value of coefficient so far lies on conditions on which the samples were drawn randomly. The probable error of the coefficient of correlation is calculated by using the following formula:

$$PE(r) = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

Where,  
coefficient

Where PE (r) = Probable error,  $r^2$  = Correlation

$$\frac{1-r^2}{\sqrt{N}} = \text{Standard error. } N = \text{Number of observation}$$

Reason for taking 0.6745 is that in a normal distribution 50 % of observations lie in the range  $\mu \pm 0.6745\sigma$  where,  $\mu$  and  $\sigma$  denote the population mean and standard deviation.

P.E(r) is used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. If  $r < P.E.$ , correlation is not at all significant. If  $r > 6P.E.$ , r is definitely significant.

## Coefficient of Variation

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean.

Coefficient of variation, denoted by C.V. is given by;

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where,  $\sigma$  = Standard Deviation C.V.= Coefficient of variation,  $\bar{X}$  = mean

$\sigma$  = Standard deviation, n= number of observation

$$\text{i.e. } \sigma = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2}$$

For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other. Conversely, a series with greater CV is said to be more variable or heterogeneous than the other (*Gupta, 2000:415*).

### **Trend Analysis**

Ratio analysis enables the firm to take the time dimension into account i.e. whether the financial position of a firm is improving or deteriorating over the years. This is made possible by the use of trend analysis. The trend analysis helps the analyst in finding the direction of movement to which the firm's financial position is headed for. It helps in determining whether the movement of the firm is favorable or unfavorable. Trend analysis is of great significance to the financial institution.

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter consists of presentation and analysis of data using both statistical and financial tools as referred in the third chapter. The main focus of this chapter is to analyze the sources & uses and NPA of NBL and NCCBL and make a concluding remark on the basis of the analysis conducted. Data gathered from various sources are presented, compared and analyzed with the help of different tools. Therefore, it is the crucial part of this study, which helps to analyze the NPA in banks of Nepal with taking a special reference to NBL and NCCBL. The data are analyzed on the basis of representation of principal indicators.

#### **4.1 Sources and Uses of Funds**

In this portion major principal indicators of both sources and uses of fund had been tabulated to calculate the financial condition of both the selected banks and also of commercial banks in aggregate. Results of operations of the sampled banks are analyzed and interpreted on the basis of the required indicators needed for this thesis. The main motto of the study is to analyze sources & uses of funds and the impact of NPA on the financial ratios of the sampled banks.

##### **4.1.1. Analysis of Sources and Uses of Funds of Commercial Banks** *(Aggregate)*

Management of funds is the important part of the banking business. The problem of managing funds is great for banks than it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. The percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the sources of funds to which

they represent. In order to make study easier, the sources and uses of funds of banks were categorized and presented in following table. Analysis of sources and uses of funds of commercial banks (Aggregate) is given in table 4.1 and 4.2.

The sources and uses analysis took out proportion of each source and each use to the total funds of the banks and it were expressed in million. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the sources of funds to which they represent in table 4.1 and 4.2.

**Table: 4.1**

**Sources of Funds of Commercial Banks**

**(Rs. in million)**

<b>Particulars</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1. Capital Fund	11,814.6	(10,201.7)	(19,129.5)	(17,742.1)	(4,149.5)	9,960.7
2. Borrowings	3,170.4	3,023.6	6,842.9	9,519.6	12,750.4	14,408.2
3. Deposit	203,879.3	233,811.2	252,409.8	291,245.6	337,497.2	426,080.3
4. Bills Payable	-	-	480.2	599.6	698.7	975.6
5. Other Liabilities	86,697.4	113,183.6	92,900.7	86,580.7	79,854.6	81,303.1
6. Reconciliation A/C	-	-	65,319.8	47,230.1	60,737.6	19,151.2
7. Profit & Loss A/C	-	-	10,104.8	11,272.7	3,249.1	14,856.8
Sources of Fund	305,561.7	339,816.7	408,928.8	428,706.2	490,638.1	566,736.0

*Source: Banking and Financial Statistics, Mid – January 2011, NRB*

From the above table 4.1 contribution of capital fund in total sources is 3.865% in 2005 and decreased to 1.75% in 2010. The capital fund has negative value from 2006 to 2009. The deposit has the highest contribution in sources of fund. The Major sources of capital funds are: Share capital, general reserves, other

reserves and retained earnings. Likewise, deposits contribute more funds out of total sources of funds i.e. the contribution of deposit has 66.72% in 2004 and increased to 75.18% in 2010. Major sources of deposits are, saving, fixed and current a/c. considering the contribution of borrowings to total sources, it is approximately 1%, which is the lowest among other sources of funds. Major sources of borrowing of commercial banks are NRB, Inter Bank and Financial institution. Other sources of funds are 25%. Deposit is only one reliable source of funds of commercial banks.

**Table: 4.2**

**Uses of Funds of Commercial Banks**

**(Rs. in million)**

<b>Particulars</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1. Liquid fund	38,163.6	46,252.8	38,369.4	38,842.1	44,089.7	66,875.4
2. Investment	3,9045.5	42,384.3	50,821.9	57,539.1	64,443	71,495.5
3. Share & Other Investment	6,340.8	7,284.3	9,359.1	24,634.7	29,087.8	37,459.3
4. Loans & Advances	123,211.1	138,922.9	157,198.9	173,383.4	228,951.9	302,913.4
5. Bill Purchased	1,143.8	1,050.4	3,909.2	3,353.8	2,824.1	3,694.9
6. Loans Against Collected Bills	167.5	58.2	168.2	83.0	53.5	29.7
7. Fixed Assets	-	-	3,809.6	4,026.7	6,077.7	8,101.2
8. Other Assets	97,489.4	103,863.8	50,728.6	52,632.7	59,146.6	55,347.5
9. Others	-	-	92,121.3	74,210.7	55,964.7	20,819.1
Uses of Fund	305,561.7	339,816.7	408,928.8	428,706.2	490,638.1	566,736.0

*Source: Banking and Financial Statistics, Mid – January 2011, NRB*

From the above table 4.2, contribution of liquid fund in total uses is 12.48% in 2005 and decreased to 11.80% in 2010. Loans and advances contribute more funds out of total uses of funds i.e. the contribution of loans and advances has

40.32% in 2005 and increased to 53.44% in 2010. The uses of funds are used for different purposes. The commercial banks have maintained liquid funds of 11.80% in 2010. Major uses of liquid funds are in call money, cash in hand and balance in hand. They have maintained sufficient liquid funds. They make average investment of 12.0% on government securities and share and debentures. They provide loan and advances of 40.32% to 53.44% for its customers. Major uses of fund as loan and advances in private sectors and financial and non-financial sector of government enterprises, interest accrued and other uses cover 1.5% and 8.0% respectively.

#### 4.1.2 Analysis of Sources and Uses of Funds of Nepal Bank Limited

The sources and uses of fund of Nepal Bank Limited is presented in table 4.3 and 4.4.

