

**A STUDY ON NON-PERFORMING LOAN STATUS OF NEPALESE
COMMERCIAL BANKS**

**(Comparative Study of Nabil Bank Limited and Rastriya Baniija Bank
Limited)**

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**A Thesis Submitted To
Office of the Dean
Faculty of Management
Tribhuvan University**

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

Dhobichaur, Kathmandu

September, 2013

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Financial institutions are the backbone of the economic development of any country. A small financial institution is a vital contributor to the financial health of the national economy. The financial institutions are often fragile and susceptible to failure because of poor management, particularly in financial management. National development of any country depends upon the economic development of that country and economic development is supported by financial institution of that country. Financial infrastructure indicates the financial strength, position and environment of the institutions. The various branches of bank in towns and villages are offering various types of services. In past, they just used to accept deposits from the savers of money (surplus units of the society) and give loan to the users of money (deficit units of the society). Savers of the money are those units whose earning exceeds expenditure on real assets and user of money is those units whose expenditure on real assets exceeds their earnings (Pandey, 2000:21).

Non-Performing assets can be defined as those assets that cannot be used productively. In other words, NPA is the outdated loan, and bad and doubtful debts. NPA could wreck banks' profitability both through a loss of interest income and write off the principle loan amount. To start with, performance in terms of profitability is a benchmark for any business enterprises including the banking industry. However, increasing non-performing assets have the direct impacts on banks' profitability, as legally banks are not allowed to book income on such accounts and at the same since banks are forced to make provision on such assets (Batra and Dass ,2007:15).

Performing assets are those that repay principle and interest to the banks on time. These assets constitute the primary sources of income to banks. Banks are willing to lend as much as possible. But they have to careful about the safety of such loans. Loans are risky assets, even though bank interest most of its resources in granting loans.

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 and non-governmental banking and financial institution." Gandhi Pandit, "legal complication (Rawal, 2005:31).

Any institution offering deposits subjects to withdrawal on demand and making loans of a commercial or business nature is a bank. Banks constitute an important segment of financial infrastructure of any country. Bank came into existence mainly with the objective of collecting the idle fund, and mobilizing them to productive sector causing overall economic development. A bank is the financial departmental store, which render various financial services besides taking deposits and lending loans. Bank is the financial institution, which deals with money by accepting various types of financial services. In the modern economy, banks are to be not as the dealer of money but as the lender of the economic development. Banks are not just the storehouse of the country's wealth but also are to mobilize of the resources necessary for the economic development (Shrestha, 2008:2).

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

performing loan, seems to be that loans are good unless there is absolute certainty that a loan is not going to be repaid under existing arrangement. The SNA 1993 and other international statistics manuals are silent on defining non-performing loans (Shrestha, 2009:17).

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.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However, the stand of Nepal Bank Limited alone in total monetary and financial sector was sufficient and satisfactory. Thus Nepal Rastra Bank was set up on 1956 A.D. (2013/01/14) as a central bank under Nepal Rastra Bank Act 1956 A.D. (2012 B.S.) Similarly on 1966(2022/10/10) Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of Quality/competitive service because of excessive political and bureaucratic Interference. For industrial development, Industrial Development Centre was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal Industrial Development corporation (NIDC) in 1959 A.D. (2016 B.S.) Similarly Agricultural Development Bank (ADB) was established in 1976 A.D. (2024/10/07) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

In 1990 A.D. after the restoration of democracy in Nepal, the government took the liberal policy in banking sector. As an open policy of the Nepal government's to get permission to invest in banking sector from private and foreign investor under Commercial bank Act 1975 A.D. (2013 B.S.), different private banks are getting permission to establish with

the joint venture of other countries. Nowadays, there are 30 commercial banks operating in Nepali financial market.

Commercial Bank Act 1975 A.D. (2031 B.S.) defined, “A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs. Commercial banking functions which are not a bank meant for co-operative, agriculture, industries or for such specific purpose” (Paudel, 2008:7).

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

1.1.1 A Glimpse of Sample Banks Under Study

Nabil Bank Limited (NABIL)

NABIL, the first foreign joint venture commercial bank of Nepal was established on 11 May 1984 under the company act 1964. It started banking in the same year by joint investment of Dubai Bank Ltd. and Nepalese promoters with authorized capital of Rs. 50 million, and paid up capital and issued capital was Rs. 30 million at the time of establishment. Shareholdings patterns of the banks is as follows: 50% shares owned by Emirate Bank International (Dubai Bank Ltd.), 10% share owned by NIDC, 9.6% share owned by National Insurance Corporation (Rastriya Beema Sastan), 0.4% share owned by Nepal Stock Exchange Limited (NSEL) and 30% share was issued to general public. This bank was the initial foreign joint venture partner with 50% equity investment. NABIL provides a full range of commercial banking services through its 48 points of representation across the country and over 170 reputed correspondent banks across the globe. Operation of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped

with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele-banking system.

Rastriya Banijaya Bank

Rastriya Banijya Bank (RBB) is fully government owned and is the largest commercial bank in Nepal. To develop the banking sector in Nepal and to make the financial system more competent, competitive and strong Rastriya Banijya Bank was established in 10th Magh, 2022 B.S. (23 January, 1966A.D) under the government ownership. At the beginning the bank had Rs. 10 million as authorize capital and Rs. 2.5 million as paid up capital. The bank started its operation with 208 employees and 7 branches in 7 districts. In second stage it had 212 branches in 14 zones and 68 districts. But because of the deteriorating security situation, steep competition from the joint venture banks and poor performance most of the rural branches were merged with its nearest branches. At this time 117 branches are providing banking services to the people.

RBB provides banking services to a range of customers including banks, insurance companies, industrial trading houses, airlines, hotels and many others sectors. RBB has Nepal's most extensive banking network with over 114 branches. Through its branch network, RBB has been contributing to Nepal's economic development by providing banking services throughout the country. RBB has many co-respondent arrangements with major international banks all over the world that facilitate trade finance, bank originated personal funds transfers and inter bank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with western union and international money express, two leading person-to-person funds transfer network.

Likewise, concerned matters are being presented as loan administration involves the creation of management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiations of term, documentation, disbursement, administration of outstanding loans and workouts, knowledge the process awareness of its strengths and weakness are important in setting

objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, instatement and mortgage profits.

Increasing non-performing assets is one of the emerging problems of Nepalese commercial banks. This study mainly focused on non-performing loans or assets of selected commercial banks. It studies the ratios like loan and advances to total assets, loan and advances to total deposit, non-performing loans to total loans and advances, provision held to non-performing assets, which indicates the performance and provides comparable forum on non-performing assets. It also tries to shows the effects on profitability of commercial banks and related NRB directives, which is concerned towards the rendering loan and loan loss provision. The total NPA of Nepalese commercial banks are growing rapidly and it is the main cause to failure of bank. In this study, the NPA of commercial banks are presented, analyzed, summarized and stated findings and recommendation

1.2 Statement of the Problem

Financial institution assists in the economic development of the country. Commercial bank being the financial institution plays significant role by collecting scattered surplus funds and deploy these fund in the productive sectors as investment. Economic development of the country is directly related to the volume of investment made and return obtained by the bank. Investment problem has become very serious for the least developed country like Nepal. This is due to lack of sound investment policy of commercial bank.

These may be many problems in the investment policy of Nepalese commercial banks. The implementation of policy is another issue. The credit extended by the commercial bank to agriculture and industrial sector is not satisfactory to meet the present growing need. Nepotism and political pressure also effects the investment decision of the commercial banks. Granting loan against insufficient deposit, overvaluation of goods pledged, land and building mortgaged, risk-averting decision regarding loan recovery and

negligence in recovery of overdue loan is some of the basic loopholes and the result of unsound investment policy sighted in the banks.

As the bank has to meet various challenges, this study will be helpful to the bank to identify and solve some of its weaknesses and problem. In every organization, the resources are scare and out of these scare resources, the objectives of the organizations are to be accomplished. Increase in revenue and control over expenditure significantly contributes to improve

The profitability as well as the overall financial performance of an organization highly depends upon the best utilization of resources. Commercial bank's investment has been found to have lower productively due to the lack of supervision regarding whether there is proper utilization of their investment or not. Lack of farsightedness in policy formulation and absence of strong commitment towards it properly implemented. The rules and regulations are only the tools of NRB to supervise and monitor the financial institution. NRB need to monitor the concerned authorities in order to ensure that they are being followed.

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

The success and prosperity of the bank heavily depends upon the successful implementation and investment is collected resources, which develops the economy of the country. Good investment policy of the bank has positive impact on economic development of the country and vice versa. Increasing non-performing loan followed by

increasing loans and loan loss provision is one of the challenges faced by commercial banks in the present context. Proper loan provision and loan loss provision helps to get financial strength of the bank. The major research question on the basis of which the researcher makes their efforts are-

-) What are the present status regarding non-performing loan and loan loss provision?
-) What is the non-performing asset of selected Nepalese commercial banks?
-) Does Nepalese commercial banks maintain loan loss provision in accordance to NRB's directives or not.
-) What are the factor on which the profitable and performance of banks depends upon?

1.3 Objectives of the Study

Each and every of the research study posses a certain objective. Research without any specific objectives will be worthless. This research study highlights to attempt the following objectives.

-) To examine the relationship between non-performing loan and loan loss provision and the impact on the performance of the commercial banks.
-) To examine the level of non-performing loan in total assets, total deposit and total lending in the selected commercial banks.
-) To study the growing status of the non-performing assets and loan loss provision of selected commercial banks.
-) To provide suggestions and recommendations on the basis of findings of the study.

1.4 Significance of the Study

This study is not comprehensive to deal with and present detail information regarding the sampled banks. This study will be of great significance to the following groups and individuals:

- i. Further researchers and financial analysts:
This study will leave over a lot of space to carry out further research studies in this topic and the related. This research report will be very helpful and will act as a potential guide to those interested research students or groups as well as financial analysts in the Nepalese market.
- ii. University students of new generation:
This study will be a valuable and a useful guideline to the upcoming students who want to gain some knowledge on this sector.
- iii. 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.
- iv. 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.
- v. Commercial Banks:
Apart from the various groups and individuals mentioned above, this study will also be helpful to the respective commercial banks themselves to identify and have some glimpse of their own true picture.
- vi. Researcher:

1.5 Limitations of the Study

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

-) This study is concerned only with non-performing assets of Nepalese commercial banks. It does not consider other aspects of the banks.
-) Only Nepalese commercial banks have been considered for the study and two banks have been selected as samples for the study. Hence, the findings may not be applicable to other banks (i.e. development banks, agriculture banks, finance companies and other companies of Nepal).
-) The period of the study is limited from fiscal year mid July 2007/08 to mid January 2011/12.
-) The study is basically based on secondary data, articles, publication, and journals of the respective banks, which may or may not provide exact vision of the field. Hence, the findings will be in accordance of the data personal judgment sampling is following to draw the sample.

1.6 Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter – I: Introduction

This chapter describes the basic concept and background of the study, introduction commercial bank origin of bank in Nepal, statement of the problems, objectives of the study, significance of the study and limitations of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. This chapter includes conceptual

review, review of related study, different thesis, and review of journals, articles and research studies published by various author

Chapter – III: Research Methodology

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

Chapter – IV: Presentation and Analysis of Data

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

Chapter – V: Summary, Conclusions and Recommendations

The last chapter contains the findings of whole study after which major conclusions and recommendations are provided. It also gives important suggestions to the concerned organization for the better improvement.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

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

One of the most emerging problems of the commercial banks is to the management of non-performing assets/loan. Due to the effects of non- performing assets/loan, many banks have already closed down. In this fast pace competitive age, the banks should have to operate taking in consideration that thing. Those loans, which don't repay principle and interest on time to the banks, are known as non-performing assets (NPAS). If any advances or credit facilities granted by bank to a borrower becomes non-performing. Then the bank will have to treat all the advance/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may be still exist certain advance/credit facilities having performing status

NPAs have a different meaning that varies from country to country. In our country banks usually classify as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. In some countries, it means that the loan is impaired, the payment are due but there are significant different among countries how many days a payment should be in arrears before past due status is triggered (Shrestha, 2008:14). According to current banking Act, the banks have to make provision for good loan, Sub-standard loan, doubtful and bad loan. After deducting the bad and doubtful debts from the non-performing assets, net non-performing assets can be achieved.

Non-Performing loan (NPL) can be defined as the non-productive assets of the banks. In other words, it is the loan or bad and doubtful debts that doesn't repay timely. Generally the loan, which doesn't repay within three months, is known as non-performing loan. The loan amount that doesn't covered by the collateral after selling is known as non-banking assets (NBA). Non-performing assets also includes the suspend interest. It is the interest, which become receivable unutilized assets and those investments which don't generate any cash or incomes to the bank are also non-performing assets (NPAS). The proper management of those assets to generate income is known as management of non-commercial banks were declared as unsuccessful (bankruptcy) from 1985 to 1990 and 27 banks from 1995 to 2001. However, Nepalese commercial banks face this type of problem till now but they have to take step towards it. For this, appropriate amount of bad and doubtful debts is made provision from their incomes/profits (Regmi, 2010:75).

a. Causes of occurring NPA

There are various causes to increase the NPAs. NPAs can be increased due to;

-) Lack of transparent and clear policy to mobilize the assets productively.
-) Lack of effective forecasting or deviation between expectation and actual outcomes of the business.
-) Wrong choose of project and business to lend the fund.
-) Lack of supervision, monitoring and control.
-) Lack of information and communication between bank and customer.
-) Lack of closed relationship between banker and customer.
-) Lack of proper information about the situation and transaction of the customer at the time of rendering loan.
-) Wrong valuation of accepted collateral by the bank to the loan.
-) Lack of step towards the decrease or sell the NPAs, which don't useful to the bank.
-) Lack of training and seminars to build the smart human resources.
-) Get loss from the operation of the business/project by the customer of the bank.

