“A COMPARATIVE STUDY OF NPA MANAGEMENT OF NABIL BANK LIMITED, STANDARD CHARTERED BANK NEPAL & NEPAL BANK LIMITED”

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1.1 Background of the study

National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Banks constitute an important segment of financial infrastructure of any country. Bank came into existence mainly with the objective of collecting the idle funds and mobilizing them to productive sectors causing overall economic development, which finally leads to national development of the country. "A bank can be defined as a 'financial department store' which renders a host of financial services besides taking deposits and giving loans."[1] Bank pools the fund scattered in the economy and mobilize them to the productive sector in the form of loans and advances. Bank is a financial institution, which deals with money by accepting various types of deposits, disbursing loan and rendering various types of financial services. It is the intermediary between the deficit and surplus of the financial resources. "Banking when properly organized, aids and facilitates growth of trade and industry and hence of national economy. In the modern economy banks are to be considered not as dealers in money but as the leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development."[2]

It cannot be denied that the issue of development rests upon the mobilization of resources and banks deals in the process of channelising the available resources in the needed sector. Commercial banks collect deposits from the public and the largest portion of the deposited money is utilized in disbursing loans and advances. The balance sheets of the commercial banks reflect deposits constitute a major portion of the liabilities and loans and advances constitute a major portion of the assets. Similarly the profit of the bank depends upon the spread that it enjoys between the interest it receives from the borrowers and that to be paid to the borrowers. An average bank generates 60-70% of its revenues through its lending

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[1] Bhuvan Dahal and Sarita Dahal, A Hand Book to Banking, (Kathmandu : Asmita Books & Stationery, 2002), p 7

[2] M. Radhaswami and S.V. Vasudevan, A text Book of Banking :Law and Practice & Theory of Banking, (New Delhi: S. Chand & Co. Ltd., 1991), p 29

activities. The return that the bank enjoys of deposit mobilization through loans and advances is very attractive but they do not come free of cost and free of risk. There is risk inherent in lending portfolio. Banking sector is exposed to number of risk like interest rate risk, liquidity risk, credit risk, borrower's risk etc. Such risks in excessive form had led many banks to go bankrupt in a number of countries.

Amongst the many risk that the bank faces one of the most critical is the borrower's risk – the risk of non-payment of the disbursed loans and advances. Failure to collect money disbursed may sometimes results in the bank's inability to make repayment of the money to the depositors and return to the shareholders. The risk involved is so high that it can bring bank to a verge of bankruptcy. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. If a bank behaves irresponsibly, the cost born by the economy is enormous. "Banking system is volatile and sensitive sectors of national economy, which requires effective monitoring and efficient supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of banking activities carried out by governmental & non-governmental banking and financial institution." [3]

Due to their central role in the economy, governments and central banks try their best to rescue banks from such situations. Hence to protect the banks from such situation and protect depositors and shareholders money, central bank issues various directives and guidelines from time to time with modifications and amendments for the sound regulation of the banking system. All the banks have to abide by the rules and regulation issued by the central bank. Of the many directives, there are ten directives relating to the banking prudential regulation/norms to be followed by the banks.

1.1.1 Brief History of Evolution of Banking

The evolution of banking industry had started a long time back, during ancient times. There was reference to the activities of moneychangers in temple of Jerusalem in the New Testament. In ancient Greece, the famous temples of Delphi and Olympia

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[3] Gandhi Pandit, "*Legal Complication Between Deloitte & NRB*", Business Age, Vol. 4, No. 8, August 2002, p. 31

served as the great depositories for peoples' surplus funds and these were the centers of money lending transactions. However as a public enterprise, banking made its first beginning around the middle of twelfth century in Italy. The Bank of Venice, founded in 1157 was supposed to be the most ancient bank. Following it were established the Bank of Barcelona and the Bank of Geneva in 1401 and 1407 respectively. Subsequently Bank of Amsterdam set up in 1609, which was very popular then. The Bank of Venice and the Bank of Geneva continued to operate until the end of eighteenth century. With the expansion of commercial banking activities in Northern Europe, there sprang up a number of private banking houses in Europe and slowly it spread throughout the world.

However, the development of banking in Nepal is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient times. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a Sudra merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in Ancient Nepal. The establishment of "Tejarath Adda" during the year 1877 A.D. was the first step in institutional development of banking sector in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy. Reviewing this situation, the "Udyog Parishad" was constituted in 1936 A.D. One year after its formulation, it formulated the "Company Act" and "Nepal Bank Act" in 1937 A.D.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However the stand of Nepal Bank Limited alone in total monetary and financial sector was not sufficient and satisfactory. Thus Nepal Rastra Bank was set up on 2013.01.14 as a central bank under Nepal Rastra Bank Act 2012 B.S.