**Table: 4.3**

#### Sources of Funds of Nepal Bank Limited

(Rs. in million)

Particulars	2005	2006	2007	2008	2009	2010
1. Capital Fund	1449.1	1064.3	(10,347.5)	(10,066.5)	1,820.6	1,906.5
2. Borrowings	52.4	-	1,124.9	1,717.4	1,604.9	1,820.1
3. Deposit	34,737.4	36,288.5	34,744.2	35,444.9	38,715.2	41,451.7
4. Bills Payable	-	-	169.2	76.1	92.4	35.9
5. Other Liabilities	30,090.6	26,711.0	36,401.0	23,575.4	10,265.5	9,718.7
6. Reconciliation A/C	-	-	1,768.0	1056.0	3085.8	2033.4
7. Profit & Loss A/C	-	-	1,399.5	2,329.7	(7,877.3)	-
Sources of Fund	66,329.5	64,063.8	65,259.2	54,133.0	47,707.1	56,966.3

Source: Banking and Financial Statistics, Mid – January 2011, NRB

From the above table 4.3 contribution of capital fund in total sources is 2.0% in 2005 and increased to 3.3% in 2010. The deposit has the highest contribution in sources of fund. The major sources of capital funds are: Share capital, general reserves, other reserves and retained earnings. Likewise, deposits contribute more funds out of total sources of funds i.e. the contribution of deposit has 52.37% in 2005 and increased to 72.76% in 2010. Whereas contribution of overall commercial bank is 66.72% to 75.18%, which is higher than Nepal Bank Limited. Major sources of deposits are, saving, fixed and current a/c. considering the contribution of borrowings to total sources. Major sources of borrowing of Nepal Bank Limited are NRB, Inter Bank and Financial institution. Deposit is only one reliable source of funds of NBL similar to other commercial banks.

**Table: 4.4**

**Uses of Funds of Nepal Bank Limited**

(Rs. in million)

Particulars	2005	2006	2007	2008	2009	2010
1. Liquid fund	4,770.6	6,444.0	5,886.2	5,517.4	7,003.6	5,055.2
2. Investment	11,722.8	10,593.8	13,838.6	11,776.9	13,226.	12,918.4
3. Share & Other Investment	59.8	429.9	51.2	2,644.5	3,057.0	3,733.5
4. Loans & Advances	19,078.1	19,108.0	17,456.0	12,180.4	13,377.5	15,480.6
5. Bill Purchased	88.4	33.7	1,073.3	610.7	373.1	290.1
6. Loans Against Collected Bills	99.6	-	1.3	-	-	-
7. Fixed Assets	-	-	-	-	-	-
8. Other Assets	30,510.2	27,454.4	15,731.5	10,504.9	8,933.9	9,382.5
9. Others	-	-	11,012.2	10,787.6	1,546	9,876.6
Uses of Fund	66,329.5	64,063.8	65,259.2	54,133.0	47,707.1	56,966.3

Source: Banking and Financial Statistics, Mid – January 2011, NRB

From the above table 4.4, contribution of liquid fund in total uses is 7.19% in 2005 and increased to 8.87% in 2010. Loans and advances contribute more funds out of total uses of funds in NBL i.e. the contribution of loans and advances has 28.76% in 2005 and decreased to 27.17% in 2010. But contribution of loans and advances in overall commercial banking has 40.32% to 53.44%. The NBL has maintained liquid funds of 8.87% in 2010 which is lesser than overall banking scenario. Major uses of liquid funds are in call money, cash in hand and balance in hand. The NBL has not maintained sufficient liquid funds. NBL makes average investment of 16.0% on government securities and share and debentures. NBL provides loan and advances of 28.76 % to 27.17% for its customers which are lesser than overall banking scenario.

#### **4.1.3 Analysis of Sources and Uses of Funds of Nepal Credit and Commerce Bank Limited**

The sources and uses of fund of Nepal Credit and Commerce Bank Limited is presented in table 4.5 and 4.6. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of its supporting ability to the sources of funds to which it represent.

**Table: 4.5****Sources of Funds of Nepal Credit and Commerce Bank Limited****(Rs. in million)**

<b>Particulars</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1. Capital Fund	510.7	941.3	725.5	260.7	(308.3)	200.7
2. Borrowings	19.7	-	-	-	-	-
3. Deposit	4,294.1	5,959.6	6,630.1	6,619.5	6,500.3	7,320.2
4. Bills Payable	-	-	5.8	63.6	14.5	110.2
5. Other Liabilities	811.8	715.3	1220.5	1651	2,568.4	1988.6
6. Reconciliation A/C	-	-	0.1	14.8	41.8	60.6
7. Profit & Loss A/C	-	-	98.3	31.2	-	495.6
Sources of Fund	5636.3	7616.2	8,680.3	8,640.8	8,816.7	10,175.9

*Source: Banking and Financial Statistics, Mid – January 2011, NRB*

From the above table 4.5 contribution of capital fund in total sources of NCCBL is 9.0% in 2005 and decreased to 1.9% in 2009. The deposit has the highest contribution in sources of fund in case of NCCBL too. The major sources of capital funds are: Share capital, general reserves, other reserves and retained earnings. Likewise, deposits contribute more funds out of total sources of funds i.e. the contribution of deposit has 76.18% in 2005 and decreased to 71.93% in 2010. Where as contribution of overall commercial bank is 66.72% to 75.18%, which is higher than Nepal Credit and Commerce Bank Limited. Major sources of deposits are, saving, fixed and current a/c. considering the contribution of borrowings to total sources. Major sources of borrowing of Nepal credit and Commerce Bank Limited are NRB, Inter Bank and Financial institution. Deposit is only one reliable source of funds of NCCBL similar to commercial banks.

**Table: 4.6****Uses of Funds of Nepal Credit and Commerce Bank Limited****(Rs. in million)**

<b>Particulars</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1. Liquid fund	793.3	1,024.9	710.6	805.1	832.4	1,632.2
2. Investment	315.2	511.9	324.7	521.6	1155.3	1,835.6
3. Share & Other Investment	91.8	96.6	68.1	75.6	70.0	64.4
4. Loans & Advances	3321.8	4417.6	5934.3	5836.6	5083.9	5,084.5
5. Bill Purchased	0.5	19.3	104.0	78.1	38.3	196.5
6. Loans Against Collected Bills	-	-	-	-	-	-
7. Fixed Assets	-	-	197.0	201.0	203.2	228.8
8. Other Assets	1113.7	1545.9	829.3	1,024.4	1,273.9	1,071.1
9. Others	-	-	512.3	98.4	159.7	62.8
Uses of Fund	5,636.3	7,616.2	8,680.3	8,640.8	8,816.7	10,175.9

*Source: Banking and Financial Statistics, Mid – January 2011, NRB*

From the above table 4.6, contribution of liquid fund in total uses is 14.07% in 2005 and increased to 16.03% in 2010. Loans and advances contribute more funds out of total uses of funds in NCCBL i.e. the contribution of loans and advances has 58.93% in 2005 and decreased to 49.96% in 2010. But contribution of loans and advances in overall commercial banking has 40.32% to 53.44%. The NCCBL has maintained liquid funds of 16.03% in 2010 which is higher than overall banking scenario. Major uses of liquid funds are in call money, cash in hand and balance in hand. The NCCBL has not maintained sufficient liquid funds. NCCBL makes average investment of 8.0% on government securities and share and debentures. NCCBL provides loan and advances of 58.93 % to 49.96% for its customers which are higher than overall banking scenario.