-) Depression of the economy of the country due to the in security and instability of the business environment.
-) Lack of proper policy and act to return the expired loan.

b. Effect of NPAs

NPAs has affected the profitability liquidity and competitive functioning of public and private sector banks and finally the psychology of the bankers in respect of their disposition towards, credit delivery and credit expansion. Increasing Non-Performing Assets (NPAs) has the direct effects to banks, investors and customers. It has also negative impact to the economic health and business of country. It has two types of effects (Batra and Dass ,2007:6).

Internal Effect:

In the one hand, the bank for increasing the profitability can't mobilize the non-performing assets. In the other hand, the banks have to make provision doubtful debts from their profits and other sources. That's why the profit of the banks decreases or may losses. As a result, share capital also becomes capital erosion and capital inadequacy. In the present context, capital adequacy ratio Nepal, India, UAE, and Indonesia are 11%, 12.6%, 12.7% and 21.4% respectively. The central bank of the country can take action to their banking activities, which banks have lower capital or capital adequacy ratio. For example, Nepal Development Bank Ltd. is suffering the same problem (-48.31%) that can't take deposit due to the action of Nepal Rastra Bank.

When the non-performing assets increase, the banks have to increase the amount of provision for doubtful debts and when the loan is repaid, the profit treated as profit. If the provision for doubtful debts crosses 5% of the total loan amount, the bank have to pay income tax as profit. So, it has direct effect to the cash flow of bank. As a result, the employment of human resources and profit of the bank has also affected.

External Effect:

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

Impact on Profitability:

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

High Cost of Fund Due to NPAs:

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

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

i. Excess liquidity lending default

The banks in Nepal are faced with the problem of increasing liquidity in the system. Further, the Rastriya Banijya Bank (RBB) is increasing the liquidity in the system through various rate cuts. Banks can get rid of its excess liquidity by increasing its lending but, often shy away from such an option due to the high risk of default. In order to promote certain prudential norms for healthy banking practices, most of the developed economics require all banks to maintain minimum liquid and cash reserves broadly classified into Cash Reserve Ratio (CCR) and the statutory liquidity ratio (SLR). A rate cut (for instance, decrease in CRR) results into lesser funds to be locked up in NRB's vaults and further infuses greater funds into a system. However, almost all the banks are facing the problem of bad loans, non-performing assets, thinning margins, etc. as a result of which, banks are little reluctant in granting loans to corporate. As such, though in its monetary policy NRB announces the bankers no longer warmly greet rate cut but such news (NRB, 2010).

2.1.1 Loan Loss Provision

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

Pass 1%

Substandard 25%

Doubtful 50%

Loss loan 100% (Loans classification – NRB Directive no 2)

2.1.2 Highlight on Performance of Nepalese Commercial Bank

During the last two and half decades the Nepalese Financial System has grown significantly. At the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions into the country. Consequently, by the end of mid – January 2010, altogether 238 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 31 are “A” class commercial banks, 59 “B” class development banks, 78 “C” class finance companies, 15 “D” class micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs (Banking and Financial statistics mid January, 20109 volume No 52)

The number of commercial bank branches operating in the country increased to 680 in mid Jan 2010 from 555 in mid July 2008. Among the total bank branches, 48.95 % bank branches are concentrated in the central region alone. By the end of mid Jan 2009, total 302 branches are being operating in this (central) region. However, in the western, eastern, mid-western and far- western region are 19.45% (120), 19.29% (119), 7.78% (48) and 4.54% (28) respectively

As an increased in number of Financial Institutions as well as volume of transactions, the total assets/liabilities of the financial system witnessed continuous growth over the last seven and half years. During the period 2001 to mid – January 2009, the total assets of whole financial system increased by 14.97% per annum and reached to Rs.829293.3 million in mid – January 2009 from Rs.273946.2 million in mid – July 2001. In mid – January 2009 the total assets registered a growth of 17.41% compared to 21.26% in mid – July 2008.

The structure of financial assets/liabilities shows that Commercial Bank alone holds more than 80% of the total assets and liabilities of the financial system. As of mid – January 2009, Commercial Bank group occupied 82.3% of total assets/liabilities followed by Finance Companies 9.4%, Development Banks 6.0%, Micro-credit Development Bank 1.7% and others 0.6%. The respective shares were 80.2, 11.4, 5.6, 1.8 and 1.0% respectively in mid – July 2008

Commercial Banks held dominant share on the major balance sheet components of financial system. Of the total deposits Rs.576897.60 millions in mid-Jan, 2009, the commercial banks occupied 83.2%. Similarly, finance companies held 9.5%, development banks 6.4%, micro credit development banks 0.3% and others 0.6%. Likewise, on the loans and advances the share of commercial banks stood at 77.9%, development banks 7.4%, finance companies 12%, micro credit development banks 1.8% and others 0.7% in mid Jan 2009. In the same year the share of commercial banks in borrowings, liquid funds and investments constituted 59%, 74.8% and 92.2% respectively.

The capital fund, one of the components of liabilities, witnessed a growth of 42.48% and reached to Rs. 36728.30 million in Jan 2009 from Rs.25778.0, million in mid July 2008. The borrowings and deposit increased by 16.42% and 13.36% respectively, while other liabilities decreased by 34.46% compared to mid July 2008. Similarly loans and advances, the major component of assets increased by 11.83% and reached to Rs. 437871.4 million in mid Jan 2009 from Rs. 391537.7 million in mid July 2008. The liquid fund and investment increased by 3.41% and 13.62% in mid Jan 2009 compared to the previous year respectively

The share of loans and advances to total assets decreased to 49.99% in mid Jan 2009 from 53.45% in mid July 2008. Similarly, investment and liquid funds registered the 18.46% and 11.10% respectively. In the preceding year, the respective shares were 19.23% and 11.80%. In the mid Jan 2009, the loans and advances increased at lower rate of 12.62% compare to 32.30% in mid July 2008. By the end of mid Jan 2010, the total outstanding amount of loans and advances of commercial banks reached to Rs. 341127.9 million. It was Rs. 302913.4 million in mid July 2008.

The total investment of commercial banks in mid Jan 2009 increased by 15.65% and reached to Rs. 126002.1 million from Rs. 108954.8 million in mid July 2008. Similarly liquid fund increased by 13.25% and amounted to Rs. 75735.9 million. In the mid Jan 2009, total deposit of commercial bank increased by 12.62% compare to 26.25% growth in the mid July 2008. As of mid Jan 2010, it reached to Rs. 479864.2 million from Rs

426080.3 in the mid July 2008. Among the component of deposit, current deposit increased with rate of 8.71% compare to 24.56% in last year. Similarly, saving deposit and fixed deposit increased by 14.15% and 11.3% respectively

The saving deposit comprises the major share in total deposit followed by fixed deposit deposits are 50.30%, 24.31%, and 12.71% respectively. In the last year the respective share of saving, fixed and current deposit were 49.63%, 24.59% and 13.16 %. Out of the Rs. 344077.8 million outstanding credits in mid Jan 2009, the largest proportion of the loans and advances is occupied by manufacturing sector. The share of this sector is 23.43% followed by wholesale & retailers' 17.32%, others 16.35%, construction 10.84% and finance, insurance & fixed assets by 8.88%. Similarly, service industries comprise 6.66%, transportation, Communication & public services by 5.19% and agriculture by 4.15% in the same year. The non-performing loan of commercial banks declined significantly to 5.38% in mid Jan 2009 from 6.08% in the July 2008. The total amount of NPA remained to Rs. 18548.20 million from Rs. 18648.5 million in the July 2008.

Despite some improvement, the aggregate capital funds to total risk weighted assets ratio of the banking system remained negative even in mid-July 2006 -5.30% and mid-July 2007 it remains -1.71% but latter its seems positive in mid-July 2008 4.04% and in mid-January 2009 its remains increase up to 4.34% The huge negative capital funds of two big banks namely NBL and RBB converted the total capital base of the banking system to be negative -29.67%, -32.47%, -22.60%, -17.19% and -50.30%, -48.45%, -44.17%, -23.30% in mid-July 2006, 2007, 2008 and mid-January 2009 respectively.

2.1.3 Non-Performing Assets in Nepalese Banking Sector

With marginal improvement, the level of non-performing loans and advances still remained at a significantly high level. The aggregate non-performing loan, which was Rs.27877.84 in mid-July 2008, in mid-July 2011 it reached to Rs.25580.50, so on Rs.24215.85, Rs.18548.20, in mid-July 2010, 2011 and Rs.18548.20 million in mid-January 2012. The aggregate non-performing loan as % of total loan was 18.79%, 13.16%, 10.56%, 6.08%, and 5.38% in mid-July 2010, 2011, and 2012 and in mid-

January 2012 (going on decreasing trends). (Source: Banking and Financial Statistics, NRB, 2012).

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

The NPA levels at the state run RBB stands at 52%, while the figure at the NBL reads 62%, which together accounts for 37% of the total deposits of some Rs.200 billion of the banking system. "In order to address this deplorable situation and to make domestic financial players competent enough to utilize the opportunities of the globalization, various financial reform measure are underway," he added. "The financial sector reform measures undertaken can be broadly grouped under three heads- re-engineering of NRB, restructuring of RBB and NBL, and capacity building of the financial sector. Management of the two ailing banks has been handed over to two teams, consisting of experts from within and outside Nepal. "NRB as Central Bank will now concentrate only on core functions and initiate different measure to improve corporate governance in the financial sector. Willful defaulters will not be let off at any cost and NRB will initiate stringent measures to stop depletion of common man's deposits and erosion of common stockholder's capital," Rawal warned. (www.thehimalayantimes.com)

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

Three years have passed since the financial crisis hit Asian economics in July 1997. As a result, East Asian countries in 1998 recorded negative growth ranging from 5 to 12%. In

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

Immediately preceding the Asian financial crisis, Japan was tackling a NPL problem that resulted from the bursting of the so-called bubble economy in 1990. Economic depression has continued for nearly ten years since then, and the Japanese economy has yet to get back to the track of sustainable growth. The chief cause of this crisis, in a nutshell, was that the government did not take measures to deal with NPLs in a timely manner. Cooperative credit purchasing company was launched in 1993 to buy NPLs and the Housing Loans Management Company was set up in 1996 to deal with the problem of housing-related NPLs. These efforts were inadequate and the real solution had to wait for larger-scale public funds that were made available to financial institutions in March 1998, eight years after the bursting of the bubble economy. The process of resolving NPLs in Japan was indeed too little, too late. Japan adopted the policy of waiting for the economic environment to take a favorable turn, instead of taking swift, decisive action.

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

The economic growth rate in each of these countries is projected to register downward trend in 2000, compared to the previous year, and the current account surplus is

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

2.2 Review of Related Studies

Pyakuryal (2005) stated in the articles entitled 'Our Economy is in a Volatile Stage' that the banks have not able to collect their overdue due to the increasing cumulative NPAs in Nepalese commercial banks. There is no additional demand of the investment due to the higher risk and present uncertainty.

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

The study also stated that, "The government is about to establish an Assets Management Company to take over the non-performing assets (NPAs) of the government-owned banks. On the other hand, it looks like the government's entire concentration has been on two commercial banks only (Nepal Bank Ltd. and Rastriya Banijya Bank). Due to to the present uncertainty and higher risks, there is virtually no demand for new investments. That's why many banks are concentrating on conventional areas. We haven't been able to explore potential areas of competitive advantage in the regional context" (Pyakuryal, 2005:3).

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

Neupane (2006) in the article titled 'NPAs in Nepalese Financial Institutions' that thinking rationally no one shall be surprised to note two of the giant commercial banks of this country such as Nepal Bank Ltd. and Rastriya Banijya Bank accounting for the highest number and amount of non-performing assets (NPA) among players in the industry. In general and more specifically, in least developed countries like ours, the larger the size of the credit portfolio the larger the amount of NPAs.

The study stated that, "the concept and realization of NPAs in the Nepalese financial sector evolved round about a decade ago along with the notion of prudential accounting norms. I reckon that ten years time frame should have been more than enough to formulate and implement strategies for identifying and canalizing the ever accumulating NPAs at Nepalese financial institutions (FIs). However, the Nepal Rastra Bank (NRB) seems to have realized the panic only a year ago. As a result, the NRB came up with a nineteen-point strategy, primarily pertaining to ways to tackle NPAs. Some of the measures the NRB has envisaged are formation of an assets reconstruction company, credit rating agencies, legal reforms, strengthening administrative/monitoring/supervising mechanisms etc, and above all, the recent NRB directive (number 1to7). Although the NRB, the FIs would have been much better off had it come up with all these philosophies some five years ago, better late than never" (Neupane, 2006:3)

The study expressed the one major reason that can be attributed for the already prevalent and ever increasing NPA is unhealthy competition among the commercial banks. Since, the size of our economy has remained more or less stagnant over the past half a decade or so, the size of the total pie has not changed much. Every player in the market means business and its primary motto is "making profit". This has enhanced unhealthy

competition among the banks through interest rate reduction, issuing loans irrespective of borrowers' credibility and authenticity, etc. in course of making their credit portfolios bigger, all the players have been pouring their investments into the same pie thereby over financing the pie. Given this scenario, it is no surprise to discover a good loan turning into an NPA because of over financing.

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

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

At last, even if the banks endeavor to recoup NPAs through the auction of mortgaged property, the legal system and the regulations are so shabby and defaulter friendly that they have to struggle for many years to realize the auction process. Just imagine this process; a borrower, initially, default payment, the bank calls back the loan, six months there on the concerned authority blacklists the borrower, a 35 days' notice goes to the papers for auction and after that a 7 days ultimatum and so on and so forth. Hundreds of

cases have been lingering in the courts for many years. Inefficient legal provisions, from the point of view of the bankers, have encouraged borrowers to default and contributed more towards enhancing the quantum of NPA in Nepalese Financial Institutions.