Similarly on 2022.10.10 Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality/competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development Centre was set up in 2013 B.S which was converted to Nepal Industrial Development Corporation (NIDC) in 2016 B.S. Similarly Agricultural Development Bank (ADB) was established in 2024.10.07 with an objective to promote agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

Despite all these efforts of the government, financial sector was sluggish. With the opening of Nabil Bank Limited (erstwhile Nepal Arab Bank Limited) in 2041.03.29, the door of opening commercial banks was opened to the private sector. NABIL emerged as the first joint venture bank when the banking industry is totally dominated by Government and Semi-Government banks mainly to revitalize the economy by accelerating productivity in various sectors and to provide efficient customer service. Having observed the success on NABIL based on marketing concept and also because of liberal economic policy adopted by the successive governments, many commercial banks have been established till date. The table no. 1 shows the list of licensed commercial banks as on Mid- January 2008.

Table No. 1

List of Licensed Commercial Banks[4]

Mid-November 2007

S.N	Name of the Bank	Operation Date (A.D)	Head Office
1	Nepal Bank Limited	1937.11.15	Kathmandu
2	Rastriya Banijya Bank	1966.01.23	Kathmandu
3	Agriculture Development Bank	1968.01.02	Kathmandu
4	Nabil Bank Ltd.	1984.07.16	Kathmandu
5	Nepal Investment Bank Ltd.	1986.02.27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1986.01.30	Kathmandu
7	Himalayan Bank Limited	1993.01.18	Kathmandu
8	Nepal SBI Bank Limited	1993.07.07	Kathmandu
9	Nepal Bangladesh Bank Limited	1993.06.05	Kathmandu
10	Everest Bank Limited	1994.10.18	Kathmandu
11	Bank of Kathmandu Limited	1995.03.12	Kathmandu
12	Nepal Credit & Commerce Bank	1996.10.14	Siddharthanagar
13	Lumbini Bank Limited	1998.07.17	Narayangadh
14	Nepal Ind. & Commercial Bank	1998.07.21	Biratnagar
15	Machhapuchhre Bank Limited	2000.10.03	Pokhara
16	Kumari Bank Limited	2001.04.03	Kathmandu
17	Laxmi Bank Limited	2002.04.03	Birgunj
18	Siddhartha Bank Limited	2002.12.24	Kathmandu
19	Global Bank Limited	2007.01.02	Birgunj
20	Citizens Bank International Ltd.	2007.06.21	Kathmandu
21	Prime Bank Limited	2007.09.24	Kathmandu
22	Sunrise Bank Limited	2007.10.12	Kathmandu

[4] Banking and Financial Statistics , Vol. 41,(A Journal of Banking Operation Department: NRB, Mid July 2003),p.30

23	Bank Of Asia Limited	2007.10.12	Kathmandu
24	Grand Bank Nepal Ltd.	2008.05.25	Kathmandu
25	N.M.B. Bank Ltd.	2008.06.05	Kathmandu
26	Kist Bank Ltd.	2009.05.07	Kathmandu
27	Janta Bank Ltd.	2010.04.05	Kathmandu
28	Megha Bank Ltd.	2010.07.03	Kathmandu
29	Commerz & Trust Bank Ltd.	2010.09.20	Kathmandu
30	Civil Bank Ltd.	2010.11.26	Kathmandu
31	Century Bank Ltd.	2011.03.10	Kathmandu
32	Sanima Bank Ltd.	2012.02.15	Kathmandu

1.1.2 Brief Profile of the Subjected Banks

Nepal Bank Limited (NBL)

Nepal's first commercial bank, Nepal Bank Limited established on 13th Kartik 1994 B.S.(1937 A.D.) in the technical assistance of Imperial Bank of India under 'Nepal Bank Act 1937', was inaugurated by His Majesty king Tribhuwan Bir Bikram Shah Dev. The establishment of NBL laid the foundation of institutional banking system in the country. "Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from the predominant money lenders' net and of expanding banking services."[5] Nepal Bank Limited was headquartered in Kathmandu and had altogether 117 branches in different urban and semi urban parts of the country. There are 3,415 employees working in the bank. As NBL was established prior to Nepal Rastra Bank, i.e. Central Bank, it carried out the function of commercial bank as well as of the Central Bank until the inception of NRB. Now in the presence of a separate central bank, it is providing wide range of commercial banking services.