## 4.2 Total Loan & Advances & NPA of NBL and NCCBL

Table: 4.7

### Loan & Advances & NPA of NBL and NCCBL

(Rs. in million)

Year	2005	2006	2007	2008	2009	2010
<b>NBL</b>						
Loan & Advances	19,078.1	19,108.0	17,456.0	12,180.4	13,377.5	15,480.6
NPA	10,964.91	9,640.08	8,372.0	2,262.18	1,856.0	1,410.80
<b>NPA/ L&amp; A (%)</b>	<b>57.47</b>	<b>50.45</b>	<b>47.96</b>	<b>18.57</b>	<b>13.87</b>	<b>9.11</b>
<b>NCCBL</b>						
Loan & Advances	3,321.8	4,417.6	5,934.3	5,836.6	5,083.9	5,084.5
NPA	700.83	600.05	519.26	1,289.90	1,606.87	864.0
<b>NPA/ L&amp; A (%)</b>	<b>21.09</b>	<b>13.58</b>	<b>8.75</b>	<b>22.10</b>	<b>31.60</b>	<b>16.99</b>

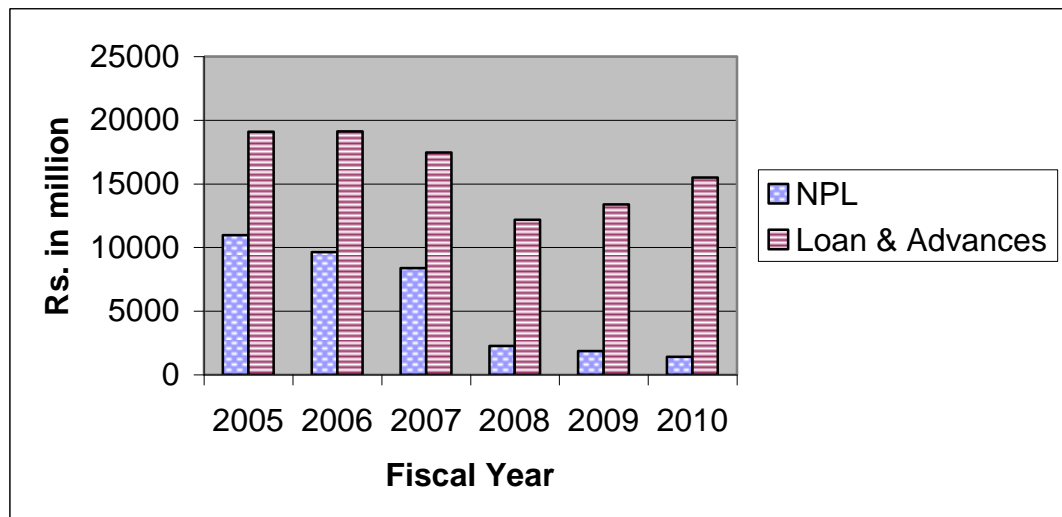
Source: Banking and Financial Statistics, Mid – January 2011, NRB

NBL has fluctuating trend in the loan & advances. It is one of the largest lenders in Nepal. Whereas its non performing assets to loan & advances ratio is in decreasing trend. It has improved a lot in the quality of the loan & advances. The NPL ratio to loan & advances has dropped to 9.11% in the 2010 from 57.47% in the 2005. It is due to strict recovery actions taken during foreign management and write off of loans from books. Similarly NCCBL has shown increasing trend in the loan & advances till 2009. After that it has also decreased. It is because of new management of NCCBL which started concentrating more on recovery than lending. Its non-performing assets to loan & advances ratio is in fluctuating trend. Actually it seems to decrease till fiscal year 2005 whereas increased substantially during 2008 and 2009. Similarly, the

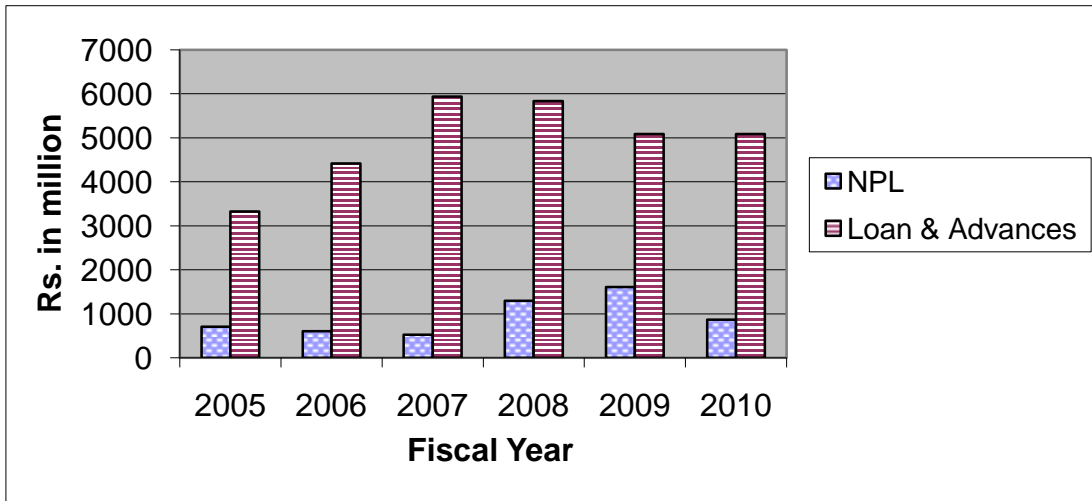
NPA ratio again declines in the year of 2010. The NPL ratio to loan & advances has dropped to 16.99% in the 2010 from 21.09% in the 2005. NBL being the supreme commercial bank of Nepal has a high amount of loans in comparison to NCCBL. The figure depicts the level of loan & advances and the level of non performing assets and trend.

