

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study:

Nepal is an undeveloped country having very low per capita income and corporate growth rate. The traditional concept of business and commerce is deep rooted in the people and most of them are unaware of modern form of commerce. Majority of population live below the poverty line. The agro-dominated economy is further worsened by the complex geographical situation. Various factors like land locked ness, poor resource mobilization, lack of entrepreneurship, lack of institutional commitment, erratic government policies, political instability, Maoists problem etc. are responsible for the slow pace of development in Nepal.

But after the restoration of democracy in 1990 and universal echo of economic liberalization, Nepal has implemented liberal economic policy. As a result, many more companies are established in different sectors such as industrial, tourism, transportation, trade and mostly in the financial sector whose contribution in economy has great significance.

In Nepal, the industrial revolution took after the establishment of Biratnagar Jute Mill in 1936 A.D. and Nepal Bank Limited was established in 1937 A.D. Nepal Rastra Bank was established in 1956 A.D, which has helped to make banking system more systematic and dynamic during that time.

Established which is fully government owned bank. His Majestys Government with the view of accelerate the pace of economic development under the structural adjustment program undertook a significant step towards financial liberalization in the year 2043/44 B.S. (19 86/87 A.D.) The liberalization policy of the government of Nepal has encouraged the private sector to invest in various fields, which support the domestic overall economic growth. The government of Nepal introduced financial sector reforms in 1980s, which encouraged the healthy competition in the financial sector as well as allowed the entry of foreign banks in the Nepalese market in the

forms of joint ventures banks.

### **Definition of NPA**

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

Non Performing Assets (NPA) means the amount of loan that the individual commercial banks had provided and the customer has not paid in until the time already matured. The distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing assets for the banks.

### **1.2 Focus of the Study:**

Non Performing Assets [NPA] means the amount of loan that the individual commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing Assets for the bank. Commercial banks are losing their profitability because of non performing assets.

In every commercial bank profitability is affected by the Non performing assets of the banks. The main focus of this study is to examine the impact of the NPA on profitability of the commercial banks and the proper management of non performing assets of the commercial banks. In same way the study will also be focused on non performing assets regarding made in the past five years of five sample banks.

### **1.3 Statement of Problem:**

Nepalese commercial banking industry is still under the developing condition. They have to follow all the rules and regulations or the directives issued by the Rastra Bank of Nepal, the central bank of the country. The core banking business is mobilizing the deposits and utilizing it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes, which results into economic growth. However, lending also carries credit risk, which arises from the failure of borrowers to fulfill its

contractual obligation during the course of transaction. It is well known that the bank and financial institutions in Nepal face the problem of swelling non-performing assets and the issue is becoming more and more unmanageable. The total NPA in the banking system is 14.2 percent of total loan in year 2066 B.S. while it was 18.7 percent of total loan in year 2067 B.S. (2005A.D.) While it is even worse in case of two largest commercial banks: Rastriya Banijya Bank and the Nepal Bank Limited are 45.3 and 25.1 percent respectively in the year 2067.

**Table 1.2**  
**Non-Performing Assets of Commercial Banks**

In NRS

Year	Everest Bank	Nepal SBI Bank	Himalayan Bank	Nabil Bank	Lumbini Bank
2063/64	42388116	289766401	1156041162	556877682	441641381
2064/65	111191103	426947082	1092839487	449630763	306776772
2065/66	104764369	345821458	1147462638	286678920	237298336
2066/67	168487748	441017011	1001347320	144506893	561128272
2067/68	129235790	505336919	1040757823	182624480	1339242790

Source: Annual reports of concerned banks of year 2067/68

The amount of NPA of the Everest Bank Limited, Lumbini Bank Limited was decreasing to every year except in fiscal year 2066/67. The amount of NPA of the Nepal SBI Bank Limited and Himalayan Bank Limited was fluctuating every year during the fiscal year 2064/65 to 2067/68. The NPA of the Nabil Bank Limited was decreasing every year during the four years period but increase in fiscal year 2067/68.

The following are the research question of this study:

- What is the overall impact of the NPA on the profitability of the commercial banks under the study?
- Is there any relationship between NPA and the profitability of the commercial banks and the other non-banking assets, [NBA]
- What might be the other factors that influence the non-performing assets of the commercial banks in the banking industry of Nepal?
- Are there any interest factors of the individual commercial banks in increment of the non-performing assets of them?

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

The proper mobilization and utilization of domestic resources become indispensable for suitable economic development and there is no doubt that commercial banks have pivotal role for the collection of dispersed small savings of Nepalese people and transferring them into meaningful investment. The success and prosperity of the bank relies heavily upon the important sectors of economy as well as to generate more profit by investing in consumers demand. The main aim of the present study is to find out what sorts of tools and techniques have been used to overcome the problem of conversion of performing assets into the non-performing assets, by the commercial banks in the country and to analyze what other kinds are being used in the present world that the corresponding banks can adopt, if found, under the study.

Loans and advances are the most profitable of all the assets of a bank. These assets constitute primary sources of income to the bank. It means interest earned from such loan and advances occupy major space in income statement of the bank. As a business institute, a bank aims at making huge profit. Since loan and advances are more profitable than any of other assets, the bank is willing to lend as much as its fund as possible. But it has to be careful about the safety of such loans and advances. So it is very important to be reminded that most of the banks failures in the world are due to shrinkage on the value of loans and advances. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loan/assets has multiple benefits while non-performing loan/assets erode even existing capital. Therefore success of any bank doesn't depends upon how much money at a bank is able to lend, but it depends upon the quality of the loan. So success of a bank depends upon the amount of performing assets/loan. Performing assets are those loans that repay principal and interests to the bank from the cash flow it generates.

It is well known fact that bank and financial institutes in Nepal has been facing the problem of swelling non-performing assets and issues is becoming more and more unmanageable. Unfortunately, nowadays banks have been becoming the victims of high level of NPA, which has been the subject of headache to the banking sector and Nepalese banking industry is not also exception from this truth.

The total NPA of Nepalese banking sector is about 35 billion rupees, and it is worse case of the two largest banks of Nepal, Nepal Bank Limited and Rastriya Banijya Bank Limited. The NPA level in these two banks is above 50% of the total deposits of the bank.

This present study mainly concern with the analysis of level of NPAs in total assets, total deposits and total lending of different commercial banks of Nepal. Therefore, it is significant to find out the level of NPA and to find out whether the banks maintained loan loss provision in accordance to NRB s directives or not. It also examines the effects of NPA in ROE and ROA of the bank. And point out the defects inherent in it and provide package of suggestion for its improvement if found any apart from above this study will be a matter of interest for the students, academicians and other professionals.

### **1.5 Objectives of the Study:**

The main objectives of the study are to examine and study of the non-performing assets in total assets, total deposits and total lending of the Nepalese commercial banks. The other specific objectives of the present study are listed as follows:

- ) To analyze the non-performing assets of the Commercial Bank.
- ) To evaluate the relationship between the profitability and the non-performing assets of the commercial banks under study.
- ) To examine whether the Nepalese commercial banks are following the NRB directives regarding nonperforming assets or not.
- ) To provide necessary suggestion and recommendation for concern parties.

### **1.6 Limitation of the Study:**

This study is simply a partial study for the fulfillment of MBS Degree. This is not far from several limitations, which weakens the study from the viewpoint of reliability and validity. The following are some limitations of the study:

1. Profitability of an organization is caused by very many factors but here we study only those factors, which are directly affected by the non-

performing assets of the commercial banks.

2. The whole studies is mainly base on secondary data.
3. The study is concerned with non performing assets of commercial banks.
4. The whole study is based on the data of only five years (F/Y 2063/64 to 2067/68).
5. The study covers only five commercial banks of the Nepalese banking industry.
6. The figures are rounded for nearest rupees.
7. This research has been conducted in Limited time.

### **1.7 Organization of the Study:**

The whole study is divided into the following five different chapters.

#### **Chapter One: Introduction:**

This chapter includes general background of the study, statements of the problems, objectives of the study, significances of the study and the limitations of the study.

#### **Chapter Two: Review of Literature:**

This chapter deals with review of the different literature in regards to the theoretical analysis and review of books, articles and thesis related to the study field. Therefore it includes conceptual framework and other related studies.

#### **Chapter Three: Research Methodology:**

This chapter includes introduction, research design, population and sample, sources of the information used, period of the study, financial indicators and the statistical tools used.

#### **Chapter Four: Presentation and the Analysis of the Data:**

This chapter includes presentation of the financial variables and statistical tools used while interpreting the data so collected from the different sources.

#### **Chapter Five: Summery, Conclusions and Recommendation:**

This chapter briefly represents the summery of the whole study made and the inclusions so made and the recommendations for the effective and smooth running of the concerned commercial banks under the study.

## **CHAPTER II**

### **REVIEW OF THE LITERATURE**

In the present chapter, the reviews are done relating to non-performing assets of commercial banks. Every study is very much based on past knowledge; the past knowledge provides foundation to the present study. This chapter helps to take adequate feed back to broaden the information based and inputs to this study, therefore this chapter has its own important in this study. For this several journals, reports and articles published in different journals and newspaper are being reviews and are categorized in two heading.

- a) Conceptual framework
- b) Review of related studies

#### **2.1 Conceptual framework**

##### **2.1.1 Meaning and Origin of Bank**

In general a bank is referred to as an institution that deals with money, currency and bullion. It collects the deposits in the form of currency and gold from the savers and supplies to the people in demand of money with different terms and conditions as to the interest and repayment. Hence it pays interest to the depositors as consideration to the money received and charges different levies in the form of processing fees, commissions, interests etc., from the people who have taken loan from it. At the same time it in the request of its customers, discounts the bills, gives guarantee, issues letter of credit, investing in different securities, underwriting of securities etc. The word BANK has been derived from Italian word, Banc which in Italian means a BENCH. Since the people who dealt in money used to do their work whilst sat on bench the trade that they were carrying was called as Banco, which in the due course got modified into BANK.

Now a day the function of banks are changing which has induced their principle competitors to change. The principle competitors such as other financial institutions

including security dealers, brokerage firms and insurance companies are trying to be similar to bank in the services they offer.

Sayers defined the bank as, Ordinary banking business consists of changing cash for deposits and bank deposits for cash, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange for bills of exchange, government bonds, the secured of unsecured promises of businessmen to repay etc.

Walter Leaf defined the bank as, A bank is that institution or individual who is always ready to service money on deposits to be returned against the cheque of their depositors. And Horace White puts bank in his words as, Bank is a manufacturer of credit and machine for facilitating exchanges. G. Crowther says, 'A banker is a dealer in debt in his own and other peoples. The bankers business in then to take the debt of other people to offer his own in exchange and thereby to credit money". Dr. H. L. Hart exclaims, A banker is one who, in the ordinary course of his business, receives money which he repays by honoring cheques of persons from whom or on who account he receives it.

The first renowned bank was called the Bank of Venice, set up in Venice, Italy in the year 1157 A.D. The Bank of Barcelona and the Bank of Genoa were established in the year 1401 A.D. and 1407 A.D. respectively. In England the banking embarked on with English Goldsmith only after 1640 A.D. The Bank of Amsterdam was the grandest bank during the 17<sup>th</sup> Century.

## **2.2 Concepts of Commercial Banks**

Commercial banks are the heart of the financial system. They hold deposits of many persons, government establishments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms, and government units in doing so they assist both the flow of goods and services from the producers to consumers. They dispense the large portion of medium through which monetary policy is affected. This shows the consequential role in the smooth functioning of the economy.



Commercial banks play the most important role in the modern economic organization. Their businesses mainly consist of receiving deposits, giving loans and financing the trade of a country. They provide short-term credit i.e., lend money for short period. According to the American Institute of Banking, Commercial Banks is a corporation that accepts demand deposits subject to check and makes short-term loans to business enterprise regarding of the scope of its other services.

In the Nepalese context, the Nepal Commercial Bank Act, 2031 B.S. (1974A.D.) defines, A commercial bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions.

In the like manner, various writers on banking have defined the bank in different ways. Since a modern bank performs number of functions. So, it has become very difficult to give a precious definition of a commercial bank.

### **2.2.1 Evolution of banking system in Nepal**

There are several types of banks but among them commercial banks play significant contribution in the financial system of the country. They pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from public on condition that they are repaid on demand or on short notice. Their business is confined to financing the short-term and medium term needs of trade and industry such as working capital financing.

Commercial Bank Act, 2031 B.S. (1974A.D.) of Nepal has defined the commercial banks as an organization, which exchanges money, accepts, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose. (Bank and Financial Institution Ordinance 2005)

It is the fact that financial sector plays a vital role for the economic development of a country. Even before the establishment of a banking system in Nepal, financial transactions were in practice as undertaken by some moneylenders like sahu-

mahajans, zamindars, relatives, friends, and few informal organizations limited to ethnic group such as Guthi. The borrowing from the other and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver and valuable goods for the sake of security. Thus, the private moneylenders can be taken as forerunner of the concept of financial institution.

However, the private money lenders supported the economic development of a country, the transactions undertaken by them was totally based on their personal understanding. No legal restriction was against them and their monopolies in transactions were the reasons for covering the interest in personal understandings and exploiting the people. Thus, it was then realized the need to establish financial intermediaries in supporting the economic development of a country.

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

After long time, during the Rana regime, only handfuls prime minister thought about the economic development of the country. They established some offices in 1993 B.S. (1936 A.D.) Tejarath Addawas established during the tenure of Prime Minister Ranoddip Singh Rana as a first institutionalized credit house. Tejarath Adda provided loans under the security of gold and silver to the government employees and public. The government established its various branches and sub-branches at different places of the country for the sake of benefits of people. In the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it rendered a good service to the

government employees as well as to the general public. The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal. To fulfill the growing need of economy in Nepal, banking activities were performed only after the establishment of Nepal Bank Limited in 1994 B.S. (1937 A.D.) as the first commercial bank in Nepal. This bank was established under the Nepal Bank Act 1994 B.S.

At beginning, 49% of the ownership belongs to the promoters as well as general public and remaining belongs to government. The incorporation of Nepal Bank Ltd. is the real starting of the banking institution in Nepal? The bank started the act of consolidating the scattered capital since its establishment in order to mobilize it in productive sector. It developed systematic tradition in culture of modern banking system in Nepal. Such system could be able to establish a strong base for the enlistment of national economy. Beside, it also acted as central bank for more than three decades.

Nepal Rastra Bank was established in Baisakh 14, 2013 B.S. (26 April 1956 A.D.) under Nepal Rastra Bank Act, 2012 B.S. (1955 A.D.), the central bank of Nepal. It is totally owned by government. NRB is heavily assisting for the development of the whole economy. It is giving timely directives to all financial institutions operating and conducting in all over the country.

After a long period, the second commercial bank namely Rastriya Banijya Bank (RBB) has been established in 2022 B.S. (1965 A.D.) with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 B.S. (1964 A.D.) Both Nepal Bank Limited. (NBL) and Rastriya Banijya Bank (RBB) have made a remarkable contribution by providing reliable banking services to the Nepalese people. Its contribution is well noted in terms of capital formation to the small dispersed saving into meaningful capital investment in order to flourish industry, agriculture, and commercial sector in the country.

The government introduced Commercial Bank Act in Nepal in 2033 B.S. (1976A.D.) to cover the vast field of financial sector. This act has helped to emerge number of commercial bank with a view to maintain economic interest in comfort of the public in general facilitated to provide loan for agriculture, industry, trade and make a available banking services to the country and people.

Among vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. (1982 A.D.) And decided to allow foreign banks to operate their activities in Nepal in joint venture model. Joint Venture Banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. Basically at that time, it was envisioned that joint venture banks (JVBs) would support the country in various ways.

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

The Nabil Bank Ltd. Is the first joint venture bank established in 2041 B.S. (1984 A.D.) and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (currently Nepal Investment Bank), the second joint venture bank established in 2042 B.S. (1985 A.D.) with an objective to encourage efficient banking services and facilities. Likewise Standard Chartered Bank is operated in 2044 B.S. (1987 A.D.).