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

Basyal (2007), in a broader term, states that the large intermediation cost and inefficiencies in the financial system have remained major drawbacks of the Nepalese financial structure. The study further emphasizes the challenges and complexities of the Nepalese financial system as below:

-) Weak financial position of most of the government owned financial institutions
-) Negative net worth and large accumulated losses of the government owned commercial banks.
-) High interest rate differentials between formal and informal financial sector.
-) Large interest spread in the formal financial sector.
-) Operational inefficiencies, managerial deficiencies and least improvements in financial dealings.
-) Active participation of government in the financial system.
-) Lack of internationally recognized accounting and auditing practice in the system
-) Higher proportion of non-performing assets.

Paudel (2008) stated that some other factors like unnecessary influences of the employees' union, weak corporate governance (lack of transparency, accountability, laws and bye-laws), lack of effective regulation and supervision caused to worsening the financial system. From the analysis above, it can be said that weak legal and regulatory Framework are the responsible factors for weakening the Nepalese financial system, which is, to some extent, similar to the factors that caused to worsen the East Asian financial sector in the late 1990s. Obviously, a distress financial system adversely hits the quality of the assets in the system. As such, the non-performing loans as a %age of total loans in the banking sector was 14.3% in 2005 while it increased by over cent %age point to 29.3% in 2001 and to 30.1% in 2002. However in the mid of Jan, 2006, NPLs declined marginally to 29.9% of total loans. Similarly, both the state-owned banks comprised over 50.00% if bib-performing loans as at mid-Jan 2006, which seems to be alarming. The basic reasons as reported by Pradhan, (2008) for deteriorating assets quality are:

-) The use of banking sector as instrument of policy lending under populist schemes.
-) Projects financed in the pre-reform era, with high gearing, low promoters stake, with viability based on high tariffs and fiscal concessions.
-) Large corporate miss-utilized the credits and delayed payments.
-) Lack of vision in appraisal of loan proposals while sanctioning, reviewing or enhancing credits limits.
-) Absence of risk management policies.
-) Concentration of credits on few groups or sectors
-) Lack of initiatives to take timely action against willful defaulters.
-) Labor oriented small sized old technology operations.
-) Non- transparent accounting policies and poor auditing practices.
-) Political patronage and pressure when sanctioning loans
-) Aggressive lending.

Besides these, the reasons behind the rise in NPLs could be outlined as the inferior mortgages against the loans, lack of financial information of the loonies, extension of

bank branches in the least feasible geographical areas, over staffing in the banks and so on.

Dungana (2009) in the article entitled "Why Assets Management Company is considered the best to solve the non-performing loan problem" as above has tried to highlight one of the approach mainly Assets Management Company (AMC) for resolving the proble non-performing and distress loans of banks and financial instructions who buy the NPL from financial institution and take necessary steps to recover the maximum value from the acquired assets. As per his view, if NPLs are not resolved in time there would be inherent direct of indirect costs to the economy. As stated by him NPL may arise due to the external factors like decrease in market value of collateral deterioration borrower's repayment capacity, economic slowdown, borrower's misconduct, improper credit appraisal system, lack o frisk management practice, ineffective credit monitoring and supervision system. Hence he suggested that, NPL should be kept at minimum level and the specialized institution such as AMCs should manage the distressed loans.

The study stated that both traditional approach and AMC are available to deal with NPL problem. Under traditional approach, bank handles the NPLs in its own way especially through recovery unit who focus on continuing negotiation with the borrower and give top priority to the loan recovery. As opined by the writer, this approach is useful in dealing with small business loans where personal touch is adopted but for big loan this approach does not work. "AMCs seem as the only realistic option when the financial sector recovery is the underlying objective in financial system where the institution fails to resolve the NPL problem through their own efforts" (Dungana, 2009:125).

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

The study concluded that, "As in most of the countries, Nepalese Financial System is largely dominated by the banking sector. The banking sector is severely affected by the

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

Rawal (2010), entitled "Measures adopted to overcome the problem of financial sector and the NPLs" addressed that financial sector reform measures can be broadly grouped under three heads: (1) restructuring of large two state-owned banks (ii) reengineering of the central banks and (iii) capacity building in the financial sector. In this connection, management of two state-owned banks has been handed over to the expert groups comprising the people within and outside of Nepal; the reengineering and restructuring process of the central bank (Nepal Rastra Bank) is in progress. Side by side, the capacity building in the financial sector is smoothly approaching ahead. Enactment of new NRB Act 2002 which, gives greater autonomy in its operation, enforcement of inspection and supervision directives based on international standard, withdrawal of government/ NRB involvement from the financial institutions, adoption of accommodative monetary measures are the efforts made to build up sound financial environment. Moreover, with a view to strengthening legal arrangements, Debt Recovery Act has been approved and the Debt consolidate financial sector through an umbrella act Banks and Financial Institutions Act has recently been approved and for the purpose to resolve the problem of non-performing assets- Asset Management Company Act is in the process of being approved. In addition, establishment of Credit Rating Company, strengthening of Credit Bureau and Bankers' Training Center are some of the tasks progressing ahead. With the arrangement of such a legislative, regulatory, supervisory and institutional framework, the financial sector would, hopefully, take a pace for reviving which, in turn, would help NPLs to be reduced.

Sapkota (2011) wrote an article entitled "portion of NPA in commercial Banks – High in Public, Low in Private" which was published in Rajdhani on 19th May 2011. In the

article, the study stated that the problem of NPL is seen less in private banks in comparison to public banks. The NPA of two big nationalized banks being about 60% of the total loans are very serious situation. The study further mentioned that in order to improve this situation and to make healthy banking environment, financial reform program has been brought as its consequences, the management of two big banks was handed to foreign company on a contract but the ratio of NPL was not reduced.

Even most of the privately owned banks has NPA within international standard, some privately owned bank's NPA is higher than international standard. As per international standard 5% NPA is acceptable. The study also states that, Nepal's total NPA of banking sector is 30%, which is very high. (Sapkota, 2011:5)

Adhikari (2011) "Non-performing Loan and its Management" states in articles one of the main function of commercial bank is to management of non-performing loan. Main function of commercial bank and financial institution is accepting deposit and provide loan. In underdeveloped country like Nepal providing Loan and interest income generating through loan is the main source of bank and financial institution. If provided loan become non-performing loan the bank and financial institution suffer from big financial scarcity. One side un-recover interest cannot make income and other side loan its self converts in NPL that make huge effect in financial condition of bank and financial institution. So management of NPL is crucial factor any bank and financial institution.

In practical some there may default rate in aggregate banking system. two commercial banks hold by government. Nepal Bank Ltd. and Rastriya Banijya Bank are accounting for the highest number and amount of non-performing assets (NPA) among the other commercial banks.

The main causes of being loan become non performing loan are as follows

-) Lack of proper analysis
-) Lack of specific loan policy
-) Lack of supervision
-) slump on aggregate economy

-) monopoly on corporate loan and its unsuccessful
-) weak in consortium loan
-) less responsibility of borrower
-) Inadequate in internal Control and Audit
-) Inadequate in supervision of Central bank

In this way NPA generate in bank and financial institution. Every Banking s system there is some level of non-performing loan. So it should be managed differently. Bank manages their loan and credit if nonperforming loan are acceptable level. But if bank's NPL are more than acceptable levels then it impacts on aggregate financial position of bank and market as worse. In this case bank should manage and treat its NPL differently. A single unit with expert should be assign for proper and appropriate management of huge amount of non-performing loan. For better management of nonperforming loan asset Management Company or corporation (AMC) is required. Proper management of nonperforming loan and recapitalization, these two important improvements are requiring for better every banking system (Adhikari, 2011: 39-43).

Regmi, (2011) study entitled "Non-Performing Assets Management" the writer stated about the management of NPAs in the commercial banks. The study stated that, the NPAs includes the non-performing loan, non-banking assets, remaining non-performing loan, suspend interest and unutilized assets. The increasing NPA are the emerging problem in commercial banks, which is the main factor for failure of the banks.

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

human resources and in external, it affects to customers, investors, management and country's economy (Regmi, 2011:75).

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

Pandey, (2011) carried out study entitled 'Nepal Rastra Bank- Directives Their Implementation and Impact on the commercial Banks- A Case Study of Himalayan Bank Limited' with the objectives to find out the impact of change in NRB directives on the performance of the commercial banks and find out whether the directives were implemented or not.

"The directives if not properly addressed have potential to wreck the financial system of the country as they are the only tool of the NRB to supervise and monitor the financial institution. The directives to banks are not so important unless properly implemented; the implementation part depends upon the commercial banks. In case commercial banks are making such huge profit with full compliance of NRB directives, then the commercial banks would deserve votes of praise because they would be instrumental in the economic development of the country. All the changes in NRB directive made impacts on the bank and the result are the followings:

-) Increase in operational procedure of the bank, which increase the operational cost of the bank.
-) A short term decreases in profitability, which result to lesser dividends to shareholder and lesser bonus to the employees.
-) Reduction in the loan exposure of the bank decreases the interest income but increase the protection of the depositors' money.
-) Increase protection to the money of the depositors' through increased capital adequacy ratios and more stringent loan related documents.

All the aforesaid results lead to one direction: the bank will be financially healthy and stronger in the future. HBL will be able to withstand tougher economic situation in the future with adequate capital and provision for losses. The tough time through which the bank is undergoing at present will prevail only for a couple of years but in the long run, it will be strong enough to attract more deposits and expose itself to more risk with capital cushion behind it. The quality of the assets of the banks will become better as banks will be careful creating credit. Ultimately, the changes in the directives will bring prosperity not only to the shareholders but also to the depositors, the employees and economy of the country as a whole" (Pandey, 2011:101).

Khadka, (2011) stated in the study entitled "A Comparative Study on Investment Policy of Commercial Bank" with an objective to find out the relationship between deposits, investment, loans and advances and net profit. The study has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL.

The study expressed that "NBL is comparatively less successful in on balance sheet as well as off-balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the comparative market if banking-profitability positions of NBL is comparatively of shareholders, depositors and its all customers if it can't increase its volume even in future"(Khadka, 2011:88)

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

Shrestha, (2012) in the study entitled "A Study on Non-Performing Loan and Loan Loss Provisioning of Commercial Banks" with reference to Nepal Bank Ltd, NABIL Bank Limited and Standard Chartered Bank Nepal Limited, has made an attempt to analyze the various aspects of non-performing loan in the commercial banks. The main objectives of the study is to find out the proportion of non-performing loan, factors leading to

accumulation of non-performing loan, relationship between loan and loan loss provision and impact of loan loss provision on profitability of the commercial bank.

The study concluded that, "Increasing non-performing loan is the serious problem of the banking sector in Nepal. Non-performing assets directly affects the income flow of the bank. It has been found that NBL has very high portion of non-performing loan resulting to higher portion. Hence, even the bank has the highest investment in the most income generating assets i.e. loan and advances, it is in loss. Even the private sector bank like NABIL has higher non-performing loan and according higher provision. NABIL's average proportion on non-performing loan during the study period is higher than the acceptable. However in recent two year NABIL's non-performing loan has shown significant decrement and according provision has also decreased. Among the three banks, SCBNL has the least non-performing loan and thus the least loan provision. From these indicators it can be said that SCBNL is the best among the three banks. However, SCBNL seems less oriented towards lending. Hence, the lower %age of NPL and provisioning of SCBNL is not only due to proper lending function but also due to relatively lower investment in loans and advances"(Shrestha, 2012:99).

The study also stated that ineffective credit policy, political pressure to lend uncredit worthy borrowers, overvaluation of collateral are the major cause of mounting non-performing assets in government owed banks like NBL. Other factors leading to accumulation of NPAs are weak loan sanctioning process, ineffective credit monitoring and supervision system, economic slowdown, borrower's misconduct etc. In addition to this establishing recovery cell hiring Asset Management Company is also measure to resolve the problem of NPL.

Bhattarai, (2012) stated in the research entitled "Implementation of Directives Issued by Nepal Rastra Bank: A Comparative Study of Nepal SBI Bank Ltd. and Nepal Bangladesh Limited" to analyze the various aspects of NRB directives such as capital adequacy and loan classification and loan provisioning. The study stated, the loan classification helps to the banks to monitor the quality of their loan and advances and to take step towards the remedial action in the credit quality of their loan and advances.

The study concluded that the new provision of the banks will have its provision amount increasing in coming years and subsequently profitability of the banks will also come down. However, the true picture of the quality of the assets will be painted in the coming year. The study stated recommended that, "The banks should be very careful while analyzing the paying capacity of its credit clients. With longer period of past due, the bank will end up increasing its provisions which will keep the bottom line low if the bank is not careful."

Sharma, (2012) in the thesis entitled "Non-Performing Assets of Nepalese Commercial Banks" with an objective to examine the level of NPAs in total assets, total deposit and total landing of Nepalese commercial banks. The study also showed that the effects of non-performing assets on Return on Assets and Return on Equity of Nepalese commercial banks.

The study stated that 'despite of being loan and advances more profitable those other assets, it creates risk of non-payment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets on the basis of overdue schedule. Escalating level of NPAs has been becoming great problem in banking business in the world. In this context, Nepal can't be run off from such situation. The level of NPAs in Nepalese banking business is very alarming. It is well known fact the problem of swelling non-performing assets (NPAs) and the issue is becoming more and more unmanageable day by day. We are well known from different financial reports, newspaper and news that the total NPA in Nepalese banking system is about 35 billion, while it is very worse in case of two largest commercial banks Rastriya Banijya Bank (RBB) and Nepal Bank Limited. (NBL).

Finally, the study concluded that the level of NPA in sampled Nepalese Commercial banks is not so alarming. The situation is quite satisfactory. But the increasing g and towards recovering their bad loans perfectly. Level of NPA has been increasing. The level of NPA of Nepal Bangladesh Bank Limited (NBBL), Nepal SBI Bank Limited (NSBIBL), and Bank of Kathmandu Limited (BOK) seems very unsatisfactory. If the situation is not handing right now, it will be unmanageable and difficult to handle.