**Figure: 4.1**

**Loan & Advances and NPA of NBL**

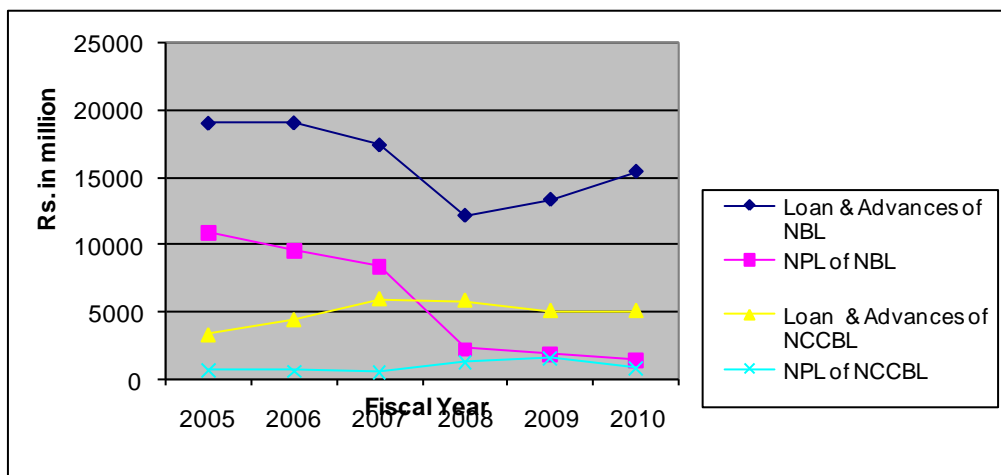


**Figure: 4.2**  
**Loan & Advances and NPA of NCCBL**



From above figure it shows that the loan and advances is in increasing trend till 2007 and slightly decreased afterwards in case of NCCBL and decreasing trend in case of NBL. Similarly, NPA is in decreasing trend in both banks. Actually in both banks new management teams concentrate more on recovery ultimately resulting reduction in NPA. The same is also presented in the trend form which is as below:

**Figure: 4.3**  
**Loan & Advances and NPA of NBL and NCCBL**



### 4.3 Trend Value of Loan & Advances and NPA of NBL and NCCBL

Trend analysis enables to compare two or more time series over different periods of time and draw important conclusions about them. If the values of a phenomenon are observed at different periods of time, the values so obtained will show considerable varieties or changes. Among various devices for measuring changes in financial statement of the firm, trend analysis is one of the effective tools, which minimizes the weaknesses of the ratio analysis to some extent. The changes in the financial statements may be measured in terms of absolute changes or in terms of relative changes or the percentage changes between the dates taken as a base year. To avoid misinterpretation of changes measurement of absolute as well as relative terms must be expressed. In this study, trend analysis shows the trend of loan & advances and non performing assets (NPA) of NBL and NCCBL for the period of ten years. The trend of NPL and loans and advances are presented in table 4.8.

**Table: 4.8**

#### **Trend value of Loan and Advances and Non Performing Assets of NBL and NCCBL**

(Amount in millions)

	NBL		NCCBL	
Year	Trend value of Loan & Advances a = 16,113.43 b= (1,155.85)	Trend value of NPA a = 5,751 b= (2,206.65)	Trend value of Loan & Advances a = 4,946.45 b= (306.13)	Trend value of NPA a = 930.15 b= (131.63)
2005	19,003.05	11,267.61	4,181.11	601.08
2006	17,847.20	9,060.96	4,487.25	732.71
2007	16,691.36	6,854.32	4,793.38	864.34
2008	15,535.51	4,647.67	5,099.52	995.97
2009	14,379.66	2,441.03	5,405.65	1,127.59
2010	13,223.82	234.38	5,711.79	1,259.22
2011	12,067.97	-1,972.27	6,017.92	1,390.85
2012	10,912.13	-4,178.91	6,324.05	1,522.47
2013	9,756.28	-6,385.56	6,630.19	1,654.10
2014	8,600.44	-8,592.20	6,936.32	1,785.73

Source: Appendix-I.

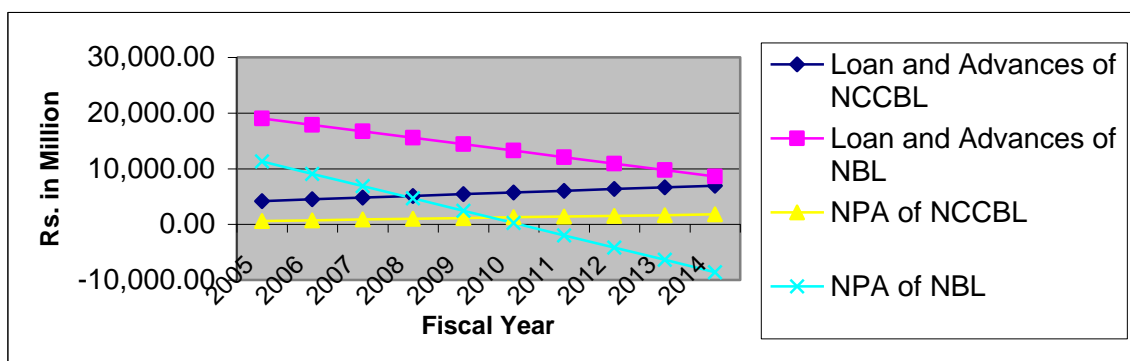
Data has been taken from Banking and Financial Statistics, NRB

The above table 4.8 shows that the total loan and advances of NBL is in decreasing trend. The average loan and advances of NBL is NRs. 16,113.43, which is decreasing at the rate of NRs. 1,155.85 per year. Loans and advances are expected to decrease from NRs. 19,003.05 in 2005 to 8,600.44 in 2014 B.S. On the contrary, loans and advances of NCCBL seem to be in increasing trend. NCCBL's average loans and advances is NRs. 4,946.45 and is increasing at the rate of NRs. 306.13 every year. As NBL is suffering more from the problems of bad debt, they seem to be concentrated more on recovery rather than lending. As a result of which both loan and NPA seems to be in decreasing trend.

Similarly, if we look at the trend of non-performing assets of NBL, it is in decreasing trend which is a positive sign. Lesser the NPA, sounder will be the health of financial institution. The average NPA of NBL is NRs. 5,751, which is decreasing at the rate of NRs. 2,206.65 per year. However, with the increase in loans and advances, NPA of NCCBL also seems to be increased at the rate of NRs. 131.63 per year. Following figure 4.4 represent the trend line of loan and advances of NBL and NCCBL for 10 consecutive years.