With the satisfactory result of joint venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent percent domestic investment. At present, Nepal Industrial and Commercial Bank (NIC), Lumbini Bank Ltd., Machhapuchhre Bank Ltd., Bank of Kathmandu, Nepal Credit and Commerce Bank Ltd., Laxmi Bank Ltd., Siddhartha Bank Ltd., Kumari Bank Ltd. came into operation with cent percent domestic investment by Nepalese promoters which are the plus point of development of banking sector of Nepal. Now, there is a

strong competition between commercial bank for the existence so that the growing needs of the customers can easily achieve.

### **2.2.2 Function of Commercial Banks**

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

Although profit maximization is a major objective of commercial bank, to achieve this objective commercial bank performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Bank Act 2031 B.S. (1974 A.D.).

#### **Primary Functions**

##### **Accepting Deposits:**

Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as:

- Fixed Deposit Account
- Current Deposit Account
- Saving Account

**Advancing of Loans:**

Commercial banks provide the loans required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as:

- Overdraft
- Cash Credit
- Direct loan with collateral
- Discounting of bills of exchange
- Loans of money at call and short notice

**General Utility Functions:**

Commercial banks also perform general utility functions such as:

- Issuing of letter of credit to its customers.
- Issuing of bank drafts and travelers cheque etc., for transfer of funds from one place to another.
- Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.
- Serving as referred to the financial standing and credit worthiness of its customers.
- Underwriting loans to be raised by public bodies and corporations. Providing safety vaults of lockers for the safe custody of valuables and securities of the customers.
- Acting as a trustee and executing the will of the deceased.
- Remittance of money

**Agency Function:**

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as:

- Collection of customer's money from other banks.
- Receipt and payment of dividend, interest.
- Security brokerage service.
- Financial advisory service.
- To underwrite the government and private securities.

## **2.3 Some Important Terms:**

### **2.3.1 Definition of loan and advances**

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

Likewise, the term loan is defined as a lending. Delivery by one party to and receipt by another party of sum of money upon agreement expressed to implied, to repay it with or without interest. Any thing furnished for temporary use to a person at his request on condition that it shall be returned, or its equivalent in kind, with or without compensation for its use. Loan includes:

- The creation of debt by lenders payment of or agreement to pay money to the debtor or to a third party for the account of the debtor.
- The creation of debt by a credit to an account with the lender upon which the debtor is entitled to draw immediately.
- The creation of debt pursuant to a lender credit card or similar arrangement.
- The forbearance of debt arising from a loan.(Koirala, Subash, (2006) : 35 - 36)

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

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

### **2.3.2 Concepts of Non Performing Assets:**

**Non Performing Assets [NPA]** means the amount of loan that the individual commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing Assets for the bank. Reduction of NPA has always been a significant problem for every commercial bank. NPA may be defined broadly as the Bad Debt; however, it in terms of banking sector consists of those loans and advances which are not performing well and likely to be turn as bad debt. NPA as per the current directives of Nepal Rastra Bank, NRB, has been categorized as classified loans and advances. NPA has severe impacts on the financial institutions. On the one hand, the Investment becomes worthless as expected return cannot be realized and on the other, due to the provision required for the risk mitigation the profitability is directly affected. The existence of the bank can be questioned in this situation. Thus, interest along with principal has to be recovered timely and without any obstacles.

To start with performance in terms of profitability in a benchmark for any business enterprises, including the banking industry, however increasing non performing assets have a direct impact on banks profitability as legally banks are not allowed to book income on such assets (Manamohan, 2002 : 06).

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

Performing assets are those loans that repay principal and interest to the bank from the cash flow it generates. Loans are risky assets, though a bank interest most of its resources in granting loans and advances. If an individual bank has around 10% non-performing assets or loans, it sounds the death knell of that bank other remaining the



same. The objectives of bound loan policy are to maintain the financial health of the banks, which result in safety of depositor's money increases in the returns to the shareholders. Since the loan is a risky asset there is inherent risk in every loans, however, the bank should not take risk above the certain degree irrespective of the returns prospects.

## 2.4 Classification of NPA:

As per the NRB directives NPA are said as classified loans. And this includes sub-standard, doubtful and loss categories as defined by new NRB directives. The circular further says a NPA is a credit facility in respect of which interest has remained unpaid for two quarters.

According to the circulars, the loans are classified based on weakness and dependence on collateral securities into four categories and prescribed the provisioning rate as follows:

**Table 2.1**  
**Classification of Loan and Advances**

Classifications of loan and advances	Criteria for Provisioning	Provision Rate
Pass	Not past due and past due for a period up to 3 Months. [Performing loans]	1%
Substandard	Past due for a period of 3 months to 6 months	25%
Doubtful	Past due for a period of 6 month to 1 years	50%
Bad Loan	Past due for a period of more than 1 years or Advances which have least possibility of recovery.	100%

Source: Nepal Rastra Bank, Directives for commercial banks.

## 2.5 Effects of NPA on Profitability of Banks:

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

### **Profitability Impact:**

- The resources locked up in NPA are borrowed at a cost and have to earn a minimum returns to service this cost.
- NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
- Since they do not earn interest they bring down the yield on advances and the net interest margin or spread.
- NPA have a direct impact on assets and returns on equity, the two main parameters for measuring profitability of the commercial banks.
- Return on assets will be affected because while the total assets include the NPA they do not contribute to profits which are the numerators in the ratio.
- Return on equity is also affected as provisioning eats more and more into profits Earned.
- The cost of maintaining these include administration costs, legal costs and cost of procuring the resources locked in them.
- NPA bring down the profits, affects the shareholders value and thus, adversely affect the investor confidence.

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

- Lower ROE and ROA
- Lower image and rating of banks
- Disclosure reduces investor's confidences.
- Increases costs/difficulties in raising capital.
- NPA do not generate income.
- They require provisioning.
- Borrowing cost of resources locked in
- Opportunity loss due to non-recycling of funds.
- 100% risk weight on net NPA for CRR.
- Capital gets blocked in NPA.
- Utilizes capital but does not generate income to sustain the capital that is locked.

- Recapitalization by government comes with string.
- Administration and recovery costs of NPA.
- Effects in employee morale and decision.

## **2.6 Causes and Measures of NPA:**

*[Country-wise Analysis]*

(Source: Reddy, Prashant K' A cooperative study of NPA in India in the global context, a report page 4-8)

### **China**

#### **Causes**

- I. Moral Hazard: The SOEs believe that there the government will bail them out in case of trouble and so they contribute to take high risks and have not really strived to achieve profitability and to improve operational efficiency.
- II. Bankruptcy laws favors borrowers and law courts are not reliable enforcement vehicles.
- III. Political and social implications of restructuring bi SOEs force the government to keep them afloat.
- IV. Banks are reluctant to lend to the private enterprises due to
  - a. Non- standard accounting practices.
  - b. While an NPA of an SOE is financially undesirable, an NPA of a private enterprise is both financially and politically undesirable.

#### **Measures**

- I. Reducing risk by strengthening banks, raising disclosure standards and spearheading reforms of the SOEs by reducing their level of debt.
- II. Laws were passed allowing the creation of asset management companies, foreign equity participation in securitization and asset-backed securitization.
- III. The government, which bore the financial loss of debt discounting. Debt/equity swaps were allowed in case a growth opportunity existed.
- IV. Incentives like tax breaks, exemption from administration fees and clear-cut asset evaluation norms were implemented.

## **Thailand**

### **Causes**

- I. Liberalized capital and current account and external borrowings with inaccurate assessment of exchange rate risk and risk of capital flight in a crisis.
- II. A legal system that made credit recovery time consuming and difficult.
- III. Real estate speculators took massive loans projecting high growth in demand and prices of properties. When this did not materialize all the loans went bad.
- IV. Steep interest rate rise turned a lot of loans into NPAs
- V. Inability to correctly assess credit risk.

### **Measures:**

- I. Amendments were made to the Bankruptcy Act.
- II. Corporate Debt Restructuring Plan (1998) focused on capital support facilities for bank recapitalization and setting up of AMCs.
- III. New rules governing NPA exit procedures based on international standards were introduced.
- IV. Privatization of government entities was mooted, but faced strong political oppositions for fear of a social backlash.
- V. Adoption of international standards for loan classification and provisioning.
- VI. Caps on Foreign equity ownership in financial institutions were removed.

## **Korea**

### **Causes**

- I. Directed Credit: Protracted periods of interest rate control and selective credit allocations gave rise to an inefficient distribution of funds. The Chaebols focus on increasing market share and pursuing diversification with little attention to profitability caused tremendous stress on the economy.
- II. The compressed growth policy via aggressive, leveraged expansion worked well as long as the economy was growing and the ROI exceeded the cost of capital. This strategy backfired when slowing demand and rising input costs placed severe stress on their profitability.
- III. Lack of Monitoring-Banks relied on collaterals and guaranteed in the allocation of credit, and little attention was paid to earnings performance and cash flows.

- IV. Contagion effect from South East Asia coincided with a period of structural adjustments as well as a cyclical downtime in Korea.

## **Measures**

- I. Speed of action:- the speedy containment of systemic risk and the domestic credit crunch problem with the injection of large public funds for bank recapitalization were critical steps towards normalizing the financial system.
- II. Corporate Restructuring Vehicles (CRVs) and debt/equity swaps were used to facilitate the resolution of bad loans.
- III. Creation of the Korea Asset Management Corporation (KAMCO) and a NPA fund to fund to finance the purchase of NPAs.
- IV. Securitization KAMCOs recoveries came through asset-backed securitization and outright sales. International investors like the Lone Star Fund participated in the process.
- V. Strengthening of Provision norms and loan classification standards based on forward-looking criteria (like future cash flow) were implemented.
- VI. The objective of the central bank was solely defined as maintaining price stability. The Financial Supervisory Commission (FSC) was created (1998) to ensure an effective supervisory system in line with universal banking practices.

## **Japan**

### **Causes:**

- I. Investments were made Real Estate at high prices during the boom. The recession caused prices to crash and turned a lot of these loans bad.
- II. Legal mechanisms to dispose bad loans were time consuming and expensive and NPAs remained on the balance sheet.
- III. Expansionary fiscal policy measures administered to stimulate the economy supported industrial sectors like construction and real estate, which may have further exacerbated the problem.
- IV. Crony capitalism to the Keiretsus.
- V. Weak corporate governance coupled with a non-bankruptcy doctrine was a moral hazard in Japanese economy.
- VI. Inadequate accounting systems and information flow makes assessment of

loan performance outside a bank in Japan difficult.

### **Measures:**

- I. Amendment of foreign exchange control law (1997) and the threat of suspension of banking business in case of failure to satisfy the capital adequacy ratio prescribed. Legislation to improve information flow has been passed.
- II. Accounting standards: - Major business groups established a private standard setting vehicle for Japanese accounting standards (2001) in line with international standards.
- III. Government Supports: - The government's committee public funds to deal with banking sector weakness.

### **2.7 Reviews of Articles:**

On the way of conducting this research work, some books, journals and publications have been studied to formulate ideas about the subject matter. Although, the specific books regarding the NPA could not be found, however, some banking related books have been consulted such as Tannans Banking Law and Practices in India, (1997). Assessing the gravity of the problem Tannan found that the banks and financial institutions at present face considerable difficulties in recovery of dues from the clients and a significant portion of the funds of the banks and financial institutions is thus, blocked in unproductive assets.

In India for addressing the question of speeding up the process of recovery was examined in great detail by committee set-up by the government under the chairmanship of the Late Shri Tiwari.

Suneja, (1992) pointed out the causes of NPA that the risk connected with lending to business depends on an enormous number of factors. For any particular type of business the risk failure is affected. The state of economy trend in demand for the project or service provided competition from any other suppliers, financial resources are too limited and management skills and lacking. Reiterating the difficulties that Suneja says probably the most difficult decision facing a banker is to determine when

it becomes necessary to recall a loan and to begin the process of liquidating the security. Further she suggests that if a customer fails to make repayment on the due date, the bank has to consider what steps need be taken to recover the debt.

Basyal (2057), discussing the financial performance of government owned banks in the article, Placing RBB and NBL under Management Contracts Rational and Opposition agreed that the disappointing performance of these two banks has become serious concern to all the stakeholders. Further he mentions that they are having with huge level of NPA, which could be termed as the darkest sides of their operational inefficiency and undisciplined financial behaviour.

Ghimire (2056) in her article, "efficiency indicators of commercial bank" she has made a comparative analysis and found that efficiency indicator of the banks may be viewed on the basis of amount allocated for loan loss provisioning against loan and investment.

Pradhan (2058) in his article, NPA Some suggestion to tackle them expressed that unless the growth of NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate bodies misused the credits and delayed payments and contributed indirectly for enhancing NPA ratio. He further argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group of parties and sector, lack of coordination among various financiers, lack of initiatives to take timely action against willful defaulters, indecision on existing out of bad loans for fear of investigating agencies like special policy, CIAA, Public Accounts Committee of the parliament have also contributed in whatsoever measures to the worsening situation of NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly legal system. Suggesting the remedy of NPA, he adds that administrative system should be strengthened. Legal reforms should be made and Assets Reconstruction Company should be formed. Henderson (2003) CEO of RBB during his interview to New Business Age agrees

that the challenging target of RBB turn around in restructuring and collection of NPA.

## **2.8 Review of Related Thesis:**

A Study done by Mr. Kumar shrestha (2010) entitled with “*A study of Non-performing Loan and loan loss provision of commercial Banks, A case study of NIBL, HBL and EBL*” has following facts and findings.

Objectives:

- ) To find out the proportion of nonperforming loan in the selected commercial banks.
- ) To study and analyze the guidelines and provisions pertaining to loan classification and loan loss provisioning.
- ) To find out the relationship between loan and loan loss provision in the selected commercial bank.
- ) To study and the impact of loan loss provision on the profitability of the commercial banks.

Major findings:

- ) The EBL has the highest portion of the loan in total asset followed by NIBL and HBL. He concludes that the EBL shows the risk adverse attitude.
- ) Likewise the nonperforming loan to the total loan is found in HBL, NIBL and EBL.
- ) The loan loss provision is also highest in HBL where as the EBL has the least Loan Loss Provision.
- ) The HBL has the highest portion of loss loan followed by NIBL and EBL.

Major Recommendations:

- ) Project based lending is very essential and regular observation of the invested projects has to be maintained.



- ) Return trend of the invested projects are very much important. There are study factors to observe the performance of the bank so that returnable projects are to invested
- ) Make the very effective and full autonomy body division to the Non performing Assets managements.
- ) Government has to initiate to help the bank to collect the bad loans by initiating the legal force. Bank has to take effective helps from the government in collection of bad loans.
- ) Vision of the bank management has to be cleared for the project base lending. Coercion to lend should not be exercised by the promoters and policy makers.

A Study done by Mr. Sanjeev Baral (2009) entitled with “*A study of Non- performing Loans of Nepalese commercial Banks*” has following facts and findings.

Objectives:

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

Major findings:

- ) The return on assets (ROA) and Return on equity (ROE) of the bank somehow depend upon Non Performing Loan. The bank should reduce its NPLs to increase ROA and ROE of the bank.
- ) Management inefficiency is one of major cause behind high level of NPA of commercial banks.
- ) No banks have been following NRB directives regarding loan loss provision.

Major Recommendations:

- ) Those banks having high level of NPL should take immediate action. The bank should dispose of the collateral taken from the borrower and recover principal and interest amounts.

- ) Corporate structure of the bank play key role in the effective loan management. There should be separate department for credit appraisal, documentation, disbursement, relationship maintenance and inspections.
- ) Management efficiency should be enhanced. Hence necessary training should be given to managers and staffs.
- ) For the loan loss provision as per the NRB directives and to reduce the NPL, the bank management should be effective and the NRB's monitoring and regulation is necessary.

A Study done by Ms Saroj paudyal (2006) entitled with “A *study of Non- performing Assets of commercial Banks of Nepal*” has following facts and findings.

Objectives:

- ) To find out the proportion of nonperforming loan in the selected commercial banks.
- ) To evaluate the impact of NPA on the profitability of the commercial banks under the study.
- ) To analyze the impact of NPA on ROA and ROE of the commercial banks under the study.