Even being one of the largest and oldest banks of the country, the financial health of the bank was very bad. Due to its ill health, under financial sector reform programme

[5] Ibid p. 10

of NRB in technical assistance program of World Bank and DFID, a management team “ICCMT” consisting of International Bankers form Bank of Scotland (Ireland) has been appointed in NBL in July 22, 2002 to restructure the bank for two years contract and it was renewed after two years. Recently NRB is looking for new management team. NBL was established as a joint venture of government and private individuals. At first the government owned the majority of the share. Now the government owns only 40% share with the suggestion of World Bank to transfer the ownership to the private sector for better functioning of the financial sector. The present shareholding pattern is as follows.

<u>Share Holding Pattern</u>

Nepalese Government	40.49%
Nepalese General Public	59.51%

Nabil Bank Limited (NABIL)

Nabil Bank Limited formerly named as Nepal Arab Bank Limited was established on July 12th 1984 under a technical service agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank, UAE. It is the pioneer joint venture bank of Nepal. NABIL is the only joint venture bank with 28 points of representation in various parts of the country. NABIL is amongst the most successful bank in Nepal registering strong growth in the balance sheet footings as well as profits year after year. The initial capital of Rs 30 million has grown to Rs 2,560.34 million as at mid July 2007. NABIL launched its operation with the marketing concept. NABIL has also been a pioneer in introducing modern banking and innovative products in Nepal like consortium finance, credit card etc. NABIL is the sole banker to a multitude of International Aid Agencies, Non-Government Organization, Embassies and Consultants in the Kingdom. NABIL has been providing wide range of banking services to various parts of the society. NABIL bank ranks among the top three financial institution in Nepal in terms of market share of handling Nepal’s trade. NABIL bank is being managed by a team of qualified and highly experienced professionals. There are altogether 427 employees working in the bank.

Share Holding Pattern

NB International Limited, Ireland	50%
Local Financial Institution	20%
Nepalese Public	30%

Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited, formerly known as Nepal Grindlays Bank Limited, was established in 1987 as the third Joint Venture Bank of Nepal in technical collaboration with ANZ Grindlays Bank. In 2000, ANZ Grindlays Bank was amalgamated in Standard Chartered Banking Group and 50% share of Nepal Grindlays Bank was transferred to Standard Chartered Banking Group. Consequently the name of the bank has been changed as Standard Chartered Bank Nepal Limited. SCBN has altogether 15 branches/outlets within the kingdom. SCBNL is also one, which comes under the top three financial institution of Nepal and has also won the

"Banker of the Year" award in 2002. There are altogether 351 employees working in the bank.

Share Holding Pattern

Standard Chartered Grindlays Bank Limited	50%
Nepal Bank Limited	33%
Nepalese Public	17%

1.2. Focus of the study

Bank disburses loans and advances for certain predetermined fixed periods or every loans and advances has its maturity period or expiry date and the borrowers must repay the loans by the maturity period but there is no certainty that all the loans are recovered by the maturity date. Some loans are recovered within the maturity period but some loans cannot be recovered even after its maturity and remain as non-performing assets of the bank. Banks in Nepal are in poor health. Increasing non-performing asset (NPA) is one of the severe problems of the Nepalese banks. The total NPA of Nepalese banking sector is estimated to be about 15%. As per the data of Credit Information Bureau (CIB) there are altogether 2225 blacklisted borrowers as on 16 July 2007. Banks investment in the form of loans and advances are not giving desired return. Banks are facing problems in recovering the granted loans that had turned to NPA. The nationalized two commercial banks namely Nepal Bank Ltd. and Rastriya Banijya Bank have non-performing assets to the extent of 20% and 30% respectively. Now a days, in most of national newspaper, it can be seen that government owned commercial banks are publishing names of borrowers who defaulted in making payment of the bank loans. Even the private and joint venture banks are also facing the problem of increasing NPAs. This problem may lead to bankruptcy of bank and failure of banking system adversely affecting the depositors and other parties of the society.