**Figure: 4.4**

**Loan and Advances and NPA of NBL and NCCBL (Trend value)**



#### 4.4 Year Wise loan classification of NBL and NCCBL

Table: 4.9

Category	Year Wise Loan Classification of NBL (Rs. in millions)					
	2005	2006	2007	2008	2009	2010
Pass Loan	7,167	8,298	8,270	9,547	11,180	13,698
Restructured Loan	-	-	225	632	720	-
Substandard Loan	1,291	233	130	47	17	64
Doubtful Loan	2,644	1,280	64	88	30	21
Loss Loan	7,030	8,127	8,178	2,127	1,809	1,983
<b>Total</b>	<b>18,132</b>	<b>17,938</b>	<b>16,867</b>	<b>12,442</b>	<b>13,757</b>	<b>15,765</b>

Source: Annual report of NBL of respective years

In above table 4.9, total loans and advances has been classified into various categories depending upon the nature of the loan such as pass, restructured, substandard, doubtful and loss. In NBL performing loan i.e. pass loan is in increasing trend and other categories are in decreasing trend. Due to concentration of bank management more on recovery, non-performing loan has also reduced substantially ultimately decreasing total loans and advances in 2010 in comparison to previous years. Increment in pass loan is positive sign and is important factor for long term sustainability of the bank

**Table: 4.10****Year Wise Loan Classification of NCCBL**

Category	(Rs. in millions)					
	2005	2006	2007	2008	2009	2010
Pass Loan	2,696	4,117	5,493	4,167	3,183	4,223
Restructured Loan	379	139	47	443	332	191
Substandard Loan	227	279	65	90	86	25
Doubtful Loan	95	182	407	147	388	110
Loss Loan	-	-	-	1,053	1,133	732
<b>Total</b>	<b>3,396</b>	<b>4,717</b>	<b>6,012</b>	<b>5,899</b>	<b>5,122</b>	<b>5,281</b>

*Source: Annual report of NCCBL of respective years*

In above table 4.10, year wise classification of total loans and advances of NCCBL has been shown. Total loans and advances have been categorized into various categories depending upon the nature of the loan. In this table also we can see that i.e. pass loan is in increasing trend and other categories are in decreasing trend. Actually till 2007 loan under the loss category is in increasing trend ultimately increasing the total loans and advances as well. However after the introduction of new management loss loan has declined remarkably. Due to concentration of bank management more on recovery, non-performing loan has also reduced ultimately decreasing total loans and advances of the bank.

#### **4.5 Non-Performing Assets of Commercial Banking Industry**

The volume of Non-performing Assets (NPA) is largely on account of the portfolio of public banks so it needs to be broken down into the public and private banks category to magnify the reasons for the existing levels of NPA. The NPA ratio of the public banks is still 11.08% even though it has shown signs of improvement in the past two years. The reform started in the public

banks has significantly lowered the volume of NPA in these banks by write offs. The NPA ratio in the private banks as on Mid July 2009 was just 6.3%. This ratio has almost been within the range of 10 % and has been shown as improvement in the last six years.

**Table: 4.11**

**Non-Performing Loans in Banks**

(Rs. in million)

<b>Banks</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Private	5.04	4.82	5.82	8.42	9.3	6.3
Public	26.97	24.11	22.06	17.74	14.92	11.08
<b>Overall</b>	<b>32.09</b>	<b>28.93</b>	<b>27.87</b>	<b>25.58</b>	<b>24.21</b>	<b>18.64</b>

*Source: Banking and Financial Statistics, Mid – January 2011, NRB*

NRB requires provision on all the loans given by the banks, which goes higher as the loan quality deteriorates. The banks must create loan loss provision on the gross value of outstanding loans, rather than on the net loans and they are not allowed the respite in the value of collaterals. The banks thus must create provisions according to the quality of the loan portfolio. Similarly, public banks with large amount of NPAs have large provision in their balance sheets while the provision of the private banks is lower. It shows that the Nepalese banking sector has somewhat protected itself from the large volume of NPA through creation of loan loss provisions. Even though the gross NPA ratio is still high, the net NPA ratio is minimal which implies that the banking sector doesn't stand to lose any more on account of NPA.

Since the large volume of NPA has been a major problem in the public banks of Nepal along with some private banks, reform program started helped to lower the amount of both Gross and Net NPA. In the chart presented below, a wide gap between NPA and provision can be observed during mid July 2005 and has narrowed down since. As on mid July 2010, total provisions had

covered the total loans of the industry. At the same time the NPA of the whole industry is also in decreasing slowly but steadily. It is also very encouraging for the industry.

#### **4.6 Non-Performing Loan Status of NBL and NCCBL**

This ratio is used to identify the share of bad debts or useless credits in the total credit & advances of banks. In other words, this is the share of credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower and lower ratio is desirable for banks. It is calculated by using the following formula.

$$\text{Non-performing Loan to Total Gross Loan} = \frac{\text{Non - performing Loan}}{\text{Total Gross Loan}}$$

**Table: 4.12**  
**Non-Performing Loan to Total Gross Loan**

**(Rs. In  
million)**

Bank	2005			2006			2007			2008			2009			2010		
	Total Gross Loan	NPL	NPL to Total Gross Loan (%)	Total Gross Loan	NPL	NPL to Total Gross Loan (%)	Total Gross Loan	NPL	NPL to Total Gross Loan (%)	Total Gross Loan	NPL	NPL to Total Gross Loan (%)	Total Gross Loan	NPL	NPL to Total Gross Loan (%)	Total Gross Loan	NPL	NPL to Total Gross Loan (%)
NBL	18132.33	10964.91	<b>60.47</b>	17937.66	9640.08	<b>53.74</b>	16866.5	8372.0	<b>49.64</b>	12441.59	2262.18	<b>18.18</b>	13756.60	1856.0	13.49	15770.70	1410.80	8.95
NCCBL	3396.41	700.83	<b>20.63</b>	4717.30	600.05	<b>12.72</b>	6011.90	519.26	<b>8.64</b>	5899.16	1289.90	<b>21.87</b>	5122.2	1606.87	31.37	5281.0	864.0	16.36
Total Banks	111904.4	32095.69	<b>28.68</b>	127065.4	28933.41	<b>22.77</b>	148366.43	27877.7	<b>18.79</b>	194360.82	25580.5	<b>13.16</b>	229363.91	24215.85	10.56	306638.36	18648.50	6.08

Source: Banking and Financial Statistics, Mid – January 2009, NRB

Table 4.12 showed that the non-performing loan to total gross loan ratios of NBL in the fiscal years 2005, 2006, 2007, 2008, 2009 and 2010 were 60.47%, 53.74%, 49.64%, 18.18%, 13.49% and 8.95% respectively. The data shows that NPL of Nepal Bank Limited is in decreasing trend. The level of NPA in 2008 has decreased substantially. The main reason behind this is management being serious about recovery of loan and also writes off of NPA from financial books. Initially it was more than 50%, now it is only single digit. The average ratio of the bank for the immediate past six-year period was 34.07%. Similarly the non-performing loan to total gross loan ratios of NCCBL in the fiscal years 2005, 2006, 2007, 2008, 2009 and 2010 were 20.63%, 12.72%, 8.64%, 21.87%, 31.37% and 16.36% respectively. The data shows that NPL of Nepal Credit and Commerce Bank Limited is in fluctuating trend. The value is in decreasing trend up to 2007 and then substantially increased during fiscal year 2008 and same thing continues till 2009. It further slightly decreased in fiscal year 2010. The average ratio of the bank for the immediate past six-year period was 18.60%.

The non-performing credits to total credit ratios of overall banking industry in the fiscal years 2005, 2006, 2007, 2008, 2009 and 2010 were 28.68%, 22.77%, 18.79%, 13.16%, 10.56% and 6.08% respectively. The average ratio of the overall banking industry for the immediate past six-year period was 16.67%.