Major findings:

- ) In recent years Nabil Banks has shown significant decrease in Non Performing Assets, which is the result of banks effective credit management and its efforts in recovering bad debts through establishment of recovery cell.
- ) High degree of negative correlation exists between NPA and ROE of Nabil Bank. The bank should reduce there level of NPA to increase ROE and ROA and Profitability.
- ) Loan loss provision for Doubtful loan seems to be higher in case of both bank Nabil and SCBNL.

Major Recommendations:

- ) Create credit appraisal department to receive applications and gather necessary information and give approval for lending.

- ) Credit administrative department to disburse loans transition, the repayment of principal and interest and provide information regular to executive level.
- ) Legal department to properly execute necessary legal documents for the safeguard of bank. Update the documents and its validity.
- ) Credit control Department (recovery cell) to regularly follow up the borrowers about their installment dues and remind them their due dates in case of defaults.

He concludes the ineffective credit policy, political pressure to lend to low credit profile borrowers, overvaluation of collateral are major causes of mounting NPA of the banks. Other factors leading to accumulation of nonperforming assets is weak loan sanctioning process, ineffective credit monitoring and supervision system, economic slowdown, borrowers' misconducts etc. He further suggests continual review and classification of loan enables banks to monitor quality of their loan portfolios and to take remedial action to counter deterioration in credit quality. In addition to this establishing recovery cell, Hiring Assets Management Company are also measures to resolve the problem of nonperforming loan.

A Study done by MR Govinda Ghimire (2005) entitled with "*Non- performing Assets of commercial Banks: cause d and effects*" has following facts and findings.

Objectives:

- ) To analyze the cause and effects of nonperforming assets in commercial bank.
- ) To evaluate the impacts of NPA on the profitability of commercial bank.
- ) To analyze the level of NPA selected commercial banks.

**Major findings:**

- ) Non performing Assets on overall profitability of the banks tend to have inverse relationship. Profitability of the bank tends to have inverse relationship. Profitability is affected due to provision requirement.
- ) There is some relationship between credit extend and increment on nonperforming assets.
- ) It may be significant in case of aggressive credit expansion. Findings showed that Non Banking Assets is credited due to having Nonperforming Assets.

**Major Recommendations:**

- ) Float loan on business position, viability and business need. Proper attention of personal integrity of borrower should be taken.
- ) Strong follow up system in commercial banks for recovery of due loans. It is required to have general proactive of follow up before the loans turn in too bad.
- ) Avoid credit concentration to a single sector and projects.
- ) Formation of Assets management Company.
- ) Avoidance of Undue pressure.

He concluded that profitability of commercial banks has been affected due to increasing level of Non Performing Assets. Bad intension, weak monitoring, and mismanagement were found the major responsible factors for NPA growth. He further suggested the bank to analyze the loan proposal properly before extending any loan and conduct all feasibility study do the project. The banks should also act immediately to collect the bad loans.

A study done by MR Dinesh Kumar Khadka (2004) entitled with “Non- performing Assets of Nepalese commercial Banks” has following facts and findings.

**Objectives**

- ) To analyze the non performing assets of the commercial Banks.
- ) To examine the level of NPAs in total assets, total deposits and lending of commercial banks.
- ) To examine whether the Nepalese commercial banks are following the NRB directives regarding nonperforming assets or not.

**Major findings:**

- ) The level of NPA of Nepal Bangladesh Banks limited seemed greater than all of the other banks under the study .similarly, Nepal SBI Banks and Bank of Kathmandu stands at second and third position respectively.

) The position of Nabil Bank Limited seemed to be quite satisfactory because the bank has been reducing its NPA every year and NPA of Nepal Investment Bank has been reducing it at minimum than that of all the other banks.

) It is found that none of the banks have been following the directives of NRB regarding the loan loss provision.

Recommendations:

) Corporate structure of banks plays key role in the effective loan management. Being loan a risky assets, efforts should be made to have proper control in every steps of loan management.

) The banks should establish separate departments for credit appraisal, documentation, disbursement, inspection and recovery of loan which have possibility of finding mistakes of one department by other, so that the effectiveness can achieved.

) Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. There proper financial analysis should be performed before giving loan to the borrower.

) Government has to initiate to help the bank to collect the bad loans by initiating the legal force. Banks has to take effective helps from the government in collection of bad loans.

) Every commercial bank should maintain loan loss provision as per NRBs Directives regarding nonperforming assets.

**Mandal (2010)** in his thesis paper, “*Comparative financial performance appraisal of joint venture banks*” has studied mainly three banks i.e. Nepal Arab Bank Ltd (NABIL), Nepal Indosuez Bank Ltd.(NIBL), and Nepal Grindlays Ltd. (SCBNL). His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL could not do so as good as NABIL and SCBNL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneurs development programmers, to play merchant banking role to mobilize.

### **Main Objective**

- ) Hence, the bank has been suggested to manage its investment portfolio efficiency
- ) Operational efficiency of the bank is indicate by the operational loss has been found unsatisfactory.

### **Main Major Findings**

- ) To analyze the lending practices and resources utilizations of NB bank.
- ) To examine the correlation and the signification of their relationship between different ratios related to capital structure

**Tuladhar (2011)** on his thesis entitled, “*A study on Investment policy of Nepal Grindlays Bank Ltd. in comparison to other Joint Venture Banks (NABIL and HBL).*” The main objective of the study was to evaluate the liquidity. Assets management, efficiency, profitability and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL. The study found that NGBL has been successful to maintain in the best way both liquidity position and their consistency among three banks.. Profitability position of NGBL is better than NABIL and HBL.

### **Main Objective**

- ) Constraints of socio- economic political system on one hand and that of issues and challenges of JVBs commanding significant banking business of other spectrum
- ) The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions,
- ) They should introduce novel technology and equipment’s to collect deposit.

### **Main Major Findings**

- ) On the basis of this feedback information, regular changes or implementation of new rules and regulations can be easily carried out.

- ) NRB should also encourage frequent training to new entrants to provide orientation on the conceptual dimensions and practical aspects of operation of the banks

**Regmi (2011)** on his thesis entitled, “*A comparative study of financial performance of Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd.*” The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. He conducted a study between HBL and NBBL. Some of the findings of the researcher are that HBL has better profitability position than NBBL, so it is recommended to NBBL to utilize its resources more effectively.

### **Main Objective**

- ) These are indeed significant milestone in the financial development process to the economy
- ) But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

### **Main Major Findings**

- ) He has further suggests that both the banks should extends their resources to rural areas to promote development
- ) Hence, the bank has been suggested to manage its investment portfolio efficiency

**Pokhrel (2011)** on his thesis entitled, “**A comparative study on financial performance of Nepal Bangladesh bank Ltd and Everest Bank Ltd.**” was concluded to analyzes, examine an interpret the financial performance of NBBL and EBL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuation in the ratio over the period. EBL found to be weaker in utilizing the bank assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio.

### **Main Objective**

- ) His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.
- ) Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

### **Main Major Findings**

- ) Therefore, there should be the awareness program, regularly conducted in terms of seminars
- ) Workshop from well experienced personnel such as top executives from banks and concerned regulating authorities..
- ) They should introduce novel technology and equipment's to collect deposit.

**Adhikari (2011)** in his study entitled, *“Evaluating the financial performance of Nepal Bank Limited”* has calculated and analyzed the different ratios by observing figures of balance sheets of Nepal Bank Limited for the period FY 2038/39 to 2049/50. He remarked that the bank is not found to have been able to utilize its fund effectively and efficiently for the development of the economy.

### **Main Objective**

- ) The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions.
- ) The deposit funds in productive sectors and to grants more priority to the local manpower.

### **Main Major finding**

- ) Economic development of a country cannot be imagined without the development of commerce and industry
- ) He has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd.



## **2.9 Research Gap:**

From the study of previous thesis it has found that increasing Non-performing assets is one of the major challenges faced by Nepalese commercial banks in the present context. Some researchers were done in which matter relating to loan loss provision for Non-performing assets or not. Some researcher was done what is the internal and external factors affects the Non performing assets to increase from the loan advances. The previous theses covered only upto the fiscal year 2066/67 but this thesis also based on secondary data provided by concerned Nepalese commercial banks up to the fiscal year 2067/68.

Hence this thesis had attempted to fill this research gap by taking the reference of Nabil Bank Limited, Nepal SBI Bank Limited, Himalayan Bank Limited, Everest Bank Limited and Lumbini Bank Limited. This research will be able to deliver some of the present issue, latest information and data relating to Non-performing assets.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction:**

Research is a systematic inquiry for seeking facts and methodology is the method of doing research in well manner. So research methodology means the analysis of specific topic by using proper method. Research methodology is a way to systematically solve the research problem. (Kothari, 1990: 10).

#### **3.2 Research Design:**

The main objective of this study is to analyze the relationship between NPA and Profitability of the commercial banks and provide suggestion on the basis of findings. To fulfill this purpose, the study follows the analytical and descriptive research design. It also analyses the loan loss provision maintained by commercial banks.

In order to achieve the predetermined objectives of the study, secondary data have been used. This study tries to make comparison and establish relationship between two or more variables. So the research design of this study is based on descriptive and analytical study.

#### **3.3 Population and Sample:**

There are many financial institutions in Nepal however we study about the non-performing assets of commercial banks operating in Nepalese banking industry. The population of the study is the total numbers of commercial banks operating banking business in Nepal that is 31 banks and 5 banks are the sample of the study. The name of The 31 commercial banks is written in 31 pieces of paper and kept in the box. From that box 5 pieces are selected and these five commercial banks are the sample of study. The population of the present study is listed as under, the commercial banks operating in the banking industry of Nepal.

**Table No. 1.1**  
**Lists of Commercial Banks in Nepal**

S. No	Commercial Bank's Name	Head Office
1	Nepal Bank Limited	Dharmapath, Kathmandu
2	Rastriya Banijya Bank	Singhdarbar Plaza, Kathmandu
3	NABIL Bank Limited	Kantipath, Kathmandu
4	Nepal Investment Bank Limited	Durbar Marg, Kathmandu
5	Standard Chartered Bank Nepal Limited	Naya Baneshwor, Kathmandu
6	Himalayan Bank Limited	Thamel, Kathmandu
7	Nepal SBI Bank Limited	Hattisar, Kathmandu
8	Nepal Bangladesh Bank limited	Naya Baneshwor, Kathmandu
9	Everest Bank Limited	Naya Baneshwor ,Kathmandu
10	Bank of Kathmandu Limited	Kamaladi, Kathmandu
11	Nepal Credit and Commerce Bank Limited	Siddharthanagar, Rupandehi
12	Lumbini Bank Limited	Narayangadh, Chitwan
13	Nepal Industrial and Commercial Bank Ltd.	Biratnagar, Morang
14	Machhapuchhre Bank Limited	Prithvichowk, Pokhara
15	Kumari Bank Limited	Putali Sadak, Kathmandu
16	Laxmi Bank Limited	Adarshanagar, Birgunj
17	Siddhartha Bank Limited	Kamaladi, Kathmandu
18	Agricultural Development Bank Limited	Ramshahapath, Kathmandu
19	Global Bank Limited	Birgunj, Parsa
20	Citizens Bank International Limited	Kamaladi, Kathmandu
21	Prime Commercial Bank Limited	Newroad, Kathmandu
22	Sunrise Bank Limited	Gairidhara Crossing, Kathmandu
23	Bank of Asia Nepal Limited	Tripureswor, Kathmandu
24	Development Credit Bank Limited	Kamaladi, Kathmandu
25	NMB Bank Limited	Babarmahal, Kathmandu
26	Kist Bank Limited	Anam Nagar, Kathmandu
27	Janta Bank Limited	Naya Baneshwor, Kathmandu
28	Megha Bank Limited	Jamal ,Kathmandu
29	Commerz & Trust Bank Nepal Limited	Kamaladi, Kathmandu
30	Civil Bank Limited	Kamaladi, Kathmandu
31	Century Commercial Bank Limited	Putalisadak, Kathmandu

Source: Annual report of NRB 2067/68

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

1. Lumbini Bank Limited
2. Everest Bank Limited
3. Nepal SBI Bank Limited
4. Nepal Himalayan Bank Limited
5. Nabil Bank Limited

### **Sources of Data**

The main sources of data are the concerned banks and their published documents, NRB and its published documents, experts' views, newspaper, and many others if possible. The major sources of data may be the secondary sources of data are the information received from the books, journals, newspapers, published reports and dissertation etc. The major sources of secondary data are:

- Economic survey, Ministry of Finance
- Nepal Rastra Bank Directives
- Nepal Rastra Bank Samachar
- Annual General Reports of the concerned commercial banks.
- National and international newspaper, journals, magazines etc.
- And many other books as far as possible.
- Different websites

### **3.5 Tools for Analysis:**

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

## Statistical tools

In this research, following statistical tools are used.

### Average:

Average is defined as sum of observations divided by their number in the selected sample.

$$\text{Average (mean)} = \frac{\text{Sum of Observation}}{\text{Number of Value}}$$

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

### Coefficient of correlation (r):

The correlation coefficient indicates the linear relationship between two or more variables. The measures of correlation called the correlation coefficient can be summarized in one figure, the degree and direction of movement. It can be calculated by using the method of Karl Persons correlation coefficient, because it is one of the widely used mathematical methods of calculation, the correlation coefficient between two variables. In symbolically, it is defined as:

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

Interpretations:

- If  $r = 1$ , there is positively perfect correlation between the two variables.
- If  $r = -1$ , there is negatively perfect correlation between the two variables.
- If  $r = 0$ , the variables are uncorrelated.

The nearer the value of  $r$  to  $+1$ , the closer will be the relationship between two variables and the nearer the value of  $r$ , the lesser will be the relation.

Probable error (P.E):

The probable error of the correlation coefficient helps to interpret its value. P.E., which is the measure of testing the reliability of correlation coefficient, denotes it. If  $r$  be the calculated value of  $r$  from a sample of  $n$  pair of observation the P.E. is denoted by:

$$P.E. = \frac{0.6745 (1-r^2)}{\sqrt{n}}$$

It can be interpreted to know whether its calculated value of r is significant or not in the following ways.

- If  $r < PE$ , it is Insignificant perhaps there is no evidence of correlation
- If  $r > 6PE$ , it is significant.

It is other causes, nothing can be concluded. The probable error of correlation may be used to determine the limits within which the population correlation coefficient lies. The limits for population correlation are  $r \pm PE$ .

## **CHAPTER IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction:**

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

Simple percentage is used to analyze the data as arithmetical tools. Karl's Pearson's correlation coefficient is used to analyze the data as statistical tool. Nowadays Non-Performing Assets (NPA) have been occupying major space in the total assets and total lending of the bank. It stands around 15% in the Nepalese banking system while it is even worse in case of two large commercial banks, Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL). The NPA of RBB is found 45.3% while that of NBL is 25.1% of the total lending. In this way it shows that commercial banks have been suffering by high level of NPA, and the efforts of the banks have been diverted to reduce it.

Keeping this fact into consideration, a provision has set up by Nepal Rastra Bank in Fiscal year 2057/58 to control the level of NPA of Nepalese commercial banks. According to that provision, every bank has to classify its total loan and advances (including purchased and discounted bills) as pass loan, substandard loan, doubtful loan and bad loan, on the basis of overdue against schedule. Commercial banks are also directed to maintain loan loss provision as stated in section 11 of directives no. 2 of NRB's directives for commercial banks 2059. Main purpose was to find out the level of NPA in Nepalese commercial banks and to take necessary steps to control the level of NPA in future. Here in the study, data of five fiscal years starting from F/Y 2063/64 to 2067/68 have been presented to study and analyze the level of NPA in total assets, total lending and total deposits of the commercial banks. Data are also

presented to examine or analyze the efforts to NPA on the profitability of the banks under study.