In order to rescue banks from financial distress, to safeguard depositors' interest and to ensure stability in the economy, NRB issues directives from time to time related to various aspects of the banks. NRB Directive No. 2 (2001) is related to loan classification and provisioning of commercial banks. As per this directive commercial banks are supposed to categorize the loans disbursed into four different categories on the basis of ageing of its past dues and each category of loan requires certain percentage of it to be provisioned for the probable loss. Going through the old directives regarding loan loss provision, banks has to classify the loans into six different categories and as per that directive, for a loan to be bad the time period of past due was 5 years but with the new directive, that period has also been reduced. This means the previously categorized substandard loan will now be a doubtful loan and doubtful loan will be bad. Accordingly more provision has to be made for probable loss in years to come than previous years. The provisioning amount is taken by deducting from the profit of the bank. Hence there is great impact of loan loss provision (LLP) in the profitability of the banks. The provision of the loan means the net profit of the bank will come down by that amount. Increase in loan loss provision decrease the profit of the bank leading to decrease in dividends to the shareholder. However adequate loan loss provision strengthens the financial health of the banks by controlling credit risk and safeguards the depositor's money leading to overall economic development of the country.

1.3. Limitations of the study

- ⇒ Only Nepalese commercial banks have been considered for the study and three banks have been selected as samples for the study.
- ⇒ The period of the study is limited from fiscal year 2002/03 to 2006/07.
- ⇒ Because of the strict policy of the commercial banks the study is mainly based on secondary data. The data published in annual reports of respective banks, articles, publication, journals etc have been taken into consideration. Any misrepresentation, mistakes, omission etc may affect the outcome to the study. Thus, the reality of study depends on secondary sources of data and questionnaires filled and responses given by the respondents.
- ⇒ All the analysis in this study is based on the date as of end of fiscal year i.e. mid July of respective years. Any abnormality in this date may affect the conclusion of the study.

1.4. Organization of the study

This research work has been divided into five chapters, namely Introduction, Review of Literature, Research Methodology, Data presentation and Analysis and finally Summary, Conclusion and Recommendation.

The first chapter includes various aspects of this study like background of the study, focus of the study, statement of the problem, objective of the study, significance of the study and limitations of the study.

The second chapter incorporates review of theoretical and related literature regarding the subject matter.

The third chapter deals with the research methodology, which consists of research design, sources of data, population and sample along with different statistical and financial tools used in the study.

The fourth chapter includes presentation and analysis of data using different statistical tools and major findings.

The final or fifth chapter includes summary conclusion and recommendation regarding the subject matter.

After the completion of introductory chapter, some relevant literatures in the form of books, policies, directives, journals, articles, and previous thesis are going to be reviewed in the next chapter.

1.5 Research Methodology

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, the various sequential steps that are generally adopted by the researcher, studying his research problem among with certain objectives in view are studied. A research methodology helps us to find out accuracy, validity and suitability. Research is a systematic inquiry of any particular topic and methodology is the method of doing research in a well manner. Hence research methodology is the systematic study of research problem that solves them with some logical evidence. The research methodology adopted in the present study as discussed as below:

1.5.1 Research Design

Research design is the specification of methods and procedures for acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. This research will follow analytical and descriptive research design.

1.5.2 Populations and Sampling

Population refers to the entire group people, events or things of interest that a researcher wishes to investigate. Since this study is about loan classification and loan loss provisioning of commercial banks, the population for this study comprised all the licensed commercial banks of the country.

A list of licensed commercial banks was obtained from NRB. There are altogether 32 commercial banks in Nepal. The commercial banks of Nepal can be categorized into two types namely Public Sector and Private Sector. Public sector banks include three old banks NBL, RBB and ADB and private sector banks comprise remaining 29 banks. Out of the total population following 3 commercial banks were selected as samples for this study by using judgmental sampling method.

- ⇒ Nepal Bank Limited (NBL)
- ⇒ Nabil Bank Limited (NABIL)
- ⇒ Standard Chartered Bank Nepal Limited (SCBNL)

Nepal Bank Limited was selected from public sector commercial bank and two major joint venture banks NABIL and SCBNL were selected from private sector commercial banks so that the study could represent true picture of commercial banks.

1.6 Summary, Conclusion & Recommendation

1.6.1 Summary

Banks plays an important role in the economic development of the country as the issue of development always rests upon the mobilization of resources. Banks deals in the process of canalizing the available resources to the needy sector causing overall economic development. This research is aimed at studying the non-performing loan and loan loss provisioning of commercial banks. For this purpose, descriptive cum analytical research design was adopted. Out of the total population of 32 commercial banks, three banks were taken as sample using Judgmental Sampling Method. Nepal Bank Limited was selected from public sector banks and two major joint venture banks, NABIL Bank Limited and Standard Chartered Bank Nepal Limited were selected from private sector banks. Both primary and secondary data have been used in the study. Primary data has been collected through questionnaire, direct interviews & telephonic interviews and annual reports and other publication forms the basis of secondary data. The data collected from various sources are recorded systematically and presented in appropriate forms of tables and charts and appropriate mathematical, statistical, financial, graphical tools have been applied to analyze the data. The data of five consecutive years of the three selected banks have been analyzed to meet the objective of the study.