The comparison of non performing loan to total gross loan showed that NBL had the highest average non-performing loans to total gross loan ratio between the two banks. NCCBL had also the highest ratios than overall banking industry. NCCBL had the lower average non-performing loan to total gross loan ratio over the period than NBL. But both banks have higher non-performing loan than total banking industry. From the above observation, it is found that the total NPA as of percentage to total loan is very high at NBL in comparison to that of NCCBL. But it is to be noted that the figure is significantly decreasing in NBL but in NCCBL the figure

has increased dramatically during 2008 and 2009. However after the new management took over the bank's management the NPA figure has become almost half than that of previous year. It shows the efficiency of the management.

#### **4.7 Major Findings of the Study**

This study covers one public bank and one private bank and the study is based on secondary and primary data. In order to analyze the situation, in-depth interview conducted with the respected staffs of the banks and the facts has been analyzed under the different needs. Both descriptive and analytical tools have been used to draw conclusions.

Comparative study of SWOT analysis of NBL and NCCBL

<b>S-Strength</b>	
<b>NBL</b>	<b>NCCBL</b>
Higher Deposit	Qualified staff, Team spirit
Deposit from government office	Specialist marketing expertise
Higher Public Trust	Efficient, reliable customer service
Government Bank	Well equipment
Having higher outreach	Well computerized system, risk management
Proper Accommodation	Fast service provider
Location of services	Prompt Decision making
Higher credit	A new innovative product or service
	Quality process and procedures
<b>W-Weak ness</b>	
<b>NBL</b>	<b>NCCBL</b>
Weak recovery system	Less outreach
Lack of marketing expertise	Urban area centered
Less Competitive	Availability of IT system
Lack of adequate equipment for smooth operation	Increasing non performing assets
High Loan loss provision	Less deposit
Un-differentiated products or services in relation to competitors	Weak recovery system
poor quality services goods and	Increasing NPA
Higher Non performing assets	Low deposit

<b>O-Oppurtunity</b>	
<b>NBL</b>	<b>NCCBL</b>
Developing marketing such as internet	Merging, joint venture or strategy moving in to new market segments that offer improved profit
Well staff competency	Market expansion
Oppurtunity for new areas of commercial lending	Massive rural network of branches
Generate competitive man power to compete.	
<b>T-Threats</b>	
<b>NBL</b>	<b>NCCBL</b>
Market price war with competitors	Strong ties with government bank
Competitor has a new innovative product or service	Legal limitation of Business for loan disbursement
Competitors has a superior access to channels of distribution	Country's geographical location
Low loyalty customer	Lack of proper government securities
Political Inteferences	Price war with competitars

- a) Contribution of capital funds of NBL is higher than NCCBL it is on increasing but NBL do not have clear vision for new market for investment.
- b) In both bank deposit contribute more fund out of all fund it is seems that deposit is a most reliable sources of funds of NBL and NCCBL.
- c) NBL is a government bank having higher public trust but due to improper organizational management, lack of advance IT system and lack of staff competency deposit mobilization is poor in NBL in comparison to NCCBL. NBL was not focused on quality of fund mobilization rather than volume of deposit mobilization.
- d) Because of the negative profit up to 2059/60, NBI has negative earning per share. But from fy 2060/61, it earn positive earning per share.
- e) NBL was high provision for doubtful debt in comparison to NCCBL.
- f) The ratio of non-performing loan to total gross loan was very high in NBL in comparison to NCCBL which exhibits that the total credit

provided by NBL is not performing well due to various external or internal factors of the bank.

- g) The percentage of total NPA to total gross loans is higher in NBL than in NCCBL. However, it is to be noted that the ratio is constantly decreasing in NBL while in NCCBL the ratio decreased for two fiscal years and again started to increase from 2008 and same trend continues till 2009. However after the new management took over the bank's management the NPA figure has become almost half than that of previous year. It shows the efficiency of the management. Despite of this the figure shows that NBL has overcome the problems of NPA but NCCBL has still not completely overcome the problems related with NPA.
- h) The occurrence of NPA in both the banks is not only due to the clients but due to bank's management as well. There is neither such strong loan disbursement policy nor efficient loan monitoring process in both the banks.
- i) Loans become NPA not only due to willful defaults of the client but also due to non-willful defaults of the clients which occurs when the cash flow of the client's business is affected due to various internal as well as external factors.
- j) NRB regulations have played a helping hand role for the recovery of NPA in NCCBL whereas in NBL the loans are recovered due to the fair working environment and efforts of the staffs.
- k) Goodwill of NCCBL has been affected by the existing level of NPA in the bank and EPS has been affected by the level of NPA in the bank.
- l) With introduction of new management team level of non-performing loan has been reduced substantially in both selected banks. Although the tenure of foreign management has been completed in NBL, the current management is following the same path as shown by previous team.

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### **5.1 Summary**

Based on the analysis of data available and the interpretation made there of, the summary of the study has been given in this chapter. The first chapter of the research paper highlighted the background of banking and introduced the banks with different instances, stated the statement of the problem and set the objective for the study purpose. The second chapter reviewed the literature of the related studies i.e. the study done by various other researchers on the performances of the bank, review of related books, journals and magazines that adds to the efficiency of the present study. Third chapter basically set the research methodology i.e. various sequential steps, methods and tools that have been chosen for the research purpose.

Likewise fourth chapter is the presentation and analysis of the primary as well as secondary data collected for conducting the study. This chapter is the main pivot on which findings of the study would be based. Fifth chapter is the findings of the study on the basis of above interpretations and analysis of findings. On the basis of these findings required recommendations made to the concerned banks and financial intermediaries to make their functioning better. In the context of Nepal there are 32 different banks already in operation and few more are in the process of obtaining their operational license. Despite choosing so many other private and joint venture banks, the researcher choosing the NCCBL and NBL for research purpose is to perform the SWOT (Strength, Weakness, Opportunity and Threat) analysis. The private and joint venture banks have played significant role in the economic development of the country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on commerce, trade

and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks. Therefore, the study has been conducted to evaluate the performance of the private bank in order to find out their strengths and weaknesses. The role of commercial banks becomes crucial in the task of capital formation, which is no doubt, a key variable in the economic development of a country. Scattered resources have no meaning and importance until and unless they are mobilized and utilized efficiently in some productive sectors of nation's economy. The bank can contribute in the process of capital investment in industry, trade, commerce and agriculture sector which would help to uplift the entire economic development of the nation. The goal of economic development can not be achieved without strong capital base and the commercial banks play the pivotal role in formation of such base. Banks in Nepal are judged by its level of NPA and provisions made for losses. It is generally known that banks which have low level of NPA and provisions for losses make better profit than the other. However, analysts are not uniform about the impact of NPA in banks. This study titled "A study of NPA in banks in Nepal with reference to Nepal Bank Limited and Nepal Credit And Commerce Bank Limited" is aimed to assess different causes and level of NPA in the banks.