## 4.2 Data presentation and Analysis of Sample Banks:

### 4.2.1 Data Presentation and Analysis of LUMBINI BANK

**LIMITED Table 4.2.1 (1)**

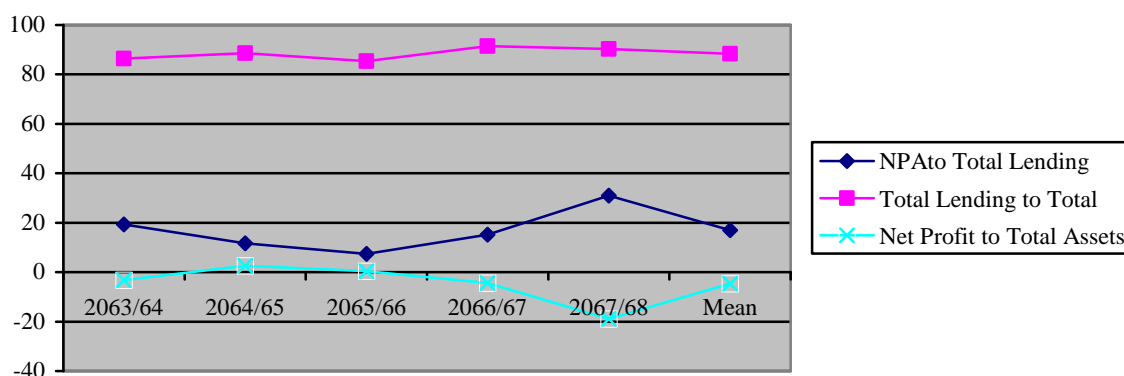
**Relation between NPA, Net profit, Total lending and Total deposit**

Ratio / year	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
NPA to Total Lending	19.32	11.7	7.36	15.23	30.99	16.92
Total Lending to Total Deposit	86.37	88.6	85.31	91.41	90.29	88.40
Net Profit to Total Assets	-3.2	2.59	0.43	-4.38	-18.92	- 4.7

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

**Fig 4.2.1 (1)**

**Relation between NPA, Net profit, Total lending and total deposits**



From the Table and Figure 4.2.1 (1), it can be said that the ratio between the Non performing assets and total lending was found to increasing trend, although it had been decreased to 11.70 % for the year 2064/65 and 7.36 % for the fiscal year 2065/66. It was found to be 19.32 % for the fiscal year 2063/64 which was found to be 30.99 % at the end of fiscal year 2067/68. The average ratio between NPA and total lending of five years period was 16.92 %.



Similarly the total lending to total deposit ratio was following increasing trend. It was found to be 86.37 % for the fiscal year 2063/64 which has increased to 90.29 % for the end of year 2067/68. Although it has been decreased for the fiscal year 2065/66. The average ratio between total lending to total deposit of five years was 88.40 %.

And the net profit to total assets ratio was also found to be decreasing, it was found to be -3.2 % in the fiscal year 2063/64 and it becomes to -18.92 % for the fiscal year 2067/68. Although it has increasing to 2.59 % for the fiscal year 2064/65 and there after the net profit to total assets ratio was decreasing to the whole study period. The average ratio between net profits to total assets of five years period was - 4.7 %. It shows that the profit was decreasing in comparison to total assets of the bank shows that the bank is not able to increase its profit over the five years, indicates the poor performance of the organization.

**Table 4.2.1 (2)**

**Relation between Net Profit and Total NPA**

<b>Fiscal year</b>	<b>Net Profit</b>	<b>Total NPA</b>
2063/64	-7,664,786	441,641,381
2064/65	89,139,129	306,776,772
2065/66	18,639,673	237,298,336
2066/67	-195,580,188	561,128,272
2067/68	-806,062,623	1,339,242,790

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

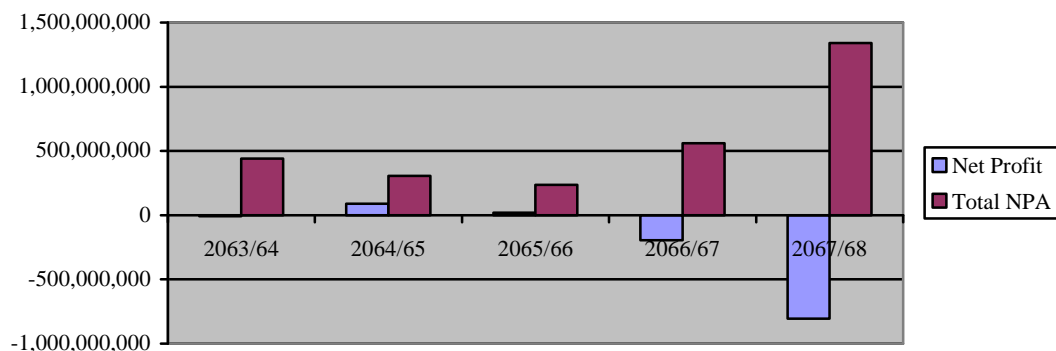
In Table 4.2.1(2), shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2063/64, the bank had NPA amount to Rs 441641381 and bank could not earned net profit and its net loss amount to be Rs (7664786). In fiscal year 2064/65 the NPA amount to Rs. 306776772 i.e. NPA decreased by 30.5 % in comparison of previous year. As the result the bank could able to increase its profit by 96803915 in comparison of previous year and net profit reached amounted to Rs 89139129 at the end of fiscal year 2064/65. similarly, in fiscal year 2065/66 the NPA amount to Rs 239298336 i.e. NPA decreased in comparison of

previous year. As the result the bank could not able to increased its net profit. The net profit decreased by Rs 70499456 (i.e.79 %) in comparison to previous year and reached amounted Rs. 18639673 at the end of the fiscal year. Unfortunately, the banks NPA increased by 136 % and reached to Rs. 561128272. As the result the banks the net profit of the banks decreased and reached to net loss Rs (195580188) at the end of fiscal year 2066/67. Similarly, at the in fiscal year 2067/68, the NPA again increased by 138% reached to amount Rs (1339242790). The net loss increased to amount Rs 806062623 at the end of fiscal year 2067/68. The increasing level of NPA may harm to the organization, which indicates the major cause of the decreasing profit of the bank. So the bank has to control its NPAs as efficient as possible.

To make clearer the data of Table 4.2.1(2) also presented on the figure.

**Fig 4.2.1 (2)**

**Relation between Net Profit and Total NPA**



**Loan loss provisioning of Commercial Bank Ltd:**

Rises of Non performing assets increases their provisions to shore up their reserves for loan losses. Nepal Rastra Bank provisioned to be maintained certain percent of the loan of different class as per NRBs directives for the commercial banks.

**Loan loss provisioning of Lumbini Bank Ltd:**

The loan loss provision maintains by Lumbini Bank Ltd. is presented in the table 4.2.1. (3).

**Table 4.2.1 (3)**

**Loan loss provisioning of Lumbini Bank Ltd:**

Types of loan	Requirement as per directives	Loan loss by				
		2063/64	2064/65	2065/66	2066/67	2067/68
Pass loan	1% of pass loan	1.47	1.68	1.36	2.03	1.01
Sub-standard loan	25% of sub-standard loan	30.76	28.33	23.56	23.65	24.20
Doubtful loan	50% of doubtful loan	50.29	52.67	51.19	47.72	48.94
Bad loan	100% of bad loan	96.89	100.00	99.21	99.00	99.76

Source: Annex 1 (a)

Every commercial bank has to maintain loan loss provision as per the NRBs directives for the commercial bank. Although the loan loss provision creates capital inadequacy to expand business. Up to fiscal year 2063/64, the bank made 1.47 %, 30.76%, and 50.29 % loan loss provision for pass loan, sub-standard loan and doubtful loan respectively which was enough more than requirement (i.e. more than 1 %, 25 %, and 50 %). The bank could not provision for loss loan which was 96.89 % as per directives. Loan loss provision for bad loan must 100 %.In fiscal year 2064/65, the bank the provision requirement as per NRB s directives. The bank made 1.68 % loan loss provision for pass loan, which was higher than as per directives. Similarly, the bank made 28.33 % and 52.67 % loan loss provision for sub-standard and doubtful loan respectively which was more than as per NRBs directives. Loan loss provision for bad loan exactly met the NRBs directives, which was 100 percent of loss loan.

In fiscal year 2065/66, it was found that the bank enables to maintain loan loss provision for sub-standard loan and bad loan in accordance to NRBs directives. The bank provisioned 23.56 % for sub-standard loan instead of 25 % and only 99.21 % for bad loan instead of 100 percent. Similarly bank provisioned, slightly higher for pass loan (i.e. 1.36 % instead of 1 %) and doubtful loan (i.e.51.19 % instead of 50 %). In fiscal year 206 1/62, the bank made 2.03 % for pass loan which was enough more then the requirement i.e. more than 1 %. It was found that the bank enables to

maintain loan loss provision for substandard, doubtful and bad loan in accordance of NRBs directives. The bank provisioned 23.65 %, 47.75 % and 99 % respectively for substandard, doubtful and bad loan. In fiscal year 2067/68, the bank made 1.01 % for pass loan which was slightly more than the requirement i.e. more than 1 %. It was found that the bank enables to maintain loan loss provision for substandard, doubtful and bad loan in accordance of NRBs directives. The bank provisioned 24.20 %, 48.94 % and 99.76 % respectively for substandard, doubtful and bad loan. It was found that the bank could not maintained loan loss provision, perfectly in accordance to the NRBs directives. The bank maintained higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRBs directives.

#### 4.2.2 Data Presentation and Analysis of EVEREST BANK LIMITED:

Table 4.2.2 (1)

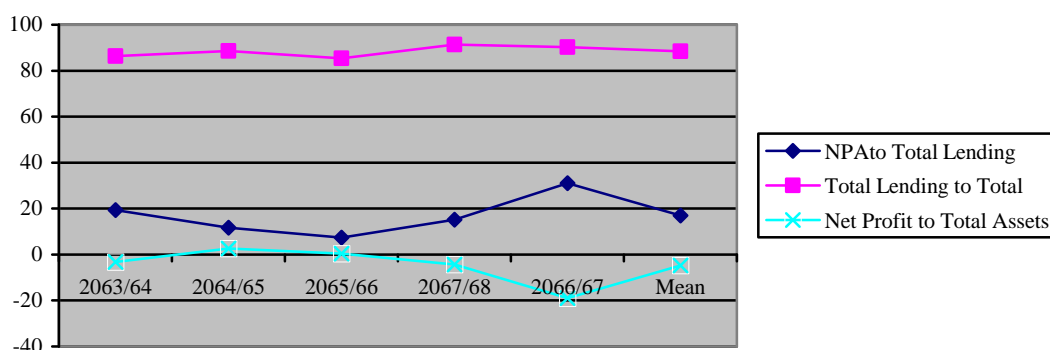
##### Relation between NPA, Net profit, Total lending and total deposit

Ratio / year	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
NPA to Total Lending	1.04	2.20	1.70	1.60	1.27	1.56
Total Lending to Total Deposit	74.00	75.40	75.60	78.20	73.40	75.32
Net Profit to Total Assets	1.29	1.17	1.49	1.45	1.50	1.38

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

Fig. 4.2.2

##### Relation between NPA, Net profit, Total lending and Total deposits



From Table and Figure 4.2.2 (1), it can be said that the ratio between the Non performing assets and total lending was found to increasing over the five years period. In the fiscal year 2067/68 it was found to be at 1.04 %, which highly increased to 2.20

% to the following year, and in the fiscal year 2065/66 it was found to be decreased rather than previous year. In the fiscal year 2067/68 the non performing assets to total lending ratio was found 1.27% and the average ratio between NPA and total lending of five years period was 1.56%.

The total lending to total deposit ratio was following decreasing trend over five years period. In fiscal year 2063/64 it was found to be 74.00 % and was found to be increased in the following years and had reached to 75.40 %, 75.60 % and 78.20 % in the fiscal year 2064/65, 2065/66 and 2066/67 respectively. And finally it was increased to 73.40 % for the end of year 2067/68. The average ratio between total lending to total deposit of five years period was 75.32 %.

And the net profit to total assets ratio was also found to be fluctuating over the five years period. It was found to be 1.29 % in the fiscal year 205 8/59 and it becomes to 1.50 % for the fiscal year 2067/68. The average ratio between net profits to total assets of five years period was 1.38%.

**Table 4.2.2 (2)**

**Relation between Net Profit and Total NPA**

<b>Fiscal year</b>	<b>Net Profit</b>	<b>Total NPA</b>
2063/64	85,347,446	42,388,116
2064/65	94,180,428	111,191,103
2065/66	143,566,683	104,764,369
2066/67	170,807,797	128,807,745
2067/68	237,290,936	129,235,790

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

In Table 4.2.2 (2), shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2067/68. The bank had NPA amount to Rs 42388116 and banks net profit amount to be Rs 85347446. In fiscal year 2064/65 the NPA amount to Rs. 111191103 i.e. NPA increased by Rs 68802987 (i.e.162.32 %) in comparison of previous year. As the result the bank increase its profit by Rs 8832982 in comparison of previous year and net profit reached amounted to Rs 94180428 at the end of fiscal year 2064/65.

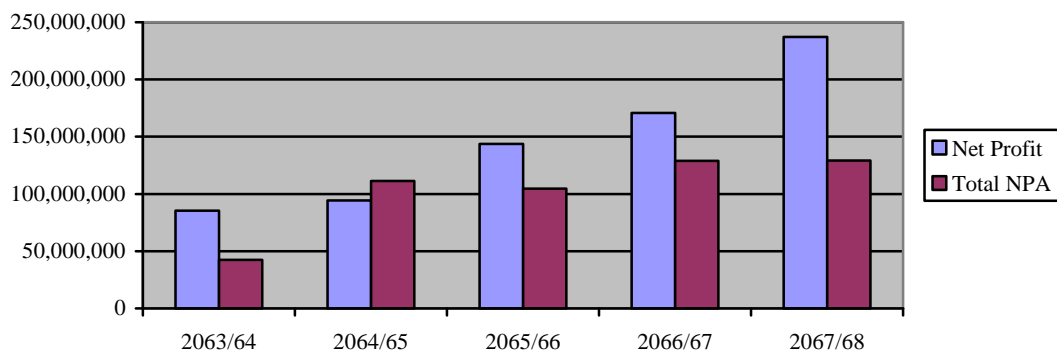
In fiscal year 2065/66, the NPA amount decreased by Rs 6426734 (i.e.5.78 %) in comparison of previous year. The net profit increased by Rs 49386225 (i.e.52.44 %) in comparison to previous year and reached amount Rs. 143556683 at the end of the fiscal year.

In fiscal year 2066/67 the banks NPA increased by 22.95 % i.e. Rs 24043376 and reached to Rs.128807745. As the result the net profit of the banks increased by 18.97 % at the end of fiscal year 2066/67. Similarly, in fiscal year 2067/68, the NPA increased by 0.33 % i.e. Rs 428045 and reached to amount Rs 129235790. The net profit highly increased by amount Rs 66483139 i.e.38.92 % in comparison with previous years net profit and reached to Rs 237290936. The bank is able to earn more profit although the level of NPA also increased.

To make clearer the data of table 4.2.2 (2) also presented on the Figure 4.2.2 (2):

**Fig 4.2.2(2)**

**Relation between Net Profit and Total NPA**



The loan loss provision maintains by Everest Bank Ltd. is presented in the Table 4.2.2. (3).

**Table 4.2.2 (3)****Loan loss provisioning of Everest Bank Ltd:**

Types of loan	Requirement as per directives	Loan loss Provision by the Bank				
		2063/64	2064/65	2065/66	2066/67	2067/68
Pass loan	1% of pass loan	1.72	1.63	2.26	1.00	1.00
Sub-standard loan	25% of sub-standard loan	25.00	25.00	25.00	25.00	25.00
Doubtful loan	50% of doubtful loan	50.00	50.00	50.00	50.00	50.00
Bad Loan	100% of loss loan	100.22	89.22	95.83	98.00	99.13

Source: Annex I (b)

Commercial bank has to maintained loan loss provision as per the NRBs directives for the commercial bank. In fiscal year 5066/67, Loan loss provision for substandard loan and doubtful loan exactly met the NRBs directives, which was 25 % and 50 % of substandard loan and doubtful loan respectively. The bank made 1.72 %, and 123.78 % loan loss provision for pass loan and bad loan which was higher than requirement as per NRB s directives.