In other level of NPA of Nepal Investment Bank and NABIL bank has been gradually decreasing every year. The NPA of NIBL is least (minimum) than all of other banks at the end of 2059/60. The high degree of negative correlation of different commercial banks between NPA and ROA, and NPA and ROE indicates towards the inverse relation between NPA and ROA, and NPA and ROE. It means the level of NPA effect the return on assets and return on shareholder's equity. Therefore, banks should reduce their level of NPA to increase the ROE and ROA.

Shrestha, (2012) in thesis entitled "Comparative Analysis of Non-Performing Assets of Nepalese Commercial Banks" is aimed of studying the non-performing assets of private commercial banks. The major objective of this research is to examine the level of non-performing assets (NPAs). The specific objectives are;

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

For this purpose, descriptive and analytical research design was adopted out of total population 32 commercial bank, four private banks were taken as sample using judgment sampling method, and they are Lumbini, NCC, NBBL and SCBNL. In this study secondary data are used. Besides this, newspaper, relevant thesis, journals, articles, related website etc. are also taken for this research. The data collected from various sources are recorded systematically and presented in appropriate forms of table and charts and appropriate mathematical, statistical, financial and graphical tools have been applied to analyze the collected data in suitable manner. The data of five consecutive years of the four banks have been analyzed to meet the objective of the study.

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

It is found that the NCC has the highest NPA to total loan & advance secondly the Lumbini has the NPA to total loan & advance. They are generating most of their assets in loan and advance but they are in loss. SCBNL invest least amount of their resources in loan and advances even NBBL invest the lesser amount of their resources in loan and advances comparing with NCC and Lumbini. That's why their profits show the positive during the study period. Among them SCBNL is the best bank and also it can be said that the NBBL are quite satisfactory banks according to their return on loan and advances. As a sample drawn from private sector, we can see the different between their transactions. Among this private bank SCBNL is less interested in lending loan and advances. Thus it may be caused to get less NPA and LLP and vice-versa to the other banks.

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

Thapa (2013) study entitled "*A Study of Non-performance Assets of Nepalese Commercial Banks in Nepal*" of the period from FY 2005 to FY 2012.

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 the 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 2011, 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 2011. 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 2010 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 2011.
-) 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 2011 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 2011 from Rs. 38842.1 million in mid-July 2010.
-) 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 2011.

Ghimire (2013) conducted a study on “*SWOT Analysis of Nepal Bank Limited*” with the objective of:

- a) To review strength & weakness of Nepal Bank Limited in its 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 2067/68. 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 2064/65.
- iv) Because of the negative profit up to 2061/62, NBL has negative earning per share. But from the FY 2063/64, 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.

2.3 Research Gap

In this study of non-performing assets of commercial bank of Nepal with reference to Rastriya Banijya Bank Limited and Nabil Bank Limited is measuring by various asset ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing data. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There is various researches conduct on Non-performing loan, credit policy, financial performance etc in various topics. The past researches in measuring investment policy of bank have focused on the limited ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature. This study tries to define non-performing assets of commercial Bank by applying and analyzing various financial tools as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the non-performing assets of commercial Bank and financial institutions.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

This research is aimed at studying the non-performing assets of commercial banks. This will follow analytical and descriptive research design. And it also analyzes the composition of trend of non-performing assets, loans recovery and profitability condition of commercial banks. This research is conducted and collecting information from different sources and using various financial and statistical tools.

3.2 Sources of Data

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

3.3 Population and Sample

For purpose of study, the random sampling had been used to analyze about total member number and inters group number. Total numbers of 31 commercial banks were taken as population. One public and one private bank were taken as sample bank they are

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

3.4 Data Processing Procedures & Analysis

Data collected from various sources were in raw form. They were classified and tabulated as per the nature of the study and in accordance of the data. Applying different financial

and statistical tool made data analysis. Further to represent the data in simple form bar diagrams and graphs have also been used.

3.5 Tools of Data Analysis

3.5.1 Financial Tools

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

3.5.1.1 Ratio Analysis

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

i. Loans & Advances to Total Assets Ratio

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

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

ii. Loans and Advances to Total Deposit Ratio

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

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

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

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

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

iv. Provision Held to Non-Performing Assets Ratio:

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

$$\text{Provision held to NPA} \times \frac{\text{Total Provision}}{\text{Nonperforming}}$$

v. Non-Performing Assets to Total Assets

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

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

vi. Return on loans and Advances

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

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

3.5.2 Statistical Tools

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

i. Arithmetic Means (average):

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

$$\bar{X} = \frac{X}{N}$$

Where:

$$\begin{aligned}\bar{X} &= \text{Arithmetic mean} \\ N &= \text{Number of observations} \\ X &= \text{Sum of observations}\end{aligned}$$

ii. Standard Deviation:

The standard deviation is the absolute measure of dispersion in which the drawback present in other measure of dispersion as it satisfied most of the requisites of a good measure of dispersion. Standard deviation is defined as the positive square root of the mean of square of the deviation take from the arithmetic mean. It indicates the ranger and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the standard deviation higher will be the variability and vice versa.

Dispersion measures the variation of the data from the central value. In other words, it helps to analyze the quality of data regarding its variability. The equation for the computation of the standard deviation (\dagger) is

$$\dagger \quad X \sqrt{\frac{\sum fX^2 - \frac{(\sum fX)^2}{n}}{n}}$$

\bar{X} = The average (mean)

n = Total number of observation

iii. Coefficient of Variation (C.V.):

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

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

It is usual for the risk/return model. It shows the return per unit of risk.

Where,

$$\begin{aligned} \bar{X} &= \text{Mean} \\ \sigma &= \text{Standard Deviation} \\ C.V. &= \text{Coefficient of Variation} \end{aligned}$$

iv. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

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

Whereas,

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

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

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

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

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

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

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

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

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

v. Probable Error:

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

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

Here, r = Correlation coefficient

N = Number of pairs of observations

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

vi. Times Series Analysis (Trend Analysis)

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

$$Y = a + bx$$

Here,

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

Where,

Y = Dependent variable

a = y intercept

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

X = Time variable (Independent variables)

Values of 'a' and 'b' are calculated by solving following two normal equations.

$$y = Na + bx \dots\dots\dots(i)$$

$$xy = a \sum x + b \sum x^2 \dots\dots\dots(ii), \text{ Where N represents number of years.}$$

For calculation we have $\sum x = 0$

When $\sum x = 0$

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

$$b = \frac{\sum xy}{\sum x^2}$$

Where $x = X - \bar{X}$, $y = Y - \bar{Y}$

Putting the value of Y in equation $Y = a + bX$

We get required equation of trend line i.e. $Y_c = a + bX$

Where Y_c = trend value or estimated value of Y

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Ratio Analysis

A ratio simply shows the relationship between the two variables. It also shows the financial growth of the organization and financial performances of the organization.

4.1.1 Loans and Advances to Total Assets Ratio

The loans and advances to total assets ratio measure the amount of loans and advances in total assets. It means that it shows the proportion of loans and advances to total assets. High degree of loans and advances indicates the good position of the organization that of good mobilization of deposits of funds. Loan is the risky assets. Thus, higher loans and advances to total assets ratio shows high risk and inversely low loans and advances to total assets ratio shows low risk.

Table 4.1
Ratio of Loans and Advances to Total Assets (Rs in Millions)

Year	RBB			NABIL		
	Loans and Advances	Total Assets	Ratio	Loans and Advances	Total Assets	Ratio
2006/07	28919.8	77594.1	0.3727	11222.7	18614.9	0.6028
2007/08	27164.7	81087.1	0.3350	13239.4	24134.6	0.5485
2008/09	25422.3	72041.3	0.3528	15878.3	29660.4	0.5353
2009/10	27491.2	84686.2	0.3246	21769.7	38478.6	0.5657
2010/11	28209.9	86517.7	0.3260	25440.4	42464.1	0.5991
2011/12	31464.1	99662.6	0.3157	27816.6	45941.6	0.6054
Total	168672	501589	2.0269	115367.1	199294.2	3.4571
Mean	28112	83598.17	0.3378	19227.85	33215.7	0.5761
S.D			2.12			3.04
C.V			6.28			5.28

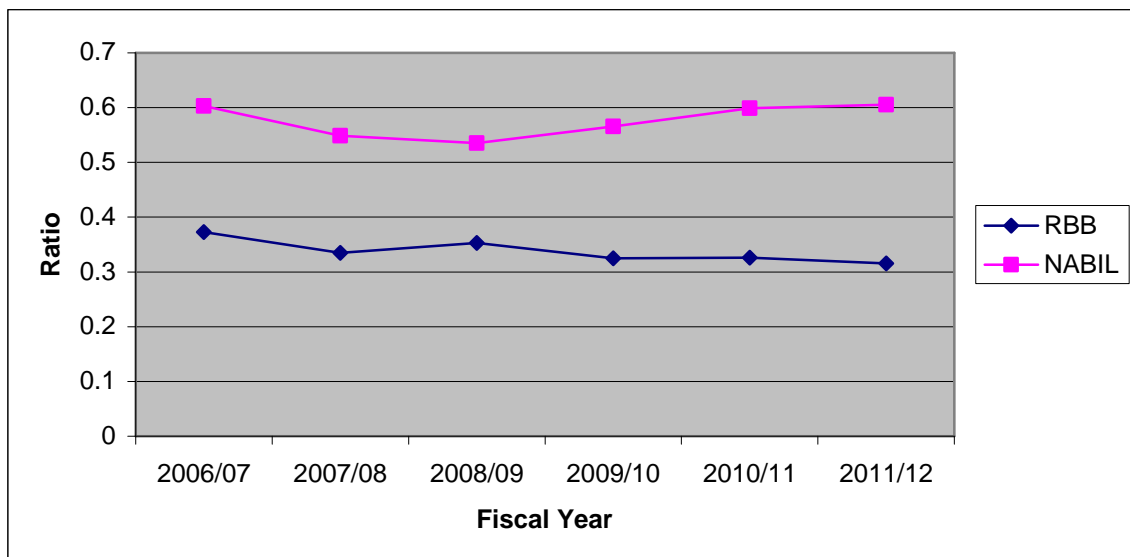
Source: Banking and Financial Statistics-NRB, 2012

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

The highest ratio of RBB is 37.27% in the year 2006/07 and the lowest ratio is 32.46% year 2009/10, whereas the highest ratio is 68.29% in the year 2006/07 and the lowest ratio is 53.53% year 2008/09 of NABIL. The mean of RBB and NABIL are 33.78% and 57.61% respectively. So NABIL has higher ratio than that of RBB. It reveals that in total assets, NABIL has high proportion of loans and advances. NABIL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of RBB states that it has less uniformity in these ratios throughout the study period than that of NABIL. S.D. and C.V. of RBB and NABIL have 2.12%, 3.04%, 6.28%, and 5.28% respectively.

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

Figure 4.1
Loan and Advances to Total Assets Ratio



4.1.2 Loans and Advances to Total Deposit Ratio

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

Table 4.2
Ratio of Loans and Advances to Total Deposit

(Rs in Millions)

Year	RBB			NABIL		
	Loans and Advances	Total Deposit	Ratio	Loans and Advances	Total Deposit	Ratio
2006/07	28919.8	43489.2	0.6649	11222.7	14586.8	0.7693
2007/08	27164.7	45700.7	0.5944	13239.4	19348.4	0.6842
2008/09	25422.3	50192.6	0.5064	15878.3	23342.4	0.6802
2009/10	27491.2	57990.8	0.4740	21769.7	31915	0.6821
2010/11	28209.9	61944.3	0.4554	25440.4	33848.5	0.7515
2011/12	31464.1	67976.3	0.4628	27816.6	37348.3	0.7447
Total	168672	327293.9	3.1582	115367.1	160389.4	4.3123
Mean	28112	54548.98	0.5263	19227.85	26731.57	0.7187
S.D			8.49			4.08
C.V			16.13			5.68

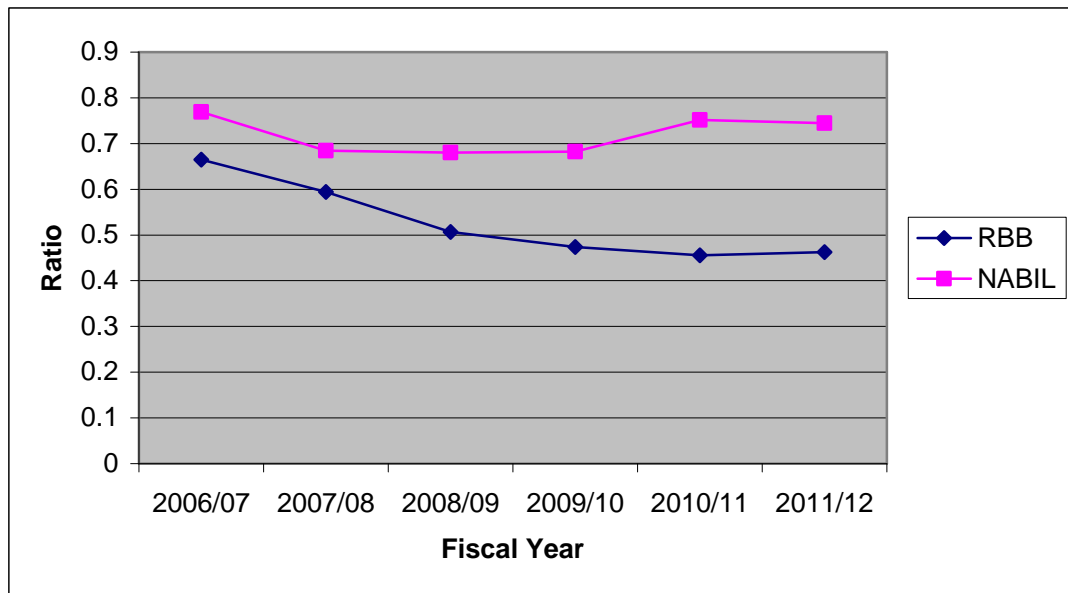
Source: Banking and Financial Statistics-NRB, 2012

Table 4.2 shows that the loan & advances to total deposit ratio of RBB and NABIL is fluctuating trends. NABIL has higher ratio than that of RBB in each year and mean too. It indicates the better mobilization of deposit by NABIL. The mean of RBB and NABIL are 53.91% and 71.35% respectively. The highest ratio of RBB is 66.50% in Fiscal year 2006/07 and lowest ratio is 45.54% in 2010/11. Similarly highest ratio of NABIL is 76.94% in 2006/07 and lowest ratio is 68.02% in Fiscal year 2008/09. So NABIL has higher ratio than that of RBB. It reveals that the deposit of NABIL is quickly converted in to loans and advances to earn income. NABIL has the greater ratio mean, which signifies that the NABIL lend higher amount in the form of loans and advances to earn better returns. The RBB has the lower mean ratio among them. It provides lower amount in the form of loan. Thus, it can be said that the management of RBB is risk averse as compare to NABIL. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loans and advances to total deposit according to NRB. So in all of the year the NABIL has met the NRB requirement or it has utilized its deposit to provide loan. But RBB has not met the NRB requirement or it has not utilized its deposit to provide loan properly.