NBL and NABIL have the highest proportion of the loans and advances in the total asset structure but SCBNL has relatively lower loans and advances in the total asset structure. The credit deposit ratio also shows the same thing. It indicates the risk adverse attitude of the management of SCBNL. There is higher proportion of non-performing loan in the total loans and advances of NBL, which comes around 28.05% on average, which is very much higher than the acceptable standard of minimum 10%. Since higher provision has to be apportioned for NPL, its loan loss provision is also significantly higher than the other two banks. Regarding NPL SCBNL is moderate among the three but it has least LLP. Nabil has the least NPL but moderate in LLP. The ratio of provision held to NPL of NABIL is the highest followed by NBL and then SCBNL.

Eventhough, NBL has the highest proportion of their investment in the most income-generating asset, the bank is unsuccessful in generating returns. Most of the loans of NBL have become non-performing and hence it is not generating any income instead demanded high provision for probable loss. Even NABIL has higher proportion of investment in loans and advances in comparison to SCBNL, its return on loans and advances is comparatively lower. However the high return of SCBNL is not due to its proper lending function but due to low deposit cost, high fee based income, high foreign currency deposit, exchange earning etc.

There is negative correlation between LLP and loans and advances in NABIL & SCBNL but these two variables shows positive correlation in case of NBL. The negative correlation in NABIL and SCBNL is due to decrease in non performing loan in these two banks. The positive correlation in NBL is due to decrement of non-performing loan of NBL. Amount to be provisioned depends upon the non-performing loan and its quality. Higher provision has to be provided for NPL. Hence even though loans and advances do not increase, if in the same loan portfolio NPL increases, LLP will increase. This has also been shown by the positive correlation between LLP and NPL in all the three banks. NABIL and SCBNL have shown positive correlation between loans and advances and deposit but NBL shows negative correlation. NBL is concentrating on loan recovery and hence there was no further investment of deposit in the form of loans and advances but deposit is increasing which is the reason behind the negative correlation between these two variables.

The trend analysis of loans and advances shows increasing trend in n case of NABIL and SCBNL but decreasing trend in NBL. This is because, NBL has no further investment in loans and advances in recent years instead they are concentrating more on recovering bad debts. The trend analysis of Non-performing loan and Loan Loss Provision shows decreasing trend in all three banks. In case of NBL decrease in NPL and LLP is due to concentrating more on recovering bad debts. And in NABIL and SCBNL this is due to recovery efforts towards reducing NPL through establishment of Recovery Cell. The past trend of net profit of all the three banks exhibit increasing trend in coming years. Since NBL is concentrating on recovering bad debts its increasing trend of net profit is very high and it continues for some years. After that its increasing trend of net profit will be normal.

As per the latest loan classification and provisioning directives loans and advances have to be categorized into four types namely Pass, Substandard, Doubtful and Loss with respective provisioning of 1%, 25%, 50% and 100%. The loan falling under Pass category is regarded as performing loan and that which falls under remaining three categories is regarded as non-performing loan. NBL has the highest proportion of loss graded loan followed by Doubtful loan in the total NPL which in an indication of bad quality of asset of NBL in the form of loans and advances. NABIL has higher proportion of Substandard loan in the total non-performing loan followed by Loss and then Doubtful loan. And SCBNL has higher proportion of Loss loans followed by Doubtful and then Substandard loans.

Today's banking industry is severely affected by the problem of NPA. Improper credit appraisal system, ineffective credit monitoring & supervision system, economic slowdown, borrower's misconduct, and overvaluation of collateral, political pressures to lend to uncreditworthy parties etc are the major factors leading to non-performing assets. Setting up recovery cell, hiring Asset Management Company etc are some to the measures to resolve the problem of NPA. Loan classification and loan loss provision also helps to confront the problems thus created due to non-performing loans. The latest directive regarding loan classification and loan loss provisioning is very important for maintaining sound financial health of the banks. The new provisioning directives leads to increment in provision amount of the banks leading to decrement in profitability of the bank but this is only for a short run.