In fiscal year 2064/65, the bank provisioned 1.63 % for pass loan which was higher than the NRBs directives. Loan loss provision for substandard loan, doubtful loan and bad loan exactly met the NRB s directives, which was 25 %, 50 % and 100 percent of substandard loan, doubtful loan and bad loan respectively

In fiscal year 2065/66, the bank provisioned 2.26 % for pass loan which was higher than the NRBs directives. The bank made Loan loss provision for substandard loan, doubtful loan and bad loan exactly met the NRB s directives, which was 25 %, 50 % and 100 percent of substandard loan, doubtful loan and bad loan respectively. In fiscal year 2066/67 and 2067/68, the bank could able to maintain the loan loss provision perfectly in accordance to the NRBs directives.

#### 4.2.3. Data Presentation and Analysis of NEPAL SBI BANK LIMITED:

**Table 4.2.3 (1)**

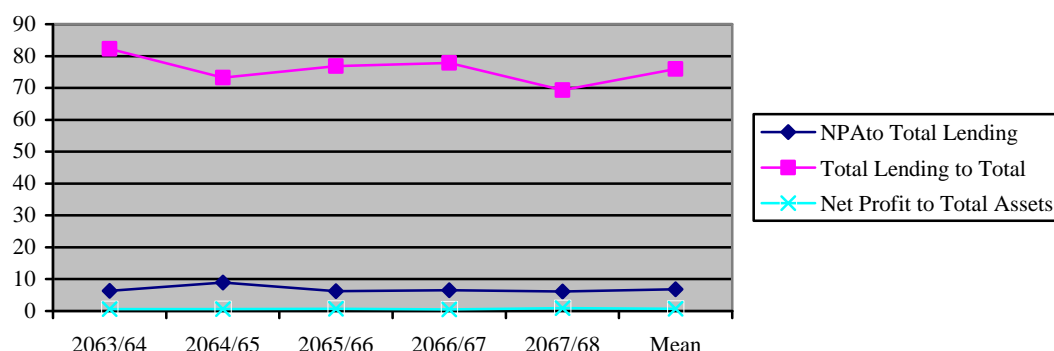
**Relation between NPA, Net profit, Total lending and Total deposit**

Ratio / year	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
NPA to Total Lending	6.32	8.90	6.25	6.54	6.13	6.83
Total Lending to Total Deposit	82.27	73.27	76.85	77.87	69.32	75.92
Net Profit to Total Assets	0.58	0.64	0.72	0.55	0.90	0.68

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

**Fig 4.2.3 (1)**

**Relation between NPA, Net profit, Total lending and Total deposit**



From Table and Figure 4.2.3. (1) , it can be said that the ratio between the Non performing assets and total lending was found to fluctuating trend, although it has been increase to 8.9 % for the year 2064/65 and decreased to 6.25 % for the fiscal year 2065/66. Again it was found to be 6.54 % for the fiscal year 2066/67 and it was found to be 6.13 % at the end of fiscal year 2067/68. The average ratio between NPA and total lending of five years period was 6.83 %. The bank should continue to control over the non performing assets.

Similarly the total lending to total deposit ratio was following decreasing trend. It was found to be 82.27% for the fiscal year 2063/64 and it becomes to 69.32 % at the



end of the fiscal year 2067/68. Although it was found to be increasing for the fiscal year 2065/66 and 2066/67. The average ratio between total lending to total deposit of five years period was 75.92 %. And the net profit to total assets ratio was also found to be increasing, it was found to be 0.58 % in the fiscal year 2067/68 and it becomes to 0.90 % for the fiscal year 2067/68. It shows that the profit was increasing in comparison to total assets of the bank, showing the improvement in the profit of the bank and the average ratio between net profits to total assets of five years period was 0.68 %.

**Table 4.2.3 (2)**

**Relation between Net Profit and Total NPA**

<b>Fiscal year</b>	<b>Net Profit</b>	<b>Total NPA</b>
2063/64	40,843,769	289,766,401
2064/65	48,748,221	426,947,082
2065/66	60,851,673	345,821,458
2066/67	57,386,634	441,017,011
2067/68	117,001,973	505,336,919

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

Table 4.2.3 (2), shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2063/64. The bank had NPA amount to Rs 289766401 and bank s net profit amount to be Rs 40843769. In fiscal year 2064/65 the NPA amount to Rs. 426947082 i.e. NPA increased by Rs 137180681 (i.e.47.34 %) in comparison of previous year. As the result the bank increase its profit by Rs 7904452 in comparison of previous year and net profit reached amounted to Rs 48748221 at the end of fiscal year 2064/65.

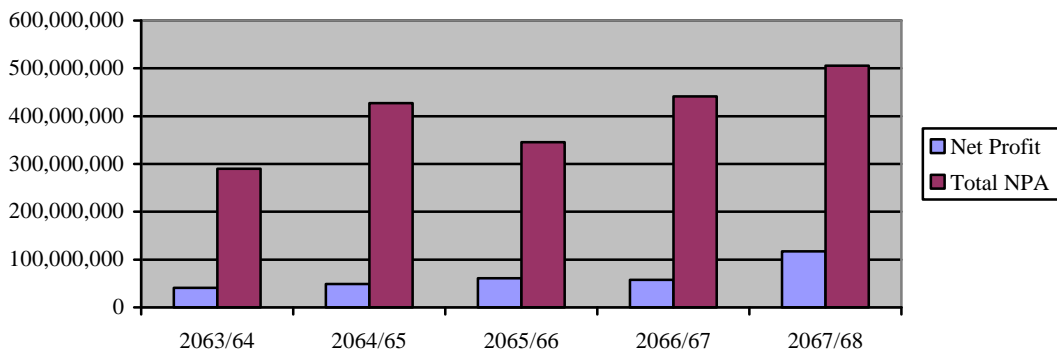
In fiscal year 2065/66, unfortunately the NPA amount decreased by Rs 81125624 (i.e. 19 %) in comparison of previous year. The net profit increased by Rs 12103452 (i.e.24.83%) in comparison to previous year and reached amounted Rs.6085 1673 at the end of the fiscal year.

In fiscal year 2066/67 the banks NPA increased by 27.53 % i.e. Rs 95195553 and

reached to Rs.44101701 1. As the result the net profit of the banks decreased by 5.69% at the end of fiscal year 2066/67. Similarly, in fiscal year 2067/68, the NPA increased by 14.58 % i.e. Rs 64319908 and reached to amount Rs 505336919. The net profit highly increased by amount Rs 59612339 i.e.103.88 % in comparison with previous years net profit and reached to Rs 117001973.

There is no doubt that the net profit of the bank affected by NPA. But NPA is not only a cause for increment and decrement of the net profit. There are many other causes that affect the profit of the bank. But NPA would be a major cause of decreasing profit of the bank so the bank has to control its NPA as efficiently as possible. To make clearer the data of Table 4.2.3 (2) also presented on the figure 4.2.3 (2):

**Fig 4.2.3(2) Relation between Net Profit and Total NPA**



**Loan loss provisioning of Nepal SBI Bank Ltd:**

The loan loss provision maintains by Nepal SBI Bank Ltd. is presented in the Table 4.2.3 (3).

**Table 4.2.3 (3)**  
**Loan loss provisioning of Nepal SBI Bank Ltd:**

Types of loan	Requirement as per	Loan loss provision by the bank				
		2063/64	2064/65	2065/66	2066/67	2067/68
Pass loan	1% of pass loan	1.19	1.19	0.94	0.95	0.96
<sup>Sub-</sup> 25% standard	of sub-standard loan	26.11	22.41	13.39	20.94	17.71
Doubtful loan	50% of doubtful loan	50.00	52.17	48.39	15.67	29.18
Bad loan	100% of loss loan	100.22	89.22	95.83	98.00	99.13

Source: Annex 1(d)

Commercial bank has to maintained loan loss provision as per the NRBs directives for the commercial bank. In fiscal year 2063/64, Loan loss provision for doubtful loan exactly met the NRBs directives, which was 50 percent of doubtful loan. Similarly, the bank made 1.19 %, 26.11 % and 100.22 % loan loss provision for pass loan, sub-standard and bad loan which was higher than requirement as per NRB s directives.

In fiscal year 2064/65, Loan loss provision for pass loan and doubtful loan higher than the NRBs directives, which was 1 percent of pass loan and 50 percent of doubtful loan. The similarly, the bank made 1.19 % and 52.17 % loan loss provision for pass loan and doubtful loan. It was found that the bank unable to maintain loan loss provision for substandard and bad loan as per the NRBs directives.

Fiscal year 2065/66, It was found that the bank unable to maintain loan loss provision for all classes of loan as per the NRBs directives. The bank provisioned 0.94 %, 13.39 %, 48.39 % and 95.83 % for pass, substandard, doubtful and bad loan. In fiscal year 206 5/66, It was found that the bank unable to maintain loan loss provision for all classes of loan as per the NRBs directives. The bank provisioned 0.95 %, 20.94 %, 15.67 % and 98.0 % for pass loan, substandard loan, doubtful loan and bad loan. In fiscal year 2067/68, It was found that the bank unable to maintain loan loss provision

for all classes of loan as per the NRBs directives. The bank provisioned 0.96 %, 17.71 %, 29.18 % and 99.13 % respectively for pass loan, substandard loan, doubtful loan and bad loan.

It is found that the bank could not maintained loan loss provision, perfectly in accordance to the NRBs directives. The bank maintained lower than requirement. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRBs directives.

#### 4.2.4 Data Presentation and Analysis of HIMALAYAN BANK LIMITED:

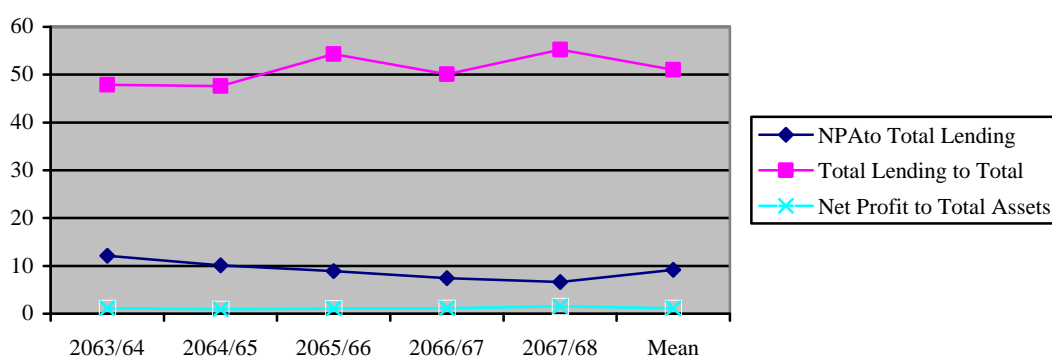
Table 4.2.4 (1)

Relation between NPA, Net profit, Total lending and Total deposit

Ratio / year	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
NPA to Total Lending	12.10	10.08	8.88	7.44	6.60	9.2
Total Lending to Total Deposit	47.89	47.61	54.30	50.07	55.27	51.03
Net Profit to Total Assets	1.14	0.91	1.06	1.11	1.55	1.15

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

Fig. 4.2.4.(1) Relation between NPA, Net profit, Total lending and Total deposit



From Table and Figure 4.2.4. (1), it can be said that the ratio between the Non performing assets and total lending was found to decreasing. It was found to be 12.10 % for the fiscal year 2063/64 which was found to be 6.60 % at the end of fiscal year

2067/68. The average ratio between NPA and total lending of five years period was 9.02 %. The decreasing trend of NPA to total lending ratio indicates the effectiveness in the management of NPA.

The total lending to total deposit ratio was following increasing trend. It was found to be 47.89 % for the fiscal year 2063/64 which has increased to 55.27 % for the end of year 2067/68. Although it has been decreasing to 50.07 % for the fiscal year 2066/67. The average ratio between total lending to total deposit of five years period was 51.03 percent.

And the net profit to total assets ratio was also found to be increasing, it was found to be - 1.14 % in the fiscal year 2063/64 and it becomes to 1.55 % for the fiscal year 2067/68. Although it has increasing to 0.91 % for the fiscal year 2064/65. It shows a good trend of increasing the profit in comparison to total assets of the bank shows that the bank is able to increase its profit over the five years. The average ratio between net profit to total assets of five years period was 1.15 %.

**Table 4.2.4 (2)**  
**Relation between Net Profit and Total NPA**

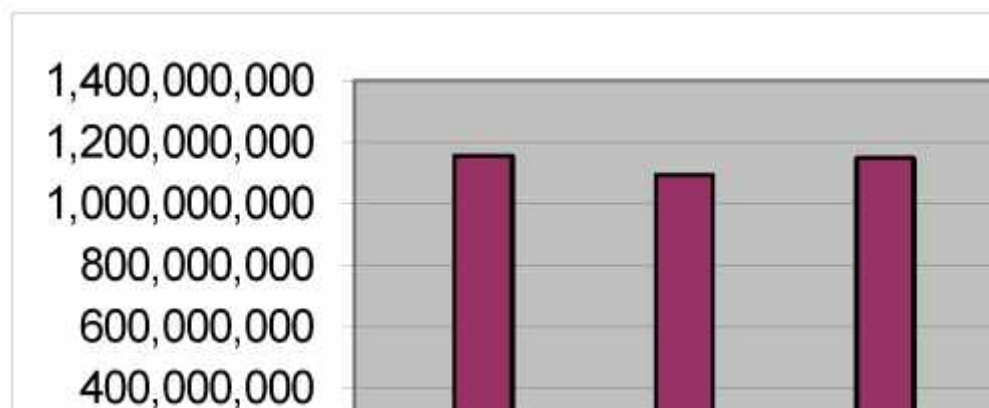
<b>Fiscal year</b>	<b>Net Profit</b>	<b>Total NPA</b>
2063/64	235,023,510	1,156,041,462
2064/65	212,128,485	1,092,839,487
2065/66	263,053,495	1,147,462,638
2066/67	308,275,171	1,001,347,320
2067/68	457,458,000	1,040,757,823

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

In Table 4.2.4. (2), shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2063/64, the bank had NPA amount to Rs 1156041462 and banks net profit amount to be Rs 235023510. In fiscal year 2064/65 the NPA amount to Rs. 1092839487 i.e. NPA decreased by Rs 63201975 (i.e.5.47 %) in comparison of previous year. As the result the bank decrease its profit by Rs

22895025 in comparison of previous year and net profit reached amounted to Rs 21212885 at the end of fiscal year 2064/65. In fiscal year 2065/66, unfortunately the NPA amount increased by Rs 54623151 (i.e. 5.0 %) in comparison of previous year. As the result the bank could able to increase its net profit. The net profit increased by Rs 50925010 (i.e. 24.01 %) in comparison to previous year and reached amounted Rs. 263053495 at the end of the fiscal year. In fiscal year 2066/67 the banks NPA decreased by 12.73 % i.e. Rs 146115318 and reached to Rs. 1001347320. As the result the net profit of the banks increased and reached to Rs 308275171 at the end of fiscal year 2066/67. Similarly, in fiscal year 2067/68, the NPA increased by 3.94 % i.e. Rs 3910503 and reached to amount Rs 1040757823. The net profit highly increased to amount Rs 149182829 i.e. 48.39% in comparison with previous years net profit. There is no doubt that the net profit of the bank affected by non performing assets. But NPA is not any cause for increment and decrement of the net profit. There are many factors other than NPAs, which affect the profit of the bank. So the bank should continue to control over the non performing assets. To make clearer the data of Table 4.2.4 (2) also presented on the Figure 4.2.4 (2):

**Fig 4.2.4 (2) Relation between Net Profit and Total NPA**



The loan loss provision maintains by Himalayan Bank Ltd. is presented in the table 4.2.4. (3)

**Table 4.2.4 (3)****Loan loss provisioning of Himalayan Bank Ltd:**

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2063/64	2064/65	2065/66	2066/67	2067/68
Pass loan	1% of pass loan	0.99	1.00	1.00	1.00	1.01
Sub-standard loan	25% of sub-standard loan	24.29	27.92	26.08	60.20	57.78
Doubtful loan	50% of doubtful loan	48.22	49.13	50.71	47.23	68.16
Bad loan	100% of loss loan	94.50	96.60	97.79	99.54	100.26

Source: Annex 1(e)

Commercial banks have to maintained loan loss provision as per the NRBs directives for the commercial bank. In fiscal year 2063/64, the bank unable to maintain the loan loss provision in all classes. The bank made 0.99 % loan loss provision for pass loan which was slightly lower than the requirement i.e. 1 %. Similarly the bank made 24.29 %, 48.22 % and 94.50 % loan loss provision for substandard, doubtful and bad loan which was lower than as per the NRBs directives.