The S.D. and C.V of RBB is 8.49% & 6.13% similarly NABIL has 4.08% & 5.68%. Thus, it signifies that RBB has higher deviation. The higher C.V. of RBB shows the more inconsistency in the ratios with compare to NABIL.

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

Figure 4.2
Loans and Advance to Total Deposit Ratio



4.1.3 Non- Performing Assets to Total Loans and Advances

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

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

Table 4.3
Ratio of Non- Performing Assets to Total Loans and Advances
(Rs in Millions)

Year	RBB			NABIL		
	Nonperforming Assets	Loans and Advances	Ratio	Nonperforming Assets	Loans and Advances	Ratio
2006/07	13689.3	28919.8	0.4733	144.51	11222.7	0.0128
2007/08	8045.5	27164.7	0.2961	182.6	13239.4	0.0137
2008/09	6876.5	25422.3	0.2704	178.3	15878.3	0.0112
2009/10	5951.8	27491.2	0.2164	171.4	21769.7	0.0078
2010/11	5281.8	28209.9	0.1872	207.4	25440.4	0.0081
2011/12	4955.9	31464.1	0.1575	220.7	27816.6	0.0079
Total	44800.8	168672	1.6012	1104.91	115367.1	0.0618
Mean	7466.8	28112	0.2668	184.15	19227.85	0.0103
S.D			11.34			0.26
C.V			42.50			25.95

Source: Banking and Financial Statistics-NRB, 2012

Table 4.3 shows that the RBB has the highest ratio throughout the study period and also shows the fluctuating trend of NPA. The highest ratio of RBB is 47.33% in year 2006/07 and lowest ratio is 18.72% in year 2010/11. The average mean ratio of RBB is 26.68. The S.D is 11.34% and C.V. is 42.50%. Similarly, NABIL shows the least ratio during period. Mean ratio of NABIL is 1.03 which is much lower than RBB. The highest ratio is 1.37 in 2007/08 and lowest ratio is 0.78 in 2009/10.

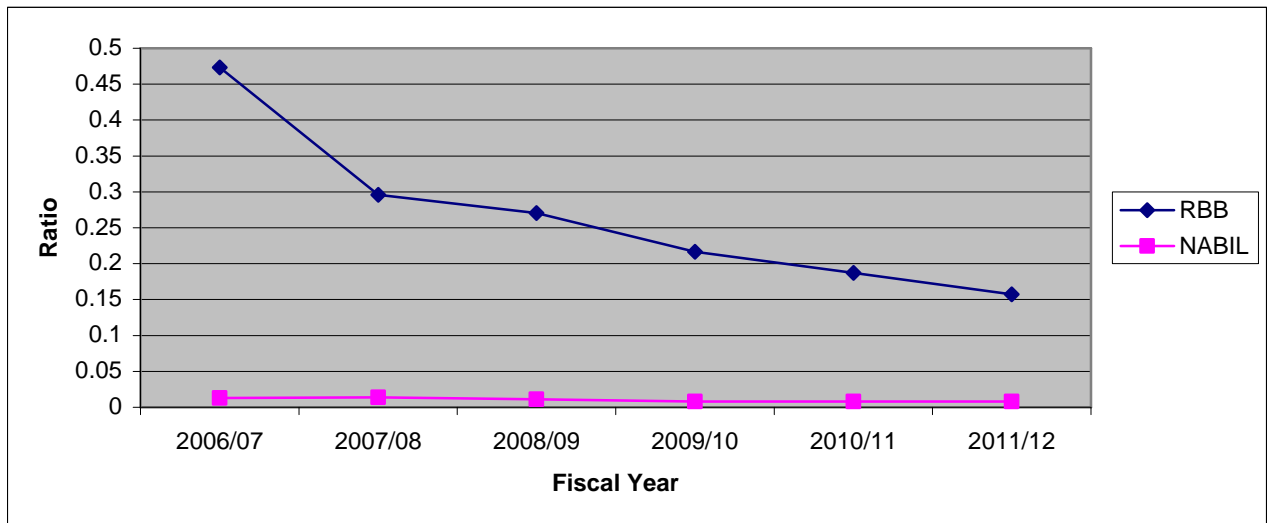
We can say that RBB NPA to loans and advances is going on decreasing trend that is RBB performance is improving year by year.

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

profit and fund would allocate for provision and it cause to become bank failure. Thus, they have to pay attention towards these matters.

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

Figure 4.3
Non-Performing Assets to Total Loans and Advances



4.1.4 Total Provision to Non-Performing Assets Ratio

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

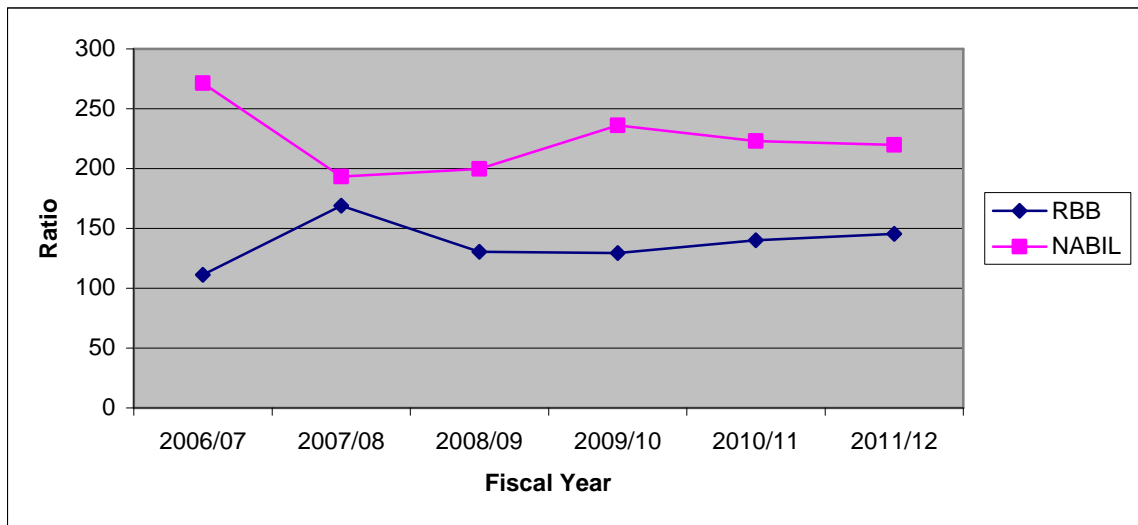
Table 4.4
Ratio of Provision Held to Non-Performing Assets
(Rs in Millions)

Year	RBB			NABIL		
	Total Provision	Nonperforming Assets	Ratio in %	Total Provision	Nonperforming Assets	Ratio
2006/07	15214.4	13689.3	111.14	392	144.51	271.26
2007/08	13593.1	8045.5	168.95	352.9	182.6	193.26
2008/09	8967.5	6876.5	130.40	356.3	178.3	199.83
2009/10	7709.4	5951.8	129.53	404.6	171.4	236.05
2010/11	7407.3	5281.8	140.24	462.4	207.4	222.95
2011/12	7212.4	4955.9	145.53	485.3	220.7	219.89
Total	52891.7	44800.8	825.80	1968.2	1104.91	134.32
Mean	10578.34	7466.8	137.63	393.64	184.15	223.87
S.D			19.33			28.02
C.V			14.05			12.51

Source: Banking and Financial Statistics-NRB, 2012

Table 4.4 presents the ratio of provision held to total non-performing assets of RBB and NABIL for 5 consecutive years. Throughout the study period, the RBB has the lowest ratio than the NABIL. The highest ratio is 168.95 in 2007/08 and lowest ratio is 111.14 in year 2006/07. The average mean ratio of RBB is 137.63. The standard deviation is 19.33 and C.V. is 14.05. Similarly, the mean ratio of NABIL is 223.87 respectively. The highest provision i.e. ratio is 271.26 in 2006/07 and lowest ratio is 193.26 in 2007/08. The S.D of NABIL 28.02% and coefficient of variation is 12.51% respectively. It indicates NABIL Bank has appropriate provision for non-performing assets. The ratio of RBB has significantly high in comparison with NABIL banks in case of total provision and it's portraying that the bank has adequate provision against non-performing loan. RBB has high ratio of NPL as so bank has make high provision as well. It means that both banks try to maintain the higher ratio for the safeguard of loan loss. The above provision held to non-performing assets ratio can be presented in a diagram also, which is as follows;

Figure 4.4
Provision Held to Non-Performing Assets Ratio



4.1.5 Non-Performing Assets to Total Assets Ratio

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

Table 4.5 presented below, exhibits the non-performing assets to total assets ratio of RBB and NABIL for five consecutive periods. T S.D of NABIL 0.1508 and coefficient of variation is 0.2458 respectively. The NABIL has the lowest and decreasing ratio all over the period that indicates the greater profitability and the better performance to recover the loan and its interest during the study period.

The average mean ratio of RBB is 10.048 the highest ratio is 17.64 in 2006/07 and lowest ratio is 6.10 in year 2010/11. The S.D of RBB 4.544 and coefficient of variation is 0.4522

respectively. RBB has the highest ratio, which shows the bad performances and lower profitability on its Assets.

Table 4.5
Ratio of Non-Performing Assets to Total Assets

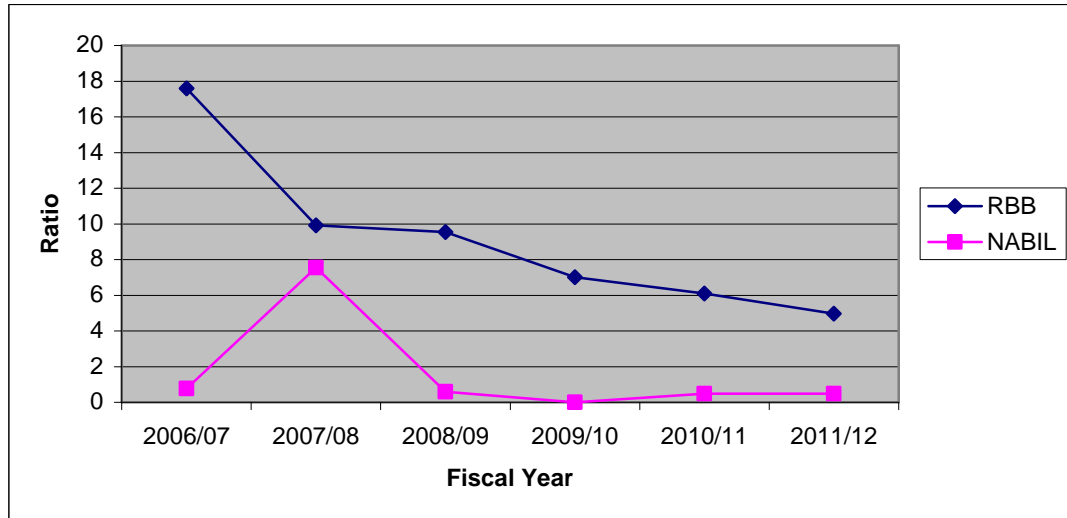
(Rs in Millions)

Year	RBB			NABIL		
	Nonperforming Assets	Total Assets	Ratio in %	Nonperforming Assets	Total Assets	Ratio in %
2006/07	13689.3	77594.1	17.6	144.51	18614.9	0.77
2007/08	8045.5	81087.1	9.92	182.6	24134.6	7.56
2008/09	6876.5	72041.3	9.54	178.3	29660.4	0.60
2009/10	5951.8	84686.2	7.02	171.4	38478.6	4.45
2010/11	5281.8	86517.7	6.10	207.4	42464.1	0.48
2011/12	4955.9	99662.6	4.97	220.7	45941.6	0.48
Total	44800.8	501589	55.21	1104.91	199294.2	3.54
Mean	7466.8	83598.17	9.20	184.15	33215.7	0.59
S.D			4.56			0.14
C.V			49.57			24.59

Source: Banking and Financial Statistics-NRB, 2012

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

Figure 4.5
Non-Performing Assets to Total Assets Ratio



4.1.6 Return on Total Loans and Advances

This ratio indicates how efficiently the bank has employed its resources in the form of loans and advances. This ratio is calculated by dividing the net profit of the bank by total loans and advances. Net profit refers to that profit, which is obtained after all types of deduction like employees bonus, tax provision etc. Hence, this ratio measures bank's profitability with respect to loans and advances, higher the ratios better the performance.

Table 4.6 below represents that the NABIL has the highest ratio through the study period. The highest ratio is 7.288 in 2006/07 and lowest ratio is 2.647 in 2010/11 study period. The ratio is continuously decreasing. The average mean ratio of NABIL is 5.019. The S.D of NABIL is 2.2012 and coefficient of variation is 0.4385 respectively. Lower S.D. and higher C.V. indicate not variability in ratio of NABIL.

Similarly, RBB shows the fluctuating trend in whole study period. The mean ratio of RBB is 5.2815 respectively. The highest ratio is 7.177 in 2007/08 and lowest ratio is 1.3430 in 2006/07 respectively. The S.D of RBB is 2.515 and C.V is 0.476 respectively. Thus, it signifies that along with the lower return and high degree of variation in this ratio.