1.6.2 Conclusions

Liberalization of financial sector started in 1980s with the aim to streamline it. After that the financial sector widened with more banks and financial institutions. The total number stood at 208 in mid July 2011. Regarding banking sector there are 32 commercial banks, 38 development banks and 74 finance companies. Even the financial sector developed rapidly in quantity, but in terms of quality it is far behind the developed countries. Banks came into existence mainly with the objectives of collecting idle funds, mobilizing them into productive sector and causing an overall economic development.

The banker's have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. Lending is the major function of any commercial bank and it is the most income-generating asset of any commercial bank but there is risk inherent in bank's lending portfolio. In order to cover the risk inherent in the lending portfolio, banks have to make loan loss provision by categorizing the loans into different category as per the NRB directives. Increasing non-performing loan is the serious problem of the banking sector in Nepal. Non-performing asset debar the income flow of the bank while claiming additional resources in the form of provisioning and hinder further gainful investments.

It has been found that NBL has very high portion of non-performing loan resulting to higher provision. Hence even the bank has the highest investment in the most income generating asset i.e. loans and advances, its return is very low. Eventhough in 2011 SCBNL has lower investment in forms of Loans and Advances than of NABIL, its NPL is higher than of NABIL. Among the three banks NABIL has the least non-performing loan but its LLP is more than that of SCBNL. From the above indicators it can be said that NABIL is the best among the three banks in terms of NPL and LLP.

In the conclusion it can be said that ineffective credit policy, political pressure to lend to uncreditworthy borrowers, overvaluation of collateral are the major causes of mounting non-performing assets in government owned banks like NBL. Other factors leading to accumulation of NPAs are weak loan sanctioning process, ineffective credit monitoring & supervision system, economic slowdown, borrower's misconduct etc. Continual review and classification of loans enables banks to monitor quality of their loan portfolios and to take remedial action to counter deterioration in credit quality. In addition to this establishing recovery cell, hiring Asset Management Company are also measures to resolve the problem of NPL. The present loan classification and provisioning directive seems more stringent than the previous one. As a result more provision has to be apportioned leading to lesser profitability but this kind of negative impact is only for short period. Adequate provisioning strengthens the financial health of the banks and makes them able to face any kind of future contingencies.

1.6.3 Recommendations

⇒ The high portion of non-performing loan accompanied by higher provision of NBL indicates that the bank's credit portfolio needs serious attention. Hence NBL is recommended to take immediate remedial actions for recovering bad debts. Hiring Asset Management Company (AMC) is recommended for NBL to resolve the problem of mounting non-performing loan.

⇒ SCBNL's contribution to loans and advances is relatively low. Entire economy is largely dependent upon the proper execution of lending function by commercial banks. Low level of lending means, low level of investment resulting to low level of productivity, which may ultimately affect negatively on the national economy. Loans and advances on one hand is the highest income-generating asset and on the other hand it also helps to upgrade the economic health of the country. Hence SCBNL is recommended to increase its investments in productive sector in the form of loans and advances.

⇒ It has been observed that the loans and advances of NBL are decreasing and less further investment of deposit in recent years. Hence it is recommended for NBL for exploring new areas of investment.

⇒ The main factors which leads to Non-Performing Loan are improper credit appraisal system, ineffective credit monitoring and supervision system etc. Besides that negligence in taking information from Credit Information Bureau may also lead to bad debts. Hence all the three banks are recommended to be more cautious and realistic while granting loans and advances. After advancing loans there should be regular supervision and follow up for proper utilization of loan.

⇒ It is recommended for the banks to initiate training and development programme for the employees to make them efficient and professional in credit appraisal, monitoring and proper risk management.

⇒ Following the directives of NRB and acting upon it also reduce many of the credit risk. Besides there are penalty implication on non-compliance of the directives. Hence all the three banks are recommended to adhere the directives and they are also suggested to come up with a stronger internal audit department to ensure that the directives are properly implemented.

⇒ The regulation regarding loan classification and provisioning is stringent and tighter than the previous. Hence NRB should not only impose directives but also create supportive environment for the commercial banks. NRB is recommended to strengthen Credit Information Bureau (CIB) so that banks can get required credit information about the borrowers on time. This would help in reducing NPL.

⇒ It is often said that 'Prevention is better than cure'. Hence it is recommended for all the three banks to take preventive measures before the loan goes to default. All the banks are recommended to have an information system to gather all the possible information and activities about its borrowers so that necessary precautions can be taken in time.