In fiscal year 2064/65, Loan loss provision for pass loan exactly met the NRBs directives, which were 1 percent of pass loan. The similarly, the bank made 27.92 % % loan loss provision for sub-standard which was more than as per NRB s directives. It was found than the bank unable to maintain loan loss provision for doubtful and bad loan as per the NRBs directives.

Fiscal year 2065/66, Loan loss provision for pass loan exactly met the NRB s directives, which was 1 percent of pass loan. The Similarly, the bank made 26.08 % and 50.71 % loan loss provision for sub-standard and doubtful which was more than as per NRBs directives. It was found than the bank unable to maintain loan loss provision for bad loan as per the NRBs directives. The bank provisioned 97.79 % for bad loan.

In fiscal year 2066/67, Loan loss provision for pass loan exactly met the NRBs directives, which was 1 percent of pass loan. Similarly, the bank made 60.20 %

loan loss provision for sub-standard which was highly more than as per NRBs directives. It was found than the bank unable to maintain loan loss provision for doubtful and bad loan as per the NRBs directives. The bank provisioned 47.23 % and 99.54% for doubtful and bad loan.

In fiscal year 2067/68, the bank made 1.01 % and 100.26 % for pass loan and bad loan which was slightly more than the requirement i.e. more than 1 % and 100 %. Similarly, the bank made 57.78 % and 68.16 % loan loss provision for sub-standard and doubtful loan which was highly more than as per NRB s directives.

It is found that the bank could not maintained loan loss provision, perfectly in accordance to the NRB s directives. The bank maintained higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRBs directives.

#### **4.2.5 Data Presentation and Analysis of NABIL BANK LIMITED:**

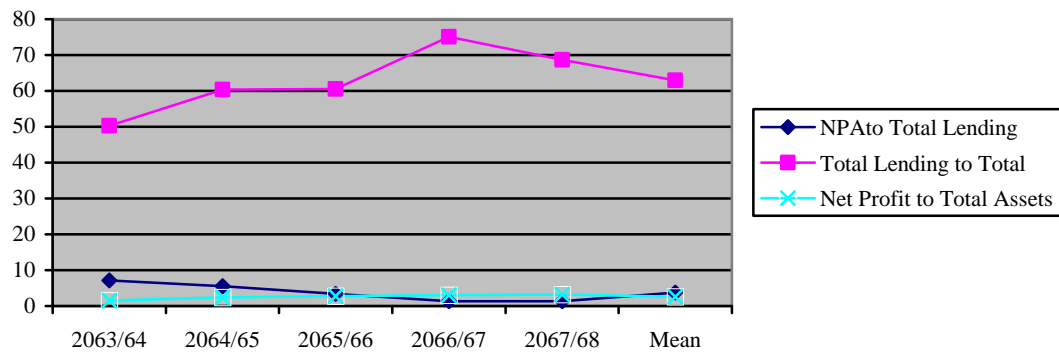
#### **4.2.6 Table 4.2.5 (1) Relation between NPA, Net profit, Total lending and Total deposit**

<b>Ratio / year</b>	<b>2063/64</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>Mean</b>
NPA to Total Lending	7.14	5.54	3.35	1.32	1.38	3.75
Total Lending to Total Deposit	50.31	60.34	60.55	75.05	68.63	62.98
Net Profit to Total Assets	1.53	2.43	2.73	3.06	3.23	2.60

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68



**Fig. 4.2.5.(1) Relation between NPA, Net profit, Total lending and Total deposit**



From Table 4.2.5 (1), it can be said that the ratio between the Non performing assets and Total lending was found to decreasing trend, although it has been slightly increased to 1.38% for the year 2067/68. It was found to be 7.14% for the fiscal year 2063/64 which was found to be 1.38% at the end of fiscal year 2067/68. The average ratio between NPA and total lending of five years period was 3.75 %. The decreasing trend of NPA to total lending ratio indicates the effectiveness in the management of NPA.

The total lending to total deposit ratio was following increasing trend. It was found to be 50.31% for the fiscal year 2063/64 which has increased to 75.05 % for the end of year 2066/67. It was decreased in the fiscal year 2067/68 and reached to 68.63 %. The average ratio between total lending to total deposit of five years period was 62.98 %. And the net profit to total assets ratio was also found to be increasing during the study period. It was 1.53 % for the fiscal year 2063/64 which was increased to 3.23 % for the fiscal year 2067/68 and the average ratio between net profits to total assets of five years period was 2.60 %. Increasing trend of the profit in comparison to total assets of the bank showing good management of the bank.

**Table 4.2.5 (2)**  
**Relation between Net Profit and Total NPA**

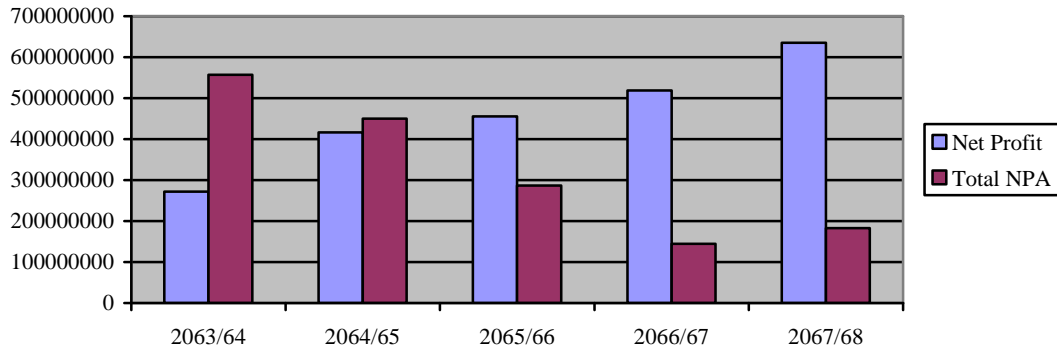
<b>Fiscal year</b>	<b>Net Profit</b>	<b>Total NPA</b>
2063/64	271638612	556877682
2064/65	416235811	449630763
2065/66	455311222	286678920
2066/67	518635749	144506893
2067/68	635262439	182624480

Source: Annual reports of the concern bank of fiscal year 2063/64 to 2067/68

In Table 4.2.5. (2), shows that the status of non-performing assets (NPA) and net profit of the bank in different years. In fiscal year 2063/64 he bank had NPA amount to Rs 556877682 and bank s net profit amount to be Rs 271638612. In fiscal year 2064/65 the NPA amount to Rs. 449630763 i.e. NPA decreased by Rs 107246919 (i.e.19.26 %) in comparison of previous year. As the result the bank increase its profit by Rs 144597199 in comparison of previous year and net profit reached amounted to Rs 416235811 at the end of fiscal year 2064/65. The profit was increased for the following years and the non performing assets were decreasing during the study period except 2067/68.

Similarly, in fiscal year 2067/68, the NPA increased by 26.38 % i.e. Rs 38117587 and reached to amount Rs 182624480. The net profit increased by amount Rs 116626690 i.e.22.49 % in comparison with previous years net profit and reached to Rs 635262439. This trend of non performing assets indicates that the bank could not able concentration towards NPA in fiscal year 2067/68. Above analysis clearly states that the bank could able to increase its net profit due to decrement in non performing assets. So the bank should be continued to control over NPA.To make clearer the data of Table 4.2.5 (2) also presented on the Figure 4.2.5 (2):

**Fig 4.2.5 (2) Relation between Net Profit and Total NPA**



**Loan loss provisioning of Nabil Bank Ltd:**

The loan loss provision maintains by Nabil Bank Ltd. is presented in the Table 4.2.56.(3).

**Table 4.2.5 (3)**

**Loan loss provisioning of Nabil Bank Ltd:**

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2063/64	2064/65	2065/66	2066/67	2067/68
Pass loan	1% of pass loan	1.95	1.60	1.55	2.18	1.64
Sub-standard loan	25% of sub-standard loan	24.08	24.01	23.22	31.10	67.94
Doubtful loan	50% of doubtful loan	49.55	48.95	49.40	73.20	47.00
Bad loan	100% of loss	69.95	85.14	97.19	97.05	94.55

Source: Annex 1(e)

Commercial banks have to maintained loan loss provision as per the NRBs directives for the commercial bank. In fiscal year 2063/64 Loan loss provision for pass loan was 1.95 % which was higher than the requirement as per NRBs directives. But loan loss provision for substandard loan, doubtful loan and bad loan was found lower than the NRBs directives. The bank provisioned 24.08 %, 49.55 % and 69.55 % respectively for the substandard, doubtful and bad loan which was highly lower than that of requirement. The loan loss provision for bad loan was too much lower than NRBs

directives.

In fiscal year 2064/65, Loan loss provision for pass loan was 1.60 % which was higher than the requirement as per NRBs directives. But loan loss provision for substandard loan, doubtful loan and bad loan was found lower than the NRBs directives. The bank provisioned 24.01 %, 48.95 % and 85.14 % respectively for the substandard, doubtful and bad loan which was highly lower than that of requirement. Similarly in fiscal year 2065/66, Loan loss provision for pass loan was 1.55 % which was higher than the requirement as per NRB s directives. But loan loss provision for substandard loan, doubtful loan and bad loan was found lower than the NRBs directives. The bank provisioned 23.22 %, 49.40 % and 97.19 % respectively for the substandard, doubtful and bad loan which was highly lower than that of requirement.

Fiscal year 2066/67, Loan loss provision for pass loan, sub standard loan and doubtful loan as per NRB s directives, which was 1 percent of pass loan 25% of sub standard loan and 50% of doubtful loan respectively. The bank made 2.18 % loan loss provision for pass loan, 31.10% of sub standard loan and 73.20 % of doubtful loan respectively which were higher than requirement. It was found that the bank unable to maintain loan loss provision for bad loan as per the NRBs directives. The bank made 97.05 % provisioned for bad loan.

Fiscal year 2067/68, Loan loss provision for pass loan and sub standard loan as per NRB s directives, which was 1 percent of pass loan 25% of sub standard loan respectively. The bank made 1.64 % loan loss provision for pass loan and 67.94 % of sub standard loan respectively which were higher than requirement. It was found that the bank unable to maintain loan loss provision for bad loan and doubtful loan as per the NRBs directives. The bank made 97.05 % and 47.00 % provisioned for bad loan and doubtful loan respectively.

It is found that the bank could not maintained loan loss provision, perfectly in accordance to the NRB s directives. The bank maintained higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRBs directives.

### 4.3 Performing and Non performing assets of commercial banks in Total Assets,

**Table 4.3**  
**Performing and Non- Performing assets of commercial banks in**  
**Total Assets, Total Lending & Total Deposit**

Bank	Assets		Lending		Deposit	
	% of PA to TA	% of NPA to TA	% of PA to TL	% of NPA to TL	% of PA to TD	% of NPA to TD
LBL	67.09	14.27	83.08	16.59	73.35	14.75
EBL	62.64	1.00	98.43	1.57	74.15	1.19
NSBIBL	60.12	4.40	93.17	6.83	71.84	5.25
HBL	45.04	4.42	90.98	9.02	50.14	4.92
Nabil	51.64	1.85	96.25	3.75	60.8	2.18

Source: Annual report of concerned bank of FY 2063/64 - 2067/68

Up to the fiscal year 2063/64, Lumbini Bank Ltd had performing assets amounted Rs 1843850969 which was increased by Rs 471732617 (i.e. 25.58 %) and reached to Rs 2315583586 in the end of fiscal year 2064/65. It was further increased by 28.93 % for the fiscal year 2065/66 and again it was increased by 4.64 % (i.e. Rs 138556418) 2066/67 and reached to amount Rs 3124006435. The performing assets was decreased by Rs 141662448 (i.e. 4.53 %) at the end of the year 2067/68 and reached to amount Rs 2982343987.

The total assets of the Lumbini Bank were fluctuating during the five years period. The percentage of performing assets to total asset was increased from 60.22 % for the year ended 2063/64 to 70.02% at the end of fiscal year 2067/68. The average percentage of performing assets to total assets of the five years periods was found to be 67.09%. This trend of performing assets clearly indicates that the bank able to control and supervise its lending properly. It also indicates that the bank was able to repay its lending within stated time period.

The total lending was increasing trend during the study period. The percentage of performing assets to total lending was 80.86% for the end of the year 2063/64 and which was increased for following two years and reached 92.64% at the end of the fiscal year 2065/66. It was decreased to 84.77% in the fiscal year 2066/67 and again it was decreased and reached to 69.01 % for the end of fiscal year 2067/68 and the average percentage of performing assets to total lending of five years was 83.08 %. This trend of performing assets indicates that the bank could able to control and supervise its lending properly up to fiscal year 2062/6 3 and further the bank could not control over it.

Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit was increased to the fiscal year 2065/66 and reached to 79.03 %. Then it was decreased to 62.31 % at the end of the year 2067/68. 73.35% was the average percentage of performing assets to total deposit of five years period. This trend of performing assets indicated that the bank could able to increase its performing loan through regular control and supervision of its lending upto fiscal year 2065/66. But in fiscal year 206 1/62 the bank could not control nonperforming assets. It might be failed to evaluate the credit worthiness of borrower might be failed to evaluate the collateral taken by the bank from the borrower.

The total nonperforming assets (NPA) of Lumbini Bank Ltd had Rs 441641381 at the end of fiscal year 2063/64 which was decreased by 30.54 % and reached to Rs 306776772 in the fiscal year 2064/65. It was further decreased by 22.65 % and reached to Rs. 237298336 at the end of fiscal year 2065/66. Unfortunately the total NPA of the bank was highly increased by Rs 263839936 (i.e. 111.18 %) in the fiscal year 2066/67 and it was further highly increased by 167.25 %( i.e. Rs 838114518) and reached amount to Rs. 1339242790 at the end of fiscal year 2067/68.

The percentage of NPA to total assets of Lumbini Bank ltd for the year ended 205 8/59 was 14.42 % which was decreased to 8.92 % in the end of F/Y and it was further decreased to 5.44 % at the end of F/Y 2065/66. From the year 2065/66 the percentage of NPA to total assets was highly increased with increased in the amount of NPA and reached to 31.44 % at the end of F/Y 2067/68. The average percentage of NPA to total assets of five years was 14.27 %.

Similarly, the percentage of NPA to total lending as well as percentage of NPA to total deposit was same trend. It was decreased for the fiscal year 2064/65 and 2065/66. But it was highly increased for the year 2066/67 as well as 2067/68. This trend of non performing assets indicates that the bank could not able concentration towards NPA in fiscal year 2065/66. Because of poor control, supervision and concentration, the bank failed to recover its lending (NPA) in fiscal year 2065/66. Higher level of NPA indicates the poor financial position and poor assets management of the bank. Up to the fiscal year 2067/68, Himalayan Bank Ltd had performing assets amounted Rs 8401,096,542 which was increased every year during the study period and reached to Rs 14,721,218,259 in the end of fiscal year 2067/68. The total asset of the Himalayan Bank was increasing during the five years period. The percentage of performing assets to total asset was increased from 40.64 % for the year ended 2063/64 to 49.97 % at the end of fiscal year 2067/68. The average percentage of performing assets to total assets of the five years periods was found to be 45.04 %. But it was slightly decreased in the fiscal year 2066/67. This trend of performing assets clearly indicates that the bank able to control and supervise its lending properly. It also indicates that the bank was able to repay its lending within stated time period. The total lending was increasing trend during the study period. The percentage of performing assets to total lending was 87.90 % for the end of the fiscal year 2063/64 and which was increased during the five years period and reached to 93.40 % for the end of fiscal year 2063/64 and the average percentage of performing assets to total lending of five years was 90.98 %. This trend of performing assets indicates that the bank could able to control and supervise its lending properly.

Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit was increasing trend for the five years period and it was slightly decreased in the fiscal year 2064/65. The percentage of performing assets to total deposit was 45.12 % for the end of the fiscal year 2067/68 and which was increased during the five years period and reached to 55.57 % for the end of fiscal year 2067/68 and the average percentage of performing assets to total lending of five years was 50.14 %.

The total nonperforming assets (NPA) of Himalayan Bank Ltd had Rs 1,156,041,462 at the end of fiscal year 2063/64 which was decreased by 5.47 % and reached to Rs 1092,839487 in the fiscal year 2064/65. Unfortunately it was increased by 5 % and reached to Rs. 1147462638 at the end of fiscal year 2065/66. In the fiscal year 2066/67 total NPA was decreased and reached to Rs 1001347320 and in fiscal year 2062/62 it was slightly increased by 3.94 % and reached amount to Rs 1040757823.

The percentage of NPA to total assets of Himalayan Bank Ltd for the year ended 2067/68 was 5.59 % which was decreased during five years period and reached to 3.53 % for the year ended 2067/68 although the amount of NPA during the five years period was fluctuating. It indicates that the good financial position as well as good assets management of the bank. Similarly, the percentage of NPA to total lending as well as percentage of NPA to total deposit was same trend. During the study period the percentage of NPA to total lending and percentage of NPA to total deposit were decreasing trend.

This trend of non performing assets indicates that the bank could able to control towards NPA during the five years period. Because of good control, supervision and concentration, the bank could recover its lending (NPA). Decreasing trend of percentage of non performing assets (NPA) indicates the good financial position as well as assets management of the bank. Up to the fiscal year 2063/64, Nepal SBI Bank Ltd had performing assets amounted Rs 4294628538 which was increased every year during the study period and reached to Rs 7736119625 in the end of fiscal year 2067/68.

The total assets of the Nepal SBI Bank were increasing during the five years period. The percentage of performing assets to total asset was 61.17% for the fiscal year 2063/64 which was decreased and reached to 57.74 % for the year ended 2064/65. The percentage of performing assets to total assets was increased for the fiscal year 2065/66 and unfortunately it was decreased for the following two years and reached to 59.39 % for the fiscal year 2067/68. The average percentage of performing assets to total assets of the five years periods was found to be 60.12 %.



The total lending was increasing trend during the study period. The percentage of performing assets to total lending was 93.68 % for the end of the year 2063/64 and which was decreased in the year 2064/65 and reached 91.10 % The percentage of performing assets to total lending was increased for the fiscal year 2065/66 and it was slightly decreased for the year 2066/67. It was slightly increased for the year ended 2067/68 and reached to 93.87 % and average percentage of performing assets to total lending of five years was 93.17 %.

Similarly, the percentage of performing assets to total deposit was fluctuating over the five years period. It was 77.07 % for the year ended 2063/64 which was decreased in the fiscal year 2064/65 and there after it was increased for the following two fiscal year. Then it was decreased to 70.32 % at the end of the year 2067/68. 71.84 % was the average percentage of performing assets to total deposit of five years period.

This trend of performing assets indicated that the bank could able to increase its performing loan through regular control and supervision of its lending during the research period. But in fiscal year 2065/66 the bank could concentrate its non performing assets. The total non performing assets (NPA) of Nepal SBI Bank Ltd had Rs 289766401 at the end of fiscal year 2063/64 which was increased by 47.34 % and reached to Rs 426947082 in the fiscal year 2064/65. It was decreased for the fiscal year 2065/66 and reached to Rs 345821458. Unfortunately the total NPA of the bank was highly increased for the following two fiscal year and reached amount to Rs 505336919 for the fiscal year ended 2067/68.

The percentage of NPA to total assets of Nepal SBI Bank Ltd for the year ended 2063/64 was 4.13 % which was increased in the end of fiscal year 2064/65 and reached to 5.64 %.It was decreased to 4.10 % at the end of F/Y 2065/66. It was slightly increased for theyear 2066/67. The percentage of NPA to total assets was decreased and reached to 3.88 % at the end of F/Y 2067/68. The average percentage of NPA to total assets of five years was 4.40 %.The percentage of NPA to total Lending of Nepal SBI Bank Ltd for the year ended 2063/64 was 6.32 % which was increased in the end of fiscal year 2064/65 and reached to 8.90 %.It was decreased to 6.25 % at the end of F/Y 2065/66. It was slightly increased for the year 2066/67. The

percentage of NPA to total lending was decreased and reached to 6.13 % at the end of fiscal year 2067/68. The average percentage of NPA to total lending of five years was 6.83 %. The percentage of NPA to total deposit of Nepal SBI Bank Ltd for the year ended 2063/64 was 5.20 % which was increased in the end of fiscal year 2064/65 and reached to 6.55 %. It was decreased to 4.80 % at the end of F/Y 2065/66. It was slightly increased for the year 2066/67. The percentage of NPA to total assets was decreased and reached to 4.59 % at the end of F/Y 2067/68. The average percentage of NPA to total deposit of five years was 5.25 %.

This trend of non performing assets indicates that the bank could able to control towards NPA during the five years period. But decreasing trend of percentage of non performing assets (NPA) indicates the good financial position. Up to the fiscal year 2067/68, the total assets of the Everest Bank were increasing during the five years period. The percentage of performing assets to total asset was increased from 60.57 % for the year ended 2063/64 to 66.24 % at the end of fiscal year 2066/67 but it was decreased in the fiscal year 2067/68 and reached to 62.70 %. The average percentage of performing assets to total assets of the five years periods was found to be 62.64 %. The total lending was increasing trend during the study period. The percentage of performing assets to total lending was 98.95 % for the end of the year 2063/64 and which was decreased for the year 2064/65 and reached 97.80 %. It was increased to 98.28 % in the fiscal year 2066/67 and it was further increased and reached to 98.73 % for the end of fiscal year 2067/68. The average percentage of performing assets to total lending of five years was 98.43 %. Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit was increased to the fiscal year 2066/67 and reached to 76.96 %. Then it was decreased to 72.50 % at the end of the year 2067/68. 74.15% was the average percentage of performing assets to total deposit of five years period. This trend of performing assets indicated that the bank could able to increase its performing loan through regular control and supervision of its lending. But in fiscal year 2065/66 the bank could not control the percentage of performing assets. The total non performing assets (NPA) of Everest Bank Ltd had Rs 42388116 at the end of fiscal year 2063/64 which was increased and reached to Rs 111191103 in the fiscal year 2064/65. It was decreased to Rs. 104764369 at the end of fiscal year 2065/66. Unfortunately the total

NPA of the bank was highly increased to Rs 128807745 in the fiscal year 2066/67 and it was further increased and reached amount to Rs. 129235790 at the end of fiscal year 2067/68. The percentage of NPA to total assets of Everest Bank Ltd for the year ended 2067/68 was 0.64 % which was increased to 1.38 % in the end of fiscal year 2064/65. It was decreased to 1.09 % at the end of F/Y 2065/66. It was decreased in the fiscal year 2067/68 and reached to 0.81 % and the average percentage of NPA to total assets of five years was 1.00 %. The percentage of NPA to total lending of Everest Bank Ltd for the year ended 2063/64 was 1.05 % which was increased to 2.20 % in the end of fiscal year 2064/65. It was decreasing for the following three years and it was reached to 1.27 % in the fiscal year 2067/68 and the average percentage of NPA to total assets of five years was 1.57 %. The percentage of NPA to total assets of Everest Bank Ltd for the year ended 2063/64 was 0.78 % which was increased to 1.66 % in the end of fiscal year 2064/65. It was decreased to 1.30 % at the end of F/Y 2065/66. It was decreased in the fiscal year 2067/68 and reached to 0.94 % and the average percentage of NPA to total assets of five years was 1.19%. Up to the fiscal year 2063/64, Nabil Bank Ltd had performing assets amounted Rs 7244970881 which was increased every year during the study period and reached amount to 13096157779 for the fiscal year 2067/68.

The total assets of the Nabil Bank were increasing during the five years period. The percentage of performing assets to total asset was increased from 41.10 % for the year ended 2063/64 to 62.85 % at the end of fiscal year 2066/67 but it was decreased in the fiscal year 2067/68 and reached to 58.65 %. The average percentage of performing assets to total assets of the five years periods was found to be 51.64 %.

The total lending was increasing trend during the study period. The percentage of performing assets to total lending was increase from 92.86 % for the end of the year 2063/64 to 98.68 % for the year 2066/67. It was slightly decrease in the fiscal year 2067/68 and the average percentage of performing assets to total lending of five years was 96.25%. Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit was increased to the fiscal year 2066/67 and reached to 74.06 %. Then it was decreased to 67.69 % at the end of the year 2067/68 and the average percentage of performing assets to total deposit of five

years period was 60.80%.

The total non performing assets (NPA) of Nabil Bank Ltd had Rs 556877682 in the year 2063/64 and it was decreasing during the five years period and reached amount to 182624480 for the fiscal year 2067/68. The percentage of NPA to total assets of Nabil Bank Ltd for the year ended 2063/64 was 3.16 % which was decreased during the study period and reached to 0.82 % in the end of fiscal year 2067/68. The average percentage of NPA to total assets of five years was 1.85 %. The percentage of NPA to total lending of Nabil Bank Ltd for the year ended 2063/64 was 7.14 % which was decreased for the following three years and reached to 1.32 % in the end of fiscal year 2066/67. It was slightly increased for the years 2067/68 and reached to 1.38 %. The average percentage of NPA to total assets of five years was 3.75 %. The percentage of NPA to total assets of Nabil Bank Ltd for the year ended 2063/64 was 3.59 % which was increased during the study period and reached to 0.94 % in the end of fiscal year 2067/68. The average percentage of NPA to total assets of five years was 2.18 %.

#### **4.4 Percentage Performing and Non performing Assets of Commercial banks in Total loan**

**Table 4.4**  
**Percentage Performing and Non performing Assets of**  
**Commercial banks in Total loan**

Banks	Performing Asset		Non Performing Asset		
	PL /TL	RL /TL	SL /TL	DL /TL	BL /TL
LBL	80.85	5.58	4.39	3.00	9.54
EBL	97.13	3.25	0.64	0.36	0.91
NSBIBL	87.09	6.08	0.94	1.24	4.65
HBL	88.09	3.64	1.82	1.72	4.73
Nabil	95.88	0.93	1.04	1.48	1.22

Source: Annex 2

Up to fiscal year 2063/64 Lumbini Bank Ltd had total loan and advances amounted Rs 2285492350 which was increased by Rs 336868008 (i.e. 14.74 %) and reached to Rs 2622360358 in the end of fiscal year 2064/65. During the study period, total loan of the bank was increasing every year and reached to Rs 4321586777 at the end of fiscal year 2067/68. In this way, Lumbini Bank Ltd had been extending its lending to fulfill market demands of loan.

The percentage of performing assets (i.e. percentage of pass loan to total loan) of Lumbini Bank had 80.68 % in the fiscal year 2063/64 which was increased to 88.30 % in the fiscal year 2064/65 and further it was increased to 92.64% in the fiscal year 2065/66. For the fiscal year 2066/67 the percentage of pass loan to total loan and restricted loan to total loan was found 78.36 % and 6.42 % respectively which was decreased to 64.27 % and 4.74 % in the fiscal year 2067/68. The average percentage of pass loan to total loan and restricted loan to total loan of five years was 80.85 % and 5.58 % respectively. The percentage of substandard loan to total loan of Lumbini Bank had 12.54 % in the fiscal year 2067/68 which was decreased to 6.05 % in the fiscal year 2064/65 and further it was decreased to 0.52% in the fiscal year 2065/66. In fiscal year 2067/68 it was increased and reached to 1.21% and the average percentage of substandard loan to total loan of five years was 4.39 %. The percentage of doubtful loan to total loan of Lumbini Bank had 4.13 % in the fiscal year 2067/68 which was decreased to 0.61 % in the fiscal year 2067/68 and the average percentage of doubtful loan to total loan of five years was 3.00 %.

But unfortunately the percentage of bad loan to total loan of Lumbini Bank had increasing during the study period. It was 0.65 % in the fiscal year 2063/64 which was increased to 29.16 % in the fiscal year 2067/68 and the average percentage of bad loan to total loan of five years was 9.54 %. Up to fiscal year 2063/64 Everest Bank Ltd had total loan and advances amounted Rs 4044228431 which was increased every years during the study period i.e. five years period and it had become to Rs 10136254448 in the fiscal year 2067/68. The percentage of pass loan to total loan of Everest Bank had 98.95 % in the fiscal year 2063/64 which was decreased to 97.80 % in the fiscal year 2064/65. But it was slightly increased and reached to 98.28 % in the fiscal year 2066/67. In the fiscal year it was highly decreased and reached to 94.34 %

and for fiscal year 2067/68 the percentage of pass loan to total loan was found 96.26 % which was increased with compare to previous year. The average percentage of pass loan to total loan of five years was 97.13 %.

The percentage of restricted loan to total loan of Everest Bank was 4.03 % in the fiscal 2063/64 which was decreased to 2.46 % in the fiscal year 2067/68. The average percentage of restricted loan to total loan of two years was 3.25 %.

The percentage of substandard loan to total loan of Everest Bank had 0.39 % in the fiscal year 2063/64 which was decreased to 0.82 % in the fiscal year 2064/65. It was increased in the fiscal year 2065/66 and reached to 1.82 % and it was highly decreased to 0.06 % for the fiscal year 2066/67. It was 0.11 % in the fiscal year 2067/68 and the average percentage of substandard loan to total loan of five years period was 0.64 %.

The percentage of doubtful loan to total loan of Everest Bank had 0.33 % in the fiscal year 2063/64 which was increased to 0.75 % in the fiscal year 2064/65. It was highly decreased in the fiscal year 2065/66 and reached to 0.66 % and again it was highly decreased to 0.03 % for the fiscal year 2066/67. It was 1.56 % in the fiscal year 2067/68 and the average percentage of doubtful loan to total loan of five years period was 0.36 %. The percentage of bad loan to total loan of Everest Bank had 0.33 % in the fiscal year 2063/64 which was increased to 0.62 % in the fiscal year 2064/65. It was further increased to 0.87 % and 1.55 % in the fiscal year 2065/66 and 2066/67 respectively. It was 1.56 % in the fiscal year 2067/68 and the average percentage of bad loan to total loan of five years period was 0.91 %.

Upto fiscal year 2063/64 Nepal SBI Bank Ltd had total loan and advances amounted Rs 458394939 which was increased every years during the study period i.e. five years period it had become to Rs 8241456544 in the fiscal year 2067/68. The percentage of pass loan to total loan of Nepal SBI Bank had 85.33 % in the fiscal year 2063/64 which was increased to 86.43 % in the fiscal year 2064/65 but it was slightly decreased and reached to 86.09 % in the fiscal year 2065/66. For the fiscal year 2066/67 the percentage of pass loan to total loan was found 87.35 % and it was

increased to 87.35 % in the fiscal year 2067/68. The average percentage of pass loan to total loan of five years was 87.09 %.

The percentage of restructured loan to total loan of Nepal SBI Bank was 7.80 % in the fiscal 2063/64 which was decreased to 4.67 % in the fiscal year 2064/65. But unfortunately it was increased to 7.65 % for the end of the fiscal year 2065/66. Again the bank is able to decrease the percentage and it was reached to 4.16 % for the year ended 2067/68. The average percentage of restructured loan to total loan of five years was 6.08 %. The percentage of substandard loan to total loan of Nepal SBI Bank had 1.95 % in the fiscal year 2063/64 which was increased to 2.53 % in the fiscal year 2064/65. The bank could able to reduce the percentage of substandard loan to total upto 0.02 % for the year ended 2067/68 and the average percentage of substandard loan to total loan of five years period was 0.94 %.