Table 4.6
Ratio of Return on Total Loans and Advances

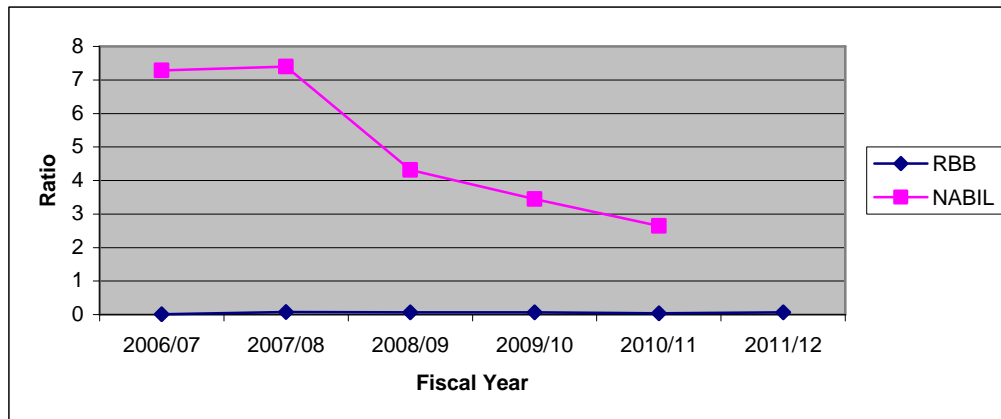
(Rs in Millions)

Year	RBB			NABIL		
	Net Profit	Loans and Advances	Ratio	Net profit	Loans and Advances	Ratio
2006/07	388.4	28919.8	0.0134	817.9	11222.7	7.2879
2007/08	1949.7	27164.7	0.0717	979.1	13239.4	7.3953
2008/09	1777.1	25422.3	0.0699	685.6	15878.3	4.3178
2009/10	1846.9	27491.2	0.0671	750.4	21769.7	3.4469
2010/11	1178.8	28209.9	0.0417	673.5	25440.4	2.6473
2011/12	2032.1	31464.1	0.0645	1624.9	27816.6	2.00256
Total	9173	168672	0.3286	362.00	115367.1	25.0954
Mean	1528.83	28112	0.54	39.26	19227.85	5.20
S.D			2.30			1.99
C.V			42.0			38.73

Source: Banking and Financial Statistics-NRB, 2012

The NABIL has the high ratio more over the period that indicates the greater profitability and the better performance to recover the loan and its interest during the study period. RBB has the more flotation ratio, which shows the bad performances and lower profitability on its Assets. RBB has the highest deviation it signifies that the greater variability in this ratio. It can be concluded that RBB seems better than NBIL and RBB is continuously increasing its ratio i.e. return through loans and advances. The above return on total loans and advances ratio can be presented in diagram as under;

Figure 4.6
Return on Total Loans and Advances



As from the table 4.6 ratio analysis it is concluded that, the loans and advances to total assets ratio of RBB and NABIL are in fluctuating trend during the study period. The mean of RBB and NABIL are 0.54 and 5.20 respectively. While observing their ratios NABIL is better mobilizing of fund as loans and advances in total assets and it seems quite successful in generating higher ratio in each year in comparison of RBB.

The loans and advances to total deposit ratio of RBB and NABIL is fluctuating trends. The mean of RBB and NABIL are 53.90 and 71.35 respectively. So NABIL has higher ratio than that of RBB. It indicates the better mobilization of deposit or converted in to loans and advances to earn income by NABIL. The S.D. and C.V of RBB is 8.83, 0.16 similarly NABIL has 4.33, 0.06. Thus, it signifies that RBB has higher deviation. The higher C.V. of RBB shows the more inconsistency in the ratios with compare to NABIL.

The average mean ratio of non-performing assets to total loans and advances of RBB is 28.87. The S.D is 11.17 and C.V. is 0.38. Similarly, NABIL has high mean ratio of non-performing assets to total loans and advances are 1.078, which is much lower than RBB. The S.D of NABIL is 0.269 and C.V is 0.249 respectively. It can be said that NABIL performing well or maintaining their NPAs perfectly. But the RBB has the high degree of NPL. The higher ratio implies the bad quality of loan or assets of banks in the form of loans and advances. It is higher than the acceptable standard of 10%. The S.D of RBB is high it signify the high variation in ratio.

The ratio of provision held to total non-performing assets for the NABIL has the highest ratio than the RBB. The average mean ratio of RBB is 136.05. The standard deviation is 21.18 and C.V. is 0.155. It indicates NABIL Banks has appropriate provision for non-performing asset. The mean ratio of NABIL is 224.67 respectively. The S.D of NABIL is 31.25 and coefficient of variation is 0.14 respectively. NABIL has high ratio of NPL as so banks has make high provision as well.

In the form of non-performing assets to total assets ratio of NABIL and RBB. The RBB has the approximately highest ratio than the NABIL. The average ratio of non-performing asset to total asset is 0.0892. The ratios of NABIL continuously decreasing it indicate that

banks have proper utilized and invest the assets. The S.D of NABIL 0.0486 and C.V. is 0.515 respectively. NABIL has the lowest ratio with decreasing. The average mean ratio of RBB is 0.549. The S.D of RBB 0.281 and C.V. is 0.511 respectively. RBB has the highest ratio, which shows the bad performances and lower profitability on its assets.

The ratio of returns on loans and advances show how much banks making earning through providing loans and advances. The NABIL has the highest ratio through the study period. The average mean ratio of NABIL is 0.0464. The S.D of NABIL is 0.052 and C. V. is 0.331 respectively. Lowe S.D. and higher C.V. indicate not variability in ratio of NABIL. The mean ratio of RBB is 0.0156, The S.D is 0.075 and C.V is 0.167 respectively. Thus, it signifies that along with the lower return and high degree of variation in this ratio.

4.2 Correlation Analysis

4.2.1 Coefficient of Correlation between Total Deposit and Loans and Advances

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

Table 4.7
Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criteria			
	r	r ²	P.Er.	6 P.Er.
RBB	0.018	0.000325	0.296207	1.777242
NABIL	0.984	0.970019	0.003061	0.018366

Source: BY SPSS Data Editor

From the above table 4.7 it is found that coefficient of correlation between deposits and loan & advances of RBB and NABIL is 0.018 and 0.984. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan & advances of RBB and NABIL move together very closely. RBB have also low degree positive correlation Moreover, the coefficient of determination of RBB is 0.000325. It means 0.035 % of variation in loan & advances has been explained by deposit. The relationship is insignificant because the coefficient of correlation is less than 6 P.Er. Similarly, value of coefficient of determination of NABIL is 0.970019 it refers that 97.00% variance in loan & advances are affected by total deposit. The coefficient of determination NABIL banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

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

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. loans and advances and net profit of RBB and NABIL during the study period. Where loans and advances are independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loans and advances through the coefficient of determination. The following table shows the 'r', r^2 , P.Er. and 6 P. Er. between the variables of RBB and NABIL for the study period.

Table 4.8
Correlation between Loans and Advances and Net Profit

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

Source: BY SPSS Data Editor

Table 4.8 shows correlation coefficient between, loans and advances and net profit. The correlation coefficient between, loans and advances and net profit is -0.7421 of RBB. It refers that there is negative correlation between these two variables. Here, 55.07% of net profit is contribute by loans and advances as its coefficient of determination of 0.5507 shows. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P.Er. Likewise, RBB has also low negative correlation i.e. -0.6422 between loans and advances and net profit. The coefficient of determination R2 is 0.4125 which indicates that 41.25% variability in net profit is explained by loans and advances. Less correlation coefficient than 6P.Er. shows that the relationship between loans and advances and net profit is insignificant for NABL. In conclusion, RBB and NABIL have insignificant relationship between loans and advances and net profit.

4.2.3 Correlation between Loan Loss Provision and Loan & Advances

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

Table 4.9
Correlation between Loan loss Provision and Loans and Advances

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

Source: BY SPSS Data Editor

Table 4.9 shows correlation coefficient between, loan loss provision and loans and advances. The correlation coefficient between, loan loss provision and loans and advances is 0.3543 of RBB. It refers that there is positive correlation between these two variables. Here, 12.55% of provision is contributed by as loans and advances its coefficient of determination of 0.1255 shows. Moreover, this relationship is insignificant

because the coefficient of correlation is less than 6 P.Er. Likewise NABIL has also positive correlation i.e. 0.7916 between loan loss provisions and loans and advances. The coefficient of determination r^2 is 0.6267, which indicates that 62.67% variability in Provision is explained by loans and advances. NABIL bank has more correlation coefficient than 6P.Er. shows that the relationship between loan loss provision and loans and advances is significant.

4.2.4 Correlation between Loan Loss Provision and NPA

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

Table 4.10
Correlation between Loan Loss Provision and Non-Performing Assets

Name of Banks	Evaluation Criteria			
	r	r^2	P.Er.	6 P.Er.
RBB	0.887689234	0.78799218	0.063951	0.383706
NABIL	0.44917308	0.20175646	0.240787	1.4447196

Source: BY SPSS Data Editor

Table 4.10 shows the relationship between LLP & NPA of RBB and NABIL. The correlation between LLP & NPA of RBB is 0.887. It refers that there is positive correlation between these two variables. The coefficient of determination of RBB is 0.7879 the relationship between LLP & NPA is significant because the coefficient of correlation is more than 6 P.Er i.e. $-0.8876 > 0.3837$ Likewise NABIL has positive correlation i.e. 0.4492 between loan loss provision and non-performing assets. The coefficient of determination r^2 is 0.20175 which indicates that 20.17% variability in Provision is explained by non-performing assets. The coefficient of correlation is less

than 6P.Er. So the relationship between loan loss provision and loans and advances is insignificant. RBB has the higher degree of NPA in comparison to NABIL.

4.2.5 Correlation between Non-Performing Assets and Loans and Advances

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

Table 4.11
Correlation between Non-Performing Assets and Loans and Advances

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

Source: BY SPSS Data Editor

Table 4.11 shows correlation between non-performing assets and loans and advances. Non-performing assets and loans and advances of RBB is 0.4787. It refers that there is positive correlation between these two variables. Here, coefficient of determination is 0.2292, which indicate 22.92% of non-performing assets is contributed by as loans and advances. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P. Er. In the case of NABIL there is positive correlation i.e. 0.7354 between non-performing assets and loans and advances. The coefficient of determination r² is 0.5408, which indicates that 54.08% variability in non-performing assets is explained by loans and advances. The relationship is insignificant because the coefficient of correlation is little less than 6 P.Er .i.e. 0.7354 < 0.8310. As a whole there are insignificant correlation coefficient of bank between non-performing assets and loans and advances during the study.

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

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

Table 4.12
Correlation between Non-Performing Assets and Total Assets

Name of Banks	Evaluation Criteria			
	r	r ²	P.Er.	6 P.Er.
RBB	-0.41049	0.1685	0.250818	1.5049
NABIL	0.7496	0.5619	0.132131	0.7927854

Source: BY SPSS Data Editor

Table 4.12 shows the relationship between the non-performing assets and total assets of RBB and NABIL for five consecutive. The correlation between NPA and total assets of RBB is -0.41049. It refers that there is negative correlation between these two variables. The coefficient of determination of RBB is 0.1685, which indicates total assets contribute 16.85% of non-performing assets. The relationship between LLP & total assets of RBB is insignificant because the coefficient of correlation is less than 6 P.Er i.e. $-0.41049 < 1.5049$. Likewise, NABIL has positive correlation i.e. 0.7496 between the non-performing assets and total assets. The coefficient of determination R² is 0.5619 which indicates that 56.19% of non-performing assets is explained by total assets. The coefficient of correlation is less than 6P.Er. So the relationship between non-performing assets and total assets is insignificant.

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

In conclusion, as from correlation analysis it is found out that, The coefficient of correlation between deposits and loans and advances of RBB and NABIL is 0.018 and

0.98. It is shows that both have the positive relationship between these two variables. The coefficient of determination of NABIL is 0.978. Similarly, value of coefficient of determination of RBB is 0.0003. The correlation coefficient of NABIL banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er whereas correlation coefficient of RBB banks is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er.

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

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

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

The correlation coefficient between, non-performing assets and loans and advances of RBB is 0.479. It refers that there is positive correlation between these two variables. Here, 22.93% of non-performing assets is contributed by as loans and advances. NABIL has positive correlation i.e. 0.735 between non-performing assets and loans and advances. Here 54.08% variability in non-performing asset is explained by loans and advances. The relationships of both banks are insignificant because the coefficient of correlation is little less than 6 P.Er. The relationship between the non-performing asset and total assets of RBB and NABIL is not similar. The correlation between NPA and total asset of RBB is -0.41. It refers that there is Negative correlation between these two variables where, 16.85% of non-performing assets is contributed by total assets. The relationship between LLP and total asset of RBB is insignificant. Likewise, NABIL has positive correlation i.e. 0.750 between the non-performing asset and total assets. There is 56.20% percent of non-performing asset is explained by total asset. The coefficient of correlation is less than 6P.Er. so the relationship between non-performing asset and total assets is insignificant.

4.3 Trend Analysis

Trend analysis is the statistical tools for the analyzing the data of selected banks in suitable manners. It helps to forecast the future value of bank of future expectation of different variables. It shows the behavior of different variables. It shows the behavior of the variables. It is based on the assumption that past tendencies continues in the future. In this study, data are presented for further eight years. For 2005/06 -2010/11 and forecast is done on the basis of these trend lines.

4.3.1 Trend Analysis of Total Deposit

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

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,
 X = deviation from some convenient time periods.