From the study of sources of fund it is observed that the contribution of capital fund in total sources of NBL was 2.0% in 2005 which increased and reached to 3.3% in 2010. The deposit has the highest contribution in sources of fund. The major sources of capital funds are: Share capital, general reserves, other reserves and retained earnings. Likewise, deposits contribute more funds out of total sources of funds i.e. the contribution of deposit was 52.37% in 2003 which has been increased to 72.76% in 2009 in NBL. In case of entire commercial banking industry, contribution of deposit is overall commercial bank is 66.72% to 75.18%, which is higher than Nepal Bank Limited.

From the study of uses of fund it is observed that contribution of liquid fund in total uses of NBL was 7.19% in 2005 which increased and reached to 8.87% in 2010. Loans and advances contribute more funds out of total uses of funds in NBL i.e. the contribution of loans and advances has occupied 28.76% of total uses of fund in 2005 which decreased and reached to 27.17 % in 2010. But contribution of loans and advances in overall commercial banking industry is in the range of 40.32 % to 53.44 %. The NBL has maintained liquid funds of 8.87 % in 2010 which is lesser than overall banking industry. The NBL has not maintained sufficient liquid funds. NBL makes average investment of 16.0% on government securities and share and debentures.

From the study contribution of capital fund in total sources of NCCBL is 9.0% in 2005 and decreased to 1.9% in 2010. The deposit has the highest contribution in sources of fund in case of NCCBL too. Likewise, deposits contribute more funds out of total sources of funds i.e. the contribution of deposit has 76.18% in 2005 and decreased to 71.93% in 2010. Where as contribution of overall commercial banking industry is 66.72% to 75.18%, which is higher than Nepal Credit and Commerce Bank Limited. Deposit is only one reliable source of funds of NCCBL similar to commercial banks.

From the study, contribution of liquid fund of NCCBL in total uses is 14.07% in 2005 and increased to 16.03% in 2010. Loans and advances contribute more funds out of total uses of funds in NCCBL i.e. the contribution of loans and advances has 58.93% in 2003 and decreased to 49.96% in 2010. But contribution of loans and advances in overall commercial banking industry has 40.32% to 53.44%. The NCCBL has maintained liquid funds of 16.03% in 2009 which is higher than overall banking industry. The NCCBL has not maintained sufficient liquid funds. NCCBL makes average investment of 8.0% on government securities and share and debentures.

The comparison of non performing loan to total gross loan showed that NBL had the highest average non-performing loans to total gross loan ratio between the two banks. NCCBL had also the highest ratios than overall banking industry. NCCBL had the lower average non-performing loan to total gross loan ratio over the period than NBL. But both banks have higher non-performing loan than total banking industry.

## **5.2 Conclusion**

This study covers one semi government bank and one private bank and the study is based mostly on secondary data. In order to analyze the situation, in depth interview is conducted with the respected staffs of the banks and the facts have been analyzed under the different needs. It is concluded that the ratio of non-performing loan to total gross loan was very high in NBL in comparison to NCCBL. However, throughout the years the scenario has changed. Non-performing loan of NBL has substantially decreased from 60.47 % in 2005 to 8.95 % in 2010. It is all because of foreign management which handled the management of bank from July 2002 till July 2008. They concentrated mainly on recovery of loan rather than lending. Further certain portion of loan has been write off from books because of which also NPA level has gone down. Though write off has been done, recovery process of such loans is still taking place. The credit provided by NBL was not performing well due to various external or internal factors of the bank. Thus, the percentage of total NPA to total loans was higher in NBL than in NCCBL. Similarly, in case of NCCBL the loan & advances seems to be in increasing trend till 2007. After that it has also decreased. It is because of new management of NCCBL which started concentrating more on recovery than lending. Its non-performing assets to loan & advances ratio is in fluctuating trend. Actually it seems to decrease till fiscal year 2006/07 whereas increased substantially during 2008 and 2009. Similarly, the NPA ratio again declines in the year of 2009. The NPA ratio to loan & advances has dropped to 16.99% in the 2010 from 21.09% in the 2005.

Although the NPA ratio in NCCBL has decreased it is still more than that of NBL. It means that NBL has overcome the problems of NPA but NCCBL has still not overcome the problems related with NPA.

It is concluded that the occurrence of NPA in both the banks is not only due to the clients but due to bank's management as well. There is neither such strong loan disbursement policy nor efficient loan monitoring process in both the banks. Loans become NPA not only due to willful defaults of the client but also due to non-willful defaults of the clients which occurs when the cash flow of the client's business is affected. NRB regulations have played a helping hand role or the recovery of NPA in NCCBL whereas in NBL the loans are recovered due to the fair working environment and efforts of the staffs.

NPA is considered a major problem for any commercial banks. There are varieties of factors due to which a loan becomes NPA. Some of these factors include proper loan sanction procedure, regular loan monitoring process, external factors which affect the client's business, bad intention of the client etc.

It is a noted fact that the publicly owned banks have a high level of NPA than the private joint venture banks. The publicly owned banks are obliged to give loans to all the sectors of the economy where as the private banks disburses loan to the willful sectors only. In Nepal, there is a high chance of corruption in public banks than in the private banks.

If there is existence of proper loan management and a perfect working environment, there would be a less possibility of a loan to become NPA due to non-willful defaults. A loan can always be NPA due to willful default. The higher the amount of NPA, the higher the amount of provisions for losses, it makes an impact on the profitability in any banks.

Although the management of the bank and the staffs are making best of their efforts to reduce the level of NPA, they are being arbitrated by several external and internal factors. There are many businessmen who have not paid the defaults to the bank but are living a high standard life. No such remedial measures are introduced to capture the personal property of the client if they fail to pay back to the bank.

This study is related to the study of the private bank and public serving the aspects of operation of the commercial in nature. In the modern competitive banking, the banks also give its service through the modern banking but the bank whether operating by a commercial viewpoint or any other viewpoint have to earn reasonable profit or earning very little profit. In the research paper various financial tools have been incorporated in order to show its financial performance. Its respective growth, strengths and weaknesses, opportunities and threats areas, management and human resources strengths, marketing and socio-political weaknesses, organizational difficulties and its progress have been incorporated in the research paper in the subsequent chapters. The literature has been reviewed and the opinions of different fellow researchers have been incorporated to give emphasis to the subject matter and arrive at more meaningful conclusion. The analysis of the key financial indicators enabled to draw meaningful conclusion from the research and helped to arrive at the findings of the study.

### **5.3 Recommendations**

The role of commercial banks is vital for the economic development of any country. This is possible only when they are able to make handsome profits out of their successful operation and better financial performance. The operationally weak position of commercial banks not only impedes the attainment of higher profitability but also degrades the services rendered to the people as they can not provide better facilities to their staffs. Therefore, in order to be the instrument of development, commercial banks are

required to make better profit and that is possible only through better performance. On the basis of major findings of this study the following recommendations are given to the NCCBL and NBL to improve its financial strengths, weaknesses, opportunities and threats.