The percentage of doubtful loan to total loan of Nepal SBI Bank had 1.35 % in the fiscal year 2063/64 which was increased to 3.48 % in the fiscal year 2064/65 and it was decreased to 0.05 % in the fiscal year 2067/68. The average percentage of doubtful loan to total loan of five years period was 3.97 %.

But unfortunately the percentage of bad loan to total loan of Nepal SBI Bank was increasing during the study period. It was 3.02 % in the fiscal year 2063/64 which was increased to 6.06 % in the fiscal year 206 3/64 though it was decreased in the fiscal year 2065/66 which was 2.89 % and the average percentage of bad loan to total loan of five years was 4.65 %. Up to fiscal year 2063/64 Himalayan Bank Ltd had total loan and advances amounted Rs 9557138004 which was increased every years during the study period i.e. five years period it had become to Rs 15761979082 in the fiscal year 2067/68.

The percentage of pass loan to total loan of Himalayan Bank had 87.90 % in the fiscal year 2063/64 which was increased to 88.21 % in the fiscal year 2064/65 but it was slightly decreased and reached to 87.28 % in the fiscal year 2065/66. For the fiscal year 2067/68 the percentage of pass loan to total loan was found 89.17 % which was increased by 17.18 % with compare to previous year i.e. fiscal year 2067/68 and the

average percentage of pass loan to total loan of five years was 88.09 %.

The percentage of restructured loan to total loan of Himalayan Bank was 3.75 % in the fiscal 2063/64 which was decreased to 1.71 % in the fiscal year 2064/65. But unfortunately it was increased to 3.84 % for the end of the fiscal year 2065/66 and 4.23 % for the end of the fiscal year 2067/68. The average percentage of restructured loan to total loan of five years was 3.64 %. The percentage of substandard loan to total loan of Himalayan Bank had 2.58 % in the fiscal year 2063/64 which was decreased to 2.07 % in the fiscal year 2064/65. It was increased in the fiscal year 2065/66 and reached to 3.28 % and it was decreased to 0.52 % for the fiscal year 2066/67. It was 0.68 % in the fiscal year 2067/68 and the average percentage of substandard loan to total loan of five years period was 1.82 %.

The percentage of doubtful loan to total loan of Himalayan Bank had 1.47 % in the fiscal year 2063/64 which was increased to 3.46 % in the fiscal year 2064/65. It was highly decreased in the fiscal year 2065/66 and reached to 0.42 % and it was increased to 1.80 %

for the fiscal year 2066/67. It was 1.45 % in the fiscal year 2067/68 and the average percentage of doubtful loan to total loan of five years period was 1.72 %.

The percentage of bad loan to total loan of Himalayan Bank had 4.29 % in the fiscal year 2063/64 which was increased to 4.55 % in the fiscal year 2064/65. It was further increased to 5.18 % in the fiscal year 2065/66 and it was decreased to 5.13 % for the fiscal year 2066/67. It was 4.47 % in the fiscal year 2067/68 and the average percentage of bad loan to total loan of five years period was 4.73 %.

Up to fiscal year 2063/64 Nabil Bank Ltd had total loan and advances amounted Rs 7801848563 which was increased by Rs 311835658 (i.e. 4.00 %) and reached to Rs 8133684221 in the end of fiscal year 2064/65. During the study period, total loan of the bank was increasing every year and reached to Rs 13278782259 at the end of fiscal year 2067/68 which was increased by Rs 2332045682 (i.e. 21.30 %) of the previous year.



The percentage of performing assets (i.e. percentage of pass loan to total loan) of Nabil Bank had 92.86 % in the fiscal year 2063/64 which was increased to 94.46 % in the fiscal year 2064/65 and further it was increased to 96.65 % in the fiscal year 2065/66. For the fiscal year 2065/66 the percentage of pass loan to total loan and restructured loan to total loan was found 97.45 % and 1.23 % respectively which was decreased to 97.98 % and 0.64 % in the fiscal year 2067/68. The average percentage of pass loan to total loan and restructured loan to total loan of five years was 95.88 % and 0.92 % respectively.

The percentage of substandard loan to total loan of Nabil Bank had 3.34 % in the fiscal year 2063/64 which was decreased to 0.94 % in the fiscal year 2064/65 and further it was decreased to 0.20 % in the fiscal year 2065/66. In fiscal year 2067/68 it was increased and reached to 0.47% and the average percentage of substandard loan to total loan of five years was 1.04%.

The percentage of doubtful loan to total loan of Nabil Bank had 2.96 % in the fiscal year 2063/64 which was decreased to 0.22 % in the fiscal year 2067/68 and the average percentage of doubtful loan to total loan of five years was 1.48 %.

The percentage of bad loan to total loan of Nabil Bank had 0.84 % in the fiscal year 2063/64 which was increased to 1.16 % in the fiscal year 2064/65 and further it was increased to 2.33 % in the fiscal year 2066/67. In fiscal year 2066/67 it was 1.10 % and which was increased in fiscal year 2067/68 and reached to 0.68 %. The average percentage of bad loan to total loan of five years was 1.22 %.

#### **4.5 Correlation Analysis**

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to other variable. Two or more variable are said to be correlated if change in the value of one variable appears to related or linked with the change in the value of other variable. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree to the closeness of the relationship between the different variables. In the correlation

analysis, only one variable is treated as the dependent variable and one or more variables are treated as independent.

Correlation Analysis generally used to describe the degree to which one variable is related to another, in statistics is used in order to depict the covariance between two or more variables. It helps to determine whether

- A positive or negative relation exists
- The relation is significant or insignificant
- Establishes cause and effect relation if any

#### 4.5.1 Correlation between NPA and ROA of the commercial banks

The statistical tool, correlation analysis preferred in this study to identify the relationship between NPA and ROA and whether the relationship is significant or not. Here NPA denotes the percentage of NPA in total lending of the bank and ROA denotes the net profit as percentage of total assets of the banks.

**Table4.5.1**

##### **Correlation between NPA and ROA of the commercial bank**

Bank	coefficient of correlation ( r )	Relationship	Coefficient of determination ( r 2 )	Probable error (P.E.)	Significant/ insignificant
LBL	-0.93	negative	0.87	0.04	Significant
EBL	-0.41	negative	0.17	0.25	insignificant
Nabil -	-0.96	negative	0.92	0.025	significant
NSBIBL	-0.26	negative	0.07	0.28	insignificant
HBL	-0.57	negative	0.32	0.20	insignificant

Source: Annex 3

Table 4.5.1, the correlation coefficient between the Non Performing Assets to Returns on Assets shows that there is negative relationship between these two variables. The established theory also states that the Profit and Non Performing Assets also flow in the opposite direction. When the amount of NPA is lesser, profit would be high and whenever the amount of NPA is more then profit goes on decreasing, which is explained by the above table.

LBL and Nabil have the correlation coefficient of -0.93 and -0.96 which are categorized as having high degree of negative correlation. And 87 % and 92 % of the profitability is affected by the NPA to the respective banks and rest is affected by the other factor. And the test so made for these two banks is found to be significant as the correlation is greater than Probable error (P.E.) multiplied by six times.

HBL has the correlation coefficient of -0.57 which is categorized as having moderate degree of negative correlation. Only 32 % of the relationship is affected by the NPA in the increment of the profitability of the bank. As coefficient of determination of the bank found to be 32 % and remaining 68 % for the individual bank is affected by other factor. Further more, the value of P.E. is 0.20 for bank indicating an insignificant relationship between them. NSBIBL and EBL have the correlation coefficient of -0.26 and -0.41 which are categorized as having low degree of negative correlation. And 7 % and 17 % of the profitability is affected by the NPA to the respective banks and rest is affected by the other factor. Since the P.E. for the NSBIBL is more than the coefficient of correlation bank indicating insignificant. Similarly P.E. of EBL multiplied by is more than the coefficient of correlation EBL indicating insignificant.

From the above calculations, it can conclude that the profitability of the individual bank is fully dependent in the Non-Performing Assets of the respective banks. Higher the NPA lower will be the net profit and vice versa.

#### **4.5.2 Correlation between NPA and Total Lending of the commercial banks**

The statistical tool, correlation analysis is preferred in this study to identify the relationship between NPA and Total lending and whether the relationship is significant or not.

**Table4.5.2**

**Correlation between NPA and Total Lending of the commercial bank**

Bank	coefficient of correlation ( r )	Relationship	Coefficient of determination ( r 2 )	Probable error (P.E.)	Significant/ insignificant
LBL	0.77	positive	0.60	0.12	Significant
EBL	0.77	positive	0.59	0.12	Significant
NSBIBL	0.81	positive	0.65	0.10	Significant
HBL	-0.66	negative	0.43	0.17	insignificant
Nabil	-0.81	negative	0.66	0.10	Significant

Source: Annex 4

Table 4.5.2, the correlation coefficient between Total Lending and NPA shows that there is positive relationship between these two variables. When the amount of Total Lending is increases the amount in NPA is more and vice versa.

LBL, EBL and NSBIBL have the correlation coefficient of 0.77, 0.77 and 0.81 which are categorized as having high degree of positive correlation. And 60 %, 59 % and 65% of the total lending is affected by the NPA to the respective banks and rest is affected by the other factor. And the test so made for these banks are found to be significant as the correlation is greater than Probable error (P.E.) multiplied by six times.

HBL has the correlation coefficient of -066 which is categorized as having moderate degree of negative correlation. And 43 % of the total lending is affected by the NPA to the respective bank and rest is affected by the other factor. Since the P.E. for the HBL is more than the coefficient of correlation bank indicating insignificant. Nabil has high degree of negative correlation coefficient i.e. higher the level of NPA would lower in the total lending and vice versa. 66 % of the total lending is affected bynon performing assets and remaining 34 % is affected by other factors. Further more, the value of P.E. is 0.10 for bank indicating a significant relationship between them.

## 4.6 Major Findings

This study is concerned to find out the level of NPA and its effects on the returns on assets and the other factors of the Nepalese commercial bank. This study especially focuses on five commercial banks of Nepal, viz. Lumbini, Everest, Nepal SBI, Himalayan and Nabil only, out of the 31 commercial banks operating in the banking industry of Nepal.

- ) In case of Lumbini Bank Limited (EBL), total NPA and net profit have been found to be increasing, NPA to total lending ratio have been found increasing over the years as it was 19.32 % in the fiscal year 2063/64 and increased to 30.99 % in the fiscal year 2067/68. The total lending to total deposit ratio is found to be increasing over the five years period. But the net profit to total assets ratio is found to be decreasing over the years as it was - 3.2 % in the fiscal year 2063/64 and decreased to -18.92 % in the fiscal year 2067/68.
- ) In case of the Himalayan Bank Limited (HBL), total NPA have been decreased and net profit have been found to be increasing, NPA to total lending ratio have been found decreasing over the years as it was 12.10 % in the fiscal year 2063/64 and increased to 6.60 % in the fiscal year 2067/68.
- ) The total lending to total deposit ratio is found to be increasing over the five years period. The net profit to total assets ratio is found to be increasing over the years as it was 1.14 % in the fiscal year 2063/64 and decreased to 1.55 % in the fiscal year 2067/68.
- ) The case of Nepal SBI Bank Limited (NSBINL), , total NPA and net profit have been found to be increasing, NPA to total lending ratio have been found to be slightly decreasing over the years as it was 6.32 % in the fiscal year 2067/68 and increased to 6.13 % in the fiscal year 2063/64.
- ) The total lending to total deposit ratio is found to be decreasing over the five years period. The net profit to total assets ratio is found to be increasing over the years as it was 0.58 % in the fiscal year 2063/64 and decreased to 0.90 % in the fiscal year 2067/68.
- ) The case of Everest Bank Limited (EBL), , total NPA and net profit have been found to be increasing, NPA to total lending ratio have been found increasing over the years as it was 1.04 % in the fiscal year 2063/64 and increased to 1.27 % in the fiscal year 2067/68.

- J The total lending to total deposit ratio is found to be decreasing over the five years period it was 74.0% in the fiscal year 2063/64 and slightly decreased to 73.40 %. The net profit to total assets ratio is found to be increasing over the years as it was 1.29 % in the fiscal year 2067/68 and decreased to 1.50 % in the fiscal year 2067/68.
- J In case of Nabil Bank Limited (NBL), ), total NPA of the bank have been found to be decreasing and net profit have been found to be increasing, NPA to total lending ratio have been found decreasing over the years as it was 7.14 % in the fiscal year 2063/64 and increased to 1.38 % in the fiscal year 2067/68.
- J The total lending to total deposit ratio is found to be increasing over the five years period it was 50.31 % in the fiscal year 2063/64 and slightly decreased to 68.63 %. The net profit to total assets ratio is found to be increasing over the years as it was 1.53 % in the fiscal year 2063/64 and decreased to 3.23 % in the fiscal year 2067/68.
- J The percentage of performing assets to total assets of the LBL have found to be high among the sample banks, which was 67.09 % and the HBL have been found to be 45.04 % which was lower than other banks. Among the sample banks the percentage of non performing assets to total assets of the EBL was found low which was 1.00 % and it was found to be 14.27 % of the LBL which was high.
- J The percentage of performing assets to total lending was found higher in EBL and lower in LBL which was 98.43 % and 83.08 % respectively. The percentage of non performing assets to total lending was found lower in EBL and higher in LBL which was 1.57 % and 16.59 % respectively among the sample banks.
- J The percentage of performing assets to total deposit of EBL have been found to be 73.35 % which was higher than other banks and it was 50.14 % of the HBL. The percentage of non performing assets to total deposit was 1.19 % of EBL and 14.75 % of LBL respectively which was lower and higher ratio.
- J The average ratio of pass loan to total loan of five years have been found higher in EBL and lower in LBL which was 97.13 % and 80.85 % respectively. The average ratio of restricted loan to total loan of five years has been found higher in NSBIBL which was 6.08 %.

) The average ratio of non performing assets to total loan of five years was found lower in Everest Bank Limited The average ratio of substandard loan to total loan and bad loan to total loan of five years have been found lower in EBL and higher in LBL. The average ratio of doubtful loan to total loan of five years was found higher in NSBIBL and lower in EBL.

The correlation coefficient between ROA and level of NPA is found to be negative for each of the bank. Among them LBL and Nabil bank have high degree of negative correlation i.e. the ROA is indirectly dependent on the level of NPA, higher the NPA the lower will be the returns on assets and vice versa. HBL have the moderate degree of negative correlation. Only 32 % of return is affected by level of NPA and remaining is affected by other factor. NSBIBL and EBL have the low degree of correlation coefficient. Only 7 % and 17 % of NSBIBL and EBL respectively on the profitability is affected by NPA and rest is affected by other factor.

The correlation coefficient between total lending and non performing assets of the commercial banks is found to be positive for each of the bank except that the HBL and Nabil Bank Limited under the study period. Among them LBL, EBL and NSBIBL bank have high degree of positive correlation i.e. the total lending is directly dependent on the level of NPA, higher the NPA the more will be the total lending of banks and vice versa. HBL has the moderate degree negative correlation coefficient. Nabil Bank Limited has high degree negative correlation coefficient. 66% on the lending is affected by the level of NPA and remaining only 34 % is affected by other factors.

## **CHAPTER V**

### **SUMMARY CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary:**

A commercial bank means the bank, which deals with exchanging currency, accepting deposits, giving loans doing other various commercial transactions. Therefore, the major function of commercial bank is to accept deposits and provide loans. There is not so long history of commercial bank in Nepal. Nepal Bank Limited established in 1994 B. S. was the first commercial bank of the Nepal. But now there are thirty one commercial banks all over the country and they have been expanding their services by establishing branches in every corner of the country.

The assets of commercial bank indicate the manner in which the funds entrusted to the bank are employed. The successful working of the bank depends on ability of the management to distribute the fund among the various kind of investment known as assets outstanding loan advance of the bank. These assets constitute primary source of income to the bank. As being a business unit a bank aims at making huge profit since loan and advances are more profitable than any other assets of the bank, it is willing to lend as much as its fund as possible. But the bank has to be careful about the repayment of loan and interest giving loan. If the bank is too timid, it may fail to obtain the adequate return on the fund, which is confined to it for use. Similarly, if the bank is too