Let trend line be

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

Where x = X - Middle year

Here,

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

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

RBB

NABIL

$$a = 51863.52$$

$$a = 17838.52$$

$$b = 4920.03$$

$$b = 5109$$

Where as

$$Y_c = 51863.52 + 4920.03X \text{ of RBB}$$

$$Y_c = 17838.52 + 5109X \text{ of NABIL}$$

Table 4.13

(Rs in Millions)

Trend analysis of Total Deposit of RBB and NABIL		
Year(x)	RBB	NABIL
2006/07	42023.46	7620.52
2007/08	46943.49	12729.52
2008/09	51863.52	17838.52
2009/10	56783.55	22947.52
2010/11	61703.58	28056.52
2011/12	66623.61	33165.52
2012/13	71543.64	38274.52
2013/14	76463.67	43383.52
2014/15	81383.7	48492.52
2015/16	86303.73	53601.52
2016/17	91223.76	58710.52
2017/18	96143.79	63819.52
2018/19	101063.8	68928.52

Figure 4.7
Trend Analysis of Total Deposit of RBB and NABIL

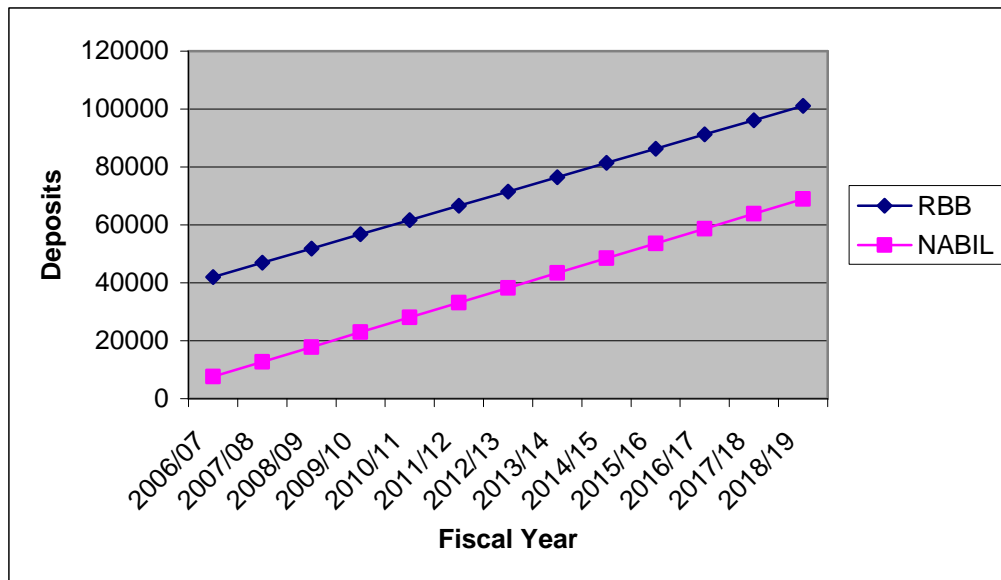


Table 4.13 and figure shows that total deposit of RBB and NABIL. Both Banks is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of RBB. The increasing trend of total deposit of NABIL is more aggressive and high rather than RBB. It indicates NABIL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year FY 2011/12 to FY 2018/19. From the above trend analysis it is clear that NABIL has higher position in collecting deposit than RBB.

4.3.2 Trend Analysis of Loan & Advances

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

$$Y = a + bx$$

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

Where x = X - Middle year

Here,

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

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

RBB

NABIL

$$a = 27441.58$$

$$a = 17510.1$$

$$b = -109.33$$

$$b = 3696.57$$

$$Y_c = 27441.58 - 109.33X \text{ of RBB}$$

$$Y_c = 17510.1 + 3696.57X \text{ of RBB}$$

Table 4.14

(Rs in Millions)

Trend line of Total Loans and Advances of RBB and NABIL		
Year(x)	RBB	NABIL
2006/07	27660.24	10116.96
2007/08	27550.91	13813.53
2008/09	27441.58	17510.1
2009/10	27332.25	21206.67
2010/11	27222.92	24903.24
2011/12	27113.59	28599.81
2012/13	27004.26	32296.38
2013/14	26894.93	35992.95
2014/15	26785.6	39689.52
2015/16	26676.27	43386.09
2016/17	26566.94	47082.66
2017/18	26457.61	50779.23
2018/19	26348.28	54475.80

Source: Banking and Financial Statistics-NRB, 2012

Figure 4.8

Trend Line of Total Loan and Advances of RBB and NABIL

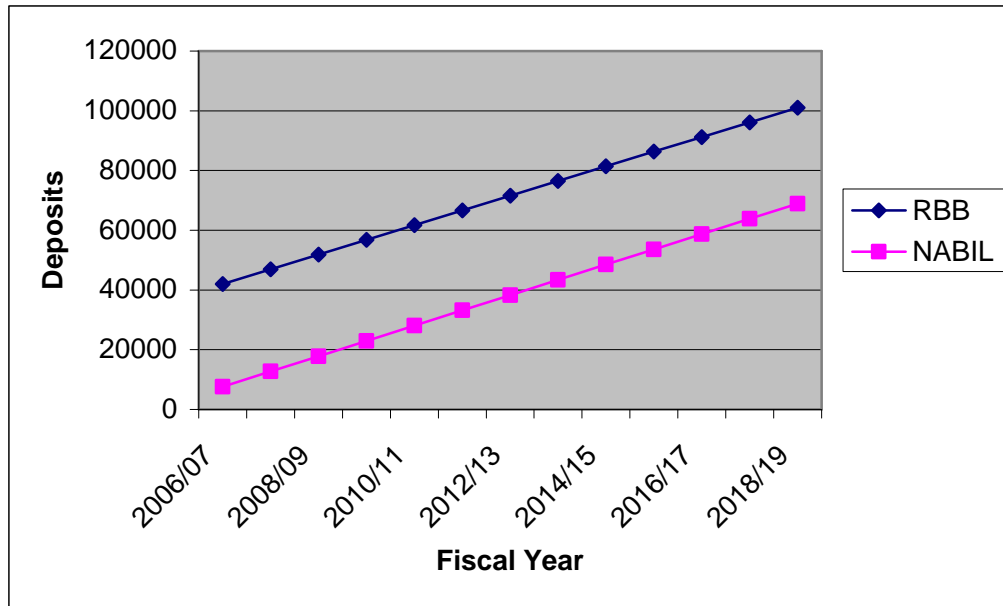


Table 4.14 depicts that loan & advances of RBB and NABIL. Both banks has in reverse trended i.e. RBB loans and advances is going on decreasing trends whereas NABIL is in increasing trend. The actual value of loan & advances for RBB is quite fluctuating and slow in relation to NABIL. The trend projected for father eight year FY 2010/11 to FY 2018/19 From the above analysis, it is clear that both RBB and NABIL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the NABIL has highly mobilizing loan & advances than the RBB.

4.3.3 Trend Analysis of Net Profit

Here, the trend values of net profit of RBB and RBB have been calculated for five years FY 2006/07 to FY 2010/11 and forecasting for the next eight year till FY 2017/18.

$$Y = a + bx$$

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

Where

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

Here,

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

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

RBB

NABIL

$$a = 1428.18$$

$$a = 781.3$$

$$b = 147.8$$

$$b = -51.75$$

$$Y_c = 1428.18 + 147.8 X \text{ RBB}$$

$$Y_c = 781.3 - 51.75 X \text{ RBB}$$

Table 4.15

(Rs in Millions)

Trend Analysis of Net Profit Between RBB and NABIL		
Year(x)	RBB	NABIL
2006/07	1132.58	884.80
2007/08	1280.38	833.05
2008/09	1428.18	781.30
2009/10	1575.98	729.55
2010/11	1723.78	677.80
2011/12	1871.58	626.05
2012/13	2019.38	574.30
2013/14	2167.18	522.55
2014/15	2314.98	470.80
2015/16	2462.78	419.05
2016/17	2610.58	367.30
2017/18	2758.38	315.55
2018/19	2906.18	263.80

Source: Banking and Financial Statistics-NRB, 2012

Figure 4.9
Trend Analysis of Net Profit Between RBB and NABIL

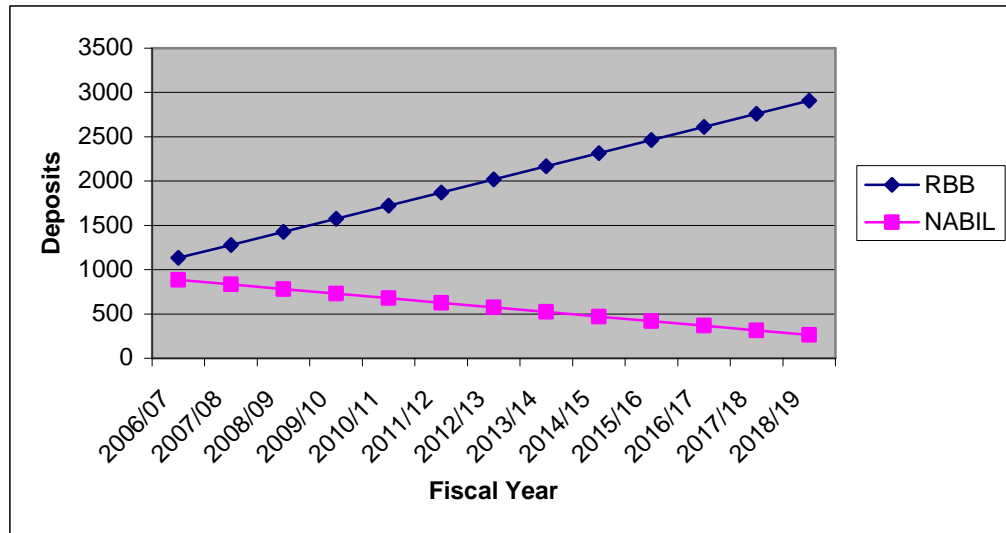


Table 4.16 reveals the trend of Net profit of RBB and NABIL. Net profit both bank forecasted in reverse trend. The trend of increasing value of net profit of RBB is higher and aggressive than NABIL. The net profit of RBB is increasing year to year and NABIL has been decreasing every year by year. The trend of Net profit projected to FY 2018/19 i.e. further Eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, RBB is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of RBB is higher than the NABIL.

4.3.4 Trend Analysis of Non- Performing Assets

Here, the trend values of non-performing assets of RBB and RBB have been calculated for fix years FY 2006/07 to FY 2011/12 and forecasting for the next eight year till FY 2018/19.

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

x = X - Middle year

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

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

RBB

NABIL

$$a = 7968.98$$

$$a = 176.842$$

$$b = -1890.87$$

$$b = 11.458$$

$$Y_c = 7968.98 - 1890.87X \text{ RBB}$$

$$Y_c = 176.842 + 11.458X \text{ RBB}$$

Table 4.16

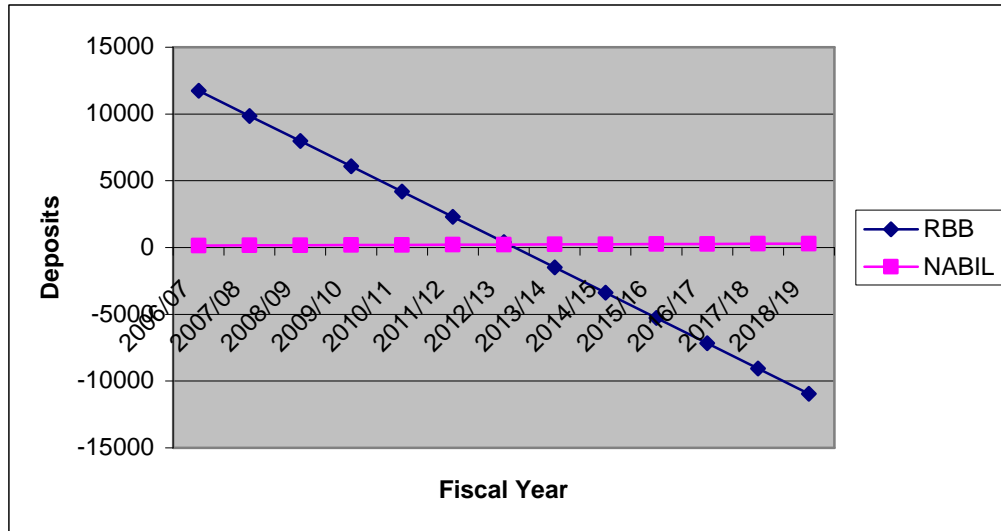
(Rs in Millions)

Trend Analysis of Non-Performing Assets Between RBB and NABIL		
Year(x)	RBB	NABIL
2006/07	11750.72	153.926
2007/08	9859.85	165.384
2008/09	7968.98	176.842
2009/10	6078.11	188.3
2010/11	4187.24	199.758
2011/12	2296.37	211.216
2012/13	405.5	222.674
2013/14	-1485.37	234.132
2014/15	-3376.24	245.59
2015/16	-5267.11	257.048
2016/17	-7157.98	268.506
2017/18	-9048.85	279.964
2018/19	-10939.7	291.422

Source: Banking and Financial Statistics-NRB, 2012

Figure 4.10

Trend Analysis of Non –performing Assets Between RBB and NABIL



The above table reveals the trend of non-performing assets of and NABIL. Non-performing assets of is forecasted in decreasing trend. The trend of non-performing assets of NABIL is estimated in increasing trend. The trend of non-performing assets of RBB is decreasing which indicate non-performing assets is regularly decreasing during the study period. The non-performing assets of NABIL have been increasing every year and RBB decreasing respectively. The trend of non-performing assets projected to FY 2017/18 i.e. further Eight year. Above statistics, shows that RBB is doing better by decreasing non-performing assets over the period. However, NABIL is increasing non-performing during the projected study.