- Both the banks should realize the current plight of economy and risk management. It is rational to minimize risk through short-term lending instead of long term lending. Therefore preference should be given to short-term loan over long term loan.
- The problem to resolve NPA should be a serious issue not only to the concerned bank and NRB but it should be a national issue. Government should take proper action against willful defaulters and give proper assistance to sick industries practically.
- The defaulters of a loan are walking freely in the street and living a high standard of life. These defaulters should be socially refused. People should know that they are defaulters of a loan.
- Unfair competition among the banks should be intervened. Since the number of banks is increasing, aggressive marketing approach is being applied by most of the banks. They are providing loans to the clients without proper investigation or allowing overdrafts to clients even if they do not need. Such mechanism should be stopped by the bank to eliminate future risk.
- Staffs should be trained properly to analyze the risk of a business. If a business is analyzed effectively, there is a low chance of a loan to become NPA.
- A proper and strict credit manual should be developed by banks. Strict action should be taken to those who do not follow the rules and regulations of the credit manual. Trainings should be given if necessary.

- Bank should be given authority to classify assets straightly as doubtful or loss without benchmarking the delinquency period if they feel that the assets would be hard to collect.
- Loan recovery department should be effective and proper working environment should be provided to the staffs working in the recovery department. There should not be existence of pressure from senior staffs and other external factors to the staffs working in this department.

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## Appendix 1

### Calculation of Trend values of Loans & Advances of NBL

Year	Loans & Advances (Y)	Deviation from Mid July 2007.5 (X)	$X^2$	XY	$Y = a + bx$
2005	19,078	-2.5	6.25	(47,695.25)	19,003.05
2006	19,108	-1.5	2.25	(28,662.00)	17,847.20
2007	17,456	-0.5	0.25	(8,728.00)	16,691.36
2008	12,180	0.5	0.25	6,090.20	15,535.51
2009	13,378	1.5	2.25	20,066.25	14,379.66
2010	15,481	2.5	6.25	38,701.50	13,223.82
<b>N=6</b>	<b><math>\sum Y = 96,681</math></b>	<b><math>\sum X = 0</math></b>	<b><math>\sum X^2 = 17.50</math></b>	<b><math>\sum XY = (20,227.30)</math></b>	

Here,

When  $\sum X = 0$  from two normal equations,

$$a = \frac{\sum Y}{N} = \frac{96,681}{6} = 16,113.43$$

$$b = \frac{\sum XY}{\sum X^2} = (1,155.85)$$

Hence, the equation of straight line trend is

$$Y = a + bx$$

### Expected Trend Values of Loans & Advances

Year	Loans & Advances (Y)	Deviation from Mid July 2007.5 (X)	Y= a+bx
2011		3.5	12,067.97
2012		4.5	10,912.13
2013		5.5	9,756.28
2014		6.5	8,600.44

### Calculation of Trend values of NPA of NBL

Year	NPA (Y)	Deviation from Mid July 2007.5 (X)	X <sup>2</sup>	XY	Y= a+bx
2005	10,965	-2.5	6.25	(27,412.28)	11,267.61
2006	9,640	-1.5	2.25	(14,460.12)	9,060.96
2007	8,372	-0.5	0.25	(4,186.00)	6,854.32
2008	2,262	0.5	0.25	1,131.09	4,647.67
2009	1,856	1.5	2.25	2,784.00	2,441.03
2010	1,411	2.5	6.25	3,527.00	234.38
<b>N=6</b>	<b>∑Y=34,506</b>	<b>∑X=0</b>	<b>∑X<sup>2</sup>= 17.50</b>	<b>∑XY=(38,616.31)</b>	

Here,

When  $\sum X=0$  from two normal equations,

$$a = \frac{\sum Y}{N} = \frac{34,506}{6} = 5751$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{38,616.31}{17.50} = 2206.65$$

$$\sum X^2$$

Hence, the equation of straight line trend is

$$Y = a + bx$$

### Expected Trend Values of NPA

Year	NPA (Y)	Deviation from Mid July 2007.5 (X)	Y = a + bx
2011		3.5	(1,972.27)
2012		4.5	(4,178.91)
2013		5.5	(6,385.56)
2014		6.5	(8,592.20)

### Calculation of Trend values of Loans & Advances of NCCBL

Year	Loans & Advances (Y)	Deviation from Mid July 2007.5 (X)	X <sup>2</sup>	XY	Y = a + bx
2005	3,321.8	-2.5	6.25	-8304.5	4,181.11
2006	4,417.6	-1.5	2.25	-6626.4	4,487.25
2007	5,934.3	-0.5	0.25	-2967.15	4,793.38
2008	5,836.6	0.5	0.25	2918.3	5,099.52
2009	5,083.9	1.5	2.25	7625.85	5,405.65
2010	5,084.5	2.5	6.25	12711.25	5,711.79
<b>N=6</b>	<b>∑Y=29678.70</b>	<b>∑X=0</b>	<b>∑X<sup>2</sup>= 17.50</b>	<b>∑XY=5357.35</b>	

Here,

When  $\sum X = 0$  from two normal equations,

$$a = \frac{\sum Y}{N} = \frac{29678.70}{6} = 4946.45$$

$$b = \frac{\sum XY}{\sum X^2} = 306.13$$

Hence, the equation of straight line trend is

$$Y = a + bx$$

### Expected Trend Values of Loans & Advances

Year	Loans & Advances (Y)	Deviation from Mid July 2007.5 (X)	Y = a + bx
2011		3.5	6,017.92
2012		4.5	6,324.05
2013		5.5	6,630.19
2014		6.5	6,936.32

### Calculation of Trend values of NPA of NCCBL

Year	NPA (Y)	Deviation from Mid July 2007.5 (X)	X <sup>2</sup>	XY	Y = a + bx
2005	700.83	-2.5	6.25	-1752.08	601.08
2006	600.05	-1.5	2.25	-900.075	732.71
2007	519.26	-0.5	0.25	-259.63	864.34
2008	1,289.90	0.5	0.25	644.95	995.97
2009	1,606.87	1.5	2.25	2410.305	1,127.59
2010	864.0	2.5	6.25	2160	1,259.22
<b>N=6</b>	<b>∑Y=5580.91</b>	<b>∑X=0</b>	<b>∑X<sup>2</sup>= 17.50</b>	<b>∑XY=2303.47</b>	

Here,

When  $\sum X = 0$  from two normal equations,

$$a = \frac{\sum Y}{N} = \frac{5580.91}{6} = 930.15$$

$$b = \frac{\sum XY}{\sum X^2} = 131.63$$

Hence, the equation of straight line trend is

$$Y = a + bx$$

### Expected Trend Values of NPA

<b>Year</b>	<b>NPA(Y)</b>	<b>Deviation from Mid July 2007.5 (X)</b>	<b>Y= a+bx</b>
2011		3.5	1,390.85
2012		4.5	1,522.47
2013		5.5	1,654.10
2014		6.5	1,785.73