4.3.5 Trend Analysis of Loan Loss Provision

Here, the trend values of loss loan provision of RBB and RBB have been calculated for five years FY 2006/07 to FY 2010/11 and forecasting for the next eight year till FY 2018/19.

$$Y = a + bx$$

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

Where

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

Here,

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

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

RBB

NABIL

$$a = 10578.34$$

$$a = 393.64$$

$$b = -2149.79$$

$$b = 19.25$$

$$Y_c = 10578.34 - 2149.79 X \text{ RBB}$$

$$Y_c = 393.64 + 19.25 X \text{ RBB}$$

Table 4.17

Trend Analysis of Loss Loan Provision Between RBB and NABIL

Year(x)	RBB	NABIL
2006/07	14877.92	355.14
2007/08	12728.13	374.39
2008/09	10578.34	393.64
2009/10	8428.55	412.89
2010/11	6278.76	432.14
2011/12	4128.97	451.39
2012/13	1979.18	470.64
2013/14	-170.61	489.89
2014/15	-2320.4	509.14
2015/16	-4470.19	528.39
2016/17	-6619.98	547.64
2017/18	-8769.77	566.89
2018/19	-10919.6	586.14

Source: Banking and Financial Statistics-NRB, 2012

Figure 4.11

Trend Analysis of Loss Loan Provision Between RBB and NABIL

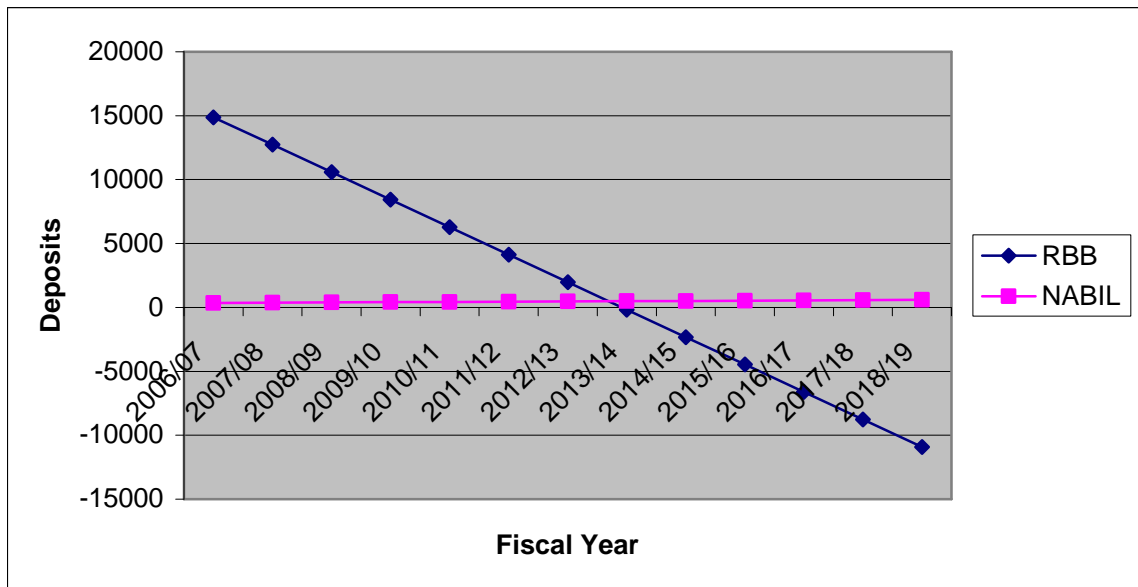


Table 4.17 reveals the trend of loss loan provision of RBB and NABIL. Loss loan provision of NABIL is forecasted constant and forecasted in decreasing trend. The trend of increasing value of loss loan provision of NABIL is higher and aggressive than RBB. The loss loan provision of NABIL increasing every year and RBB has been decreasing every year respectively. The trend of loss loan provision projected to FY 2018/19 i.e. further Eight year. In conclusion, NABIL is doing better because constant in loss loan provision but RBB has decreasing loss loan provision, which indicate it is doing best. It is suggest NABIL decrease the NPL to minimize loan loss provision.

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

The loans and advances of RBB and NABIL Both Banks have in reverse trend. The increasing trend of NABIL is higher than RBB. The actual value of loans and advances for RBB is quite fluctuating in relation to NABIL. It is clear that both NABIL and RBB

are mobilizing its collected deposits and other funds in the form of loans and advances. But the NABIL has highly mobilizing loans and advances than the RBB.

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

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

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

4.4 Major Findings of the Study

From the data analysis of concerned banks, the major things, which have been found, are as follows

The loans and advances to total assets ratio of RBB and NABIL are in fluctuating trend during the study period. The mean of RBB and NABIL are 34.23 and 57.03 respectively. While observing their ratios NABIL is better mobilizing of fund as loans and advances in total assets and it seems quite successful in generating higher ratio in each year in comparison of RBB.

The loans and advances to total deposit ratio of RBB and NABIL is fluctuating trends. The mean of RBB and NABIL are 53.90 and 71.35 respectively. So NABL has higher ratio than that of RBB. It indicates the better mobilization of deposit or converted in to

loans and advances to earn income by NABIL. The S.D. and C.V of RBB is 8.83, 0.16 similarly NABIL has 4.33, 0.06. Thus, it signifies that RBB has higher deviation. The higher C.V. of RBB shows the more inconsistency in the ratios with compare to NABIL.

The average mean ratio of non-performing assets to total loans and advances of RBB is 28.87. The S.D is 11.17 and C.V. is 0.38. Similarly, NABIL has high mean ratio of non-performing assets to total loans and advances is 1.078, which is much lower than RBB. The S.D of NABIL is 0.269 and C.V is 0.249 respectively. It can be said that NABIL performing well or maintaining their NPAs perfectly. But the RBB has the high degree of NPL. The higher ratio implies the bad quality of loan or assets of banks in the form of loans and advances. It is higher than the acceptable standard of 10%. The S.D of RBB is high it signify the high variation in ratio.

The ratio of provision held to total non-performing assets for the NABIL has the highest ratio than the RBB. The average mean ratio of RBB is 136.05. The standard deviation is 21.18 and C.V. is 0.155. It indicates NABIL Banks has appropriate provision for non-performing asset. The mean ratio of NABIL is 224.67 respectively. The S.D of NABIL is 31.25 and coefficient of variation is 0.14 respectively. NABIL has high ratio of NPL as so banks has make high provision as well.

In terms of non-performing assets to total assets ratio between NABIL and RBB. RBB has the approximately highest ratio than the NABIL. The average ratio of non-performing asset to total asset is 0.0892. The ratios of NABIL continuously decreasing it indicate that banks have proper utilized and invest the assets. The S.D of NABIL 0.0486 and C.V. is 0.515 respectively. NABIL has the lowest ratio with decreasing. The average mean ratio of RBB is 0.549. The S.D of RBB 0.281 and C.V. is 0.511 respectively. RBB has the highest ratio, which shows the bad performances and lower profitability on its assets.

The ratio of returns on loans and advances show how much banks making earning through providing loans and advances. The NABIL has the highest ratio through the study period. The average mean ratio of NABIL is 0.0464. The S.D of NABIL is 0.052 and C. V. is 0.331 respectively. Lower S.D. and higher C.V. indicate not variability in

ratio of NABIL. The mean ratio of RBB is 0.0156, The S.D is 0.075 and C.V is 0.167 respectively. Thus, it signifies that along with the lower return and high degree of variation in this ratio.

The coefficient of correlation between deposits and loans and advances of RBB and NABIL is 0.018 and 0.98. It shows that both have the positive relationship between these two variables. The coefficient of determination of NABIL is 0.978. Similarly, value of coefficient of determination of RBB is 0.0003. The correlation coefficient of NABIL banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er whereas correlation coefficient of RBB banks is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er.

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

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

The relationship between LLP and NPA of RBB and NABIL are positive direction. The correlation between LLP and NPA of RBB is 0.887. It refers that there is positive correlation between these two variables. The coefficient of determination of RBB is 0.788. The relationship between LLP and NPA is significant. NABIL has positive

correlation i.e. 0.449. The coefficient of determination is 0.201. The coefficient of correlation is less than 6P.Er. So the relationship between Loan loss Provision and Loans and advances is insignificant.

The correlation coefficient between, non-performing assets and loans and advances of RBB is 0.479. It refers that there is positive correlation between these two variables. Here, 22.93% of non-performing assets is contributed by as loans and advances. NABIL has positive correlation i.e. 0.735 between non-performing assets and loans and advances. Here 54.08% variability in non-performing asset is explained by loans and advances. The relationships of both banks are insignificant because the coefficient of correlation is little less than 6 P.Er.

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

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

The loans and advances of RBB and NABIL Both Banks have in reverse trend. The increasing trend of NABIL is higher than RBB. The actual value of loans and advances for RBB is quite fluctuating in relation to NABIL. It is clear that both NABIL and RBB is mobilizing its collected deposits and other funds in the form of loans and advances. But the NABIL has highly mobilizing loans and advances than the RBB.

The trend of Net profit both banks RBB and NABIL forecasted in reverse trend. The trend of increasing value of net profit of RBB is higher and aggressive than NABIL. The net profit of RBB increasing every year by Rs.147.8 million and NABIL has been decreasing by Rs. 51.75 million respectively. In conclusion, RBB is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of RBB is high than the NABIL.

The trend of non-performing assets of RBB and NABIL are opposite direction. Non-performing assets of RBB is forecasted in decreasing trend. Which indicate non-performing assets is regularly decreasing during the study period. The trend of non-performing assets of NABIL is estimated in increasing trend. The non-performing assets of NABIL has been increasing every year by Rs.11.458 million and RBB is decreasing Rs.1890.87 million respectively. RBB is doing better by decreasing non-performing assets. However, NABIL is increasing non-performing assets.

The trend of Loss loan provision of NABIL is forecasted constant and RBB forecasted in decreasing trend. The trend of increasing value of loss loan provision of NABIL is higher than RBB. The loss loan provision of RBB decreasing every year only by Rs.2149.83 and NABIL has been increasing every year by Rs.19.25 million respectively. RBB is doing better because constant in loss loan provision but NABIL has increasing loss loan provision.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Despite of being loans and advances more profitable those other assets, it creates risk of non-repayment for the banks, such risk is known as credit risk or default risk. Therefore, like other assets the loans and advances are classified into performing and non-performing on the basis of overdue aging schedule. If the due in the form of principal and interests are not paid by the borrower for a certain period is called non-performing loan or assets. It means NPAs could wreck banks profit ability both through loss of interest income and write off the principal loan amount. Non-performing loan are also known as non-performing assets (NPAs) performing assets have multiple benefits to the company as well as to the society while non-performing assets erode even existing capital of the banks. NPAs have been becoming great problem in banking business in the world. In this context Nepal can't be run off from such situation. The level of NPA in Nepalese banking business is very alarming. It is well known fact that the banks and financial institution in Nepal have been facing the problem of swelling non-performing assets (NPAs) and the issue is becoming more and more unmanageable day by day.

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

This research was focused on studying the non-performing assets of public and private banks. They were taken as sample using judgmental sampling method. They were Rastrya Banjiya Bank and NABIL Banks Limited. In this study mostly secondary data were used. Besides this, newspaper, relevant thesis, journals, articles, related website etc. were also taken for this research. The data collected from various sources were recorded systematically and presented in appropriate forms of table and charts and appropriate mathematical, statistical, financial and graphical tools were applied to analyze the collected data in suitable manner. The data of five consecutive years of the banks were analyzed to meet the objective of the study.

5.2 Conclusion

The financial sector is growing in terms of quantity but it is for develop countries in term of quality. The main objective of commercial banks is to collect the idle funds from public and mobilize it into productive sector, which caused the overall economic development. The banks should have to take in consideration that the interest of depositors, shareholders, and society. Lending is the one of the main function of commercial banks which is the most income generating by assets. As saying “high risk, high return” it gives high return than it also high risk. To minimize this risk banks should have to make loan loss provision for safety. If high amount of loans and advances lend then high amount of loan loss provision is required as per NRB directive. The money is the blood of the any organization. Thus its proper utilization may be caused of success of the business or organization. Today’s banking industry is severely affected by the problem of non-performing assets (NPA). It can be concluded that improper credit appraisal system, ineffective credit monitoring and supervision system, economic slowdown, borrower’s misconduct, and over valuation of collateral, political pressures to lend for accredit worthy parties etc. are the major factors lending to non-performing assets.

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

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

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

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

5.3 Recommendations

The following are some of the recommendation, which will help to reduce the level of NPA of Nepalese Commercial Banks.

- a) RBB has the low amount of loan comparing to NABIL. It provides lower amount in the form of loans. Thus, it can be said that the management of RBB is risk averse as compare to NABIL. RBB banks will be able to better mobilization of

collected deposit. Even though investing their resources in the most income generating sources but they have negative returns due to enough bad loans.

- b) NABIL need to increase their lending in terms of loans and advances according to returns, safety, liquidity and risk.
- c) The loans loss provision of RBB has high due to high amount of NPA. It is recommended that the banks should have to increase the provision amount to recover the bad loans.
- d) It is recommended to RBB to make serious action to recovering the bad loans (NPA). And also should make remedial action for new loan. Hiring assets management company (AMC) is recommended to reduce the current non-performing assets.
- e) Government must applied regulator body to take timely action against willful defaulter.
- f) One of the main causes of default loans and increasing the NPAs is that the banks aren't taking much collateral or over valuation of collateral. Therefore, banks should take enough collateral, so the banks at least can able to recover its principle and invest amount in case of being unable to repay by the borrower.
- g) Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. Thus proper financial analysis should be done before lending to the borrowers.
- h) The accounting policies must be transparent and must be best auditing practices.
- i) Inefficient management may be the cause to increase the non-performing assets in Nepalese commercial banks. Therefore, all banks should provide appropriate training regarding loan management, risk management, credit appraisal etc to the employee.

- j) Other factors which lead to non-performing assets are lack of proper supervision and monitoring, ineffectiveness of credit policy, political scenarios, and economic conditions. Besides that negligence in taking information from credit. Information Bureau may be also leading factor to NPAs. It is recommended that banks should apply precaution before granting loans and advances to decrease the bad loans.
- k) There is a lack of credit rating agency. So it is recommended to establish the credit rating agency and AMC to proper analysis.
- l) Last but not the least the bank staff must know their responsibility of the work. They must have strong commitment and operate as per the rules and regulations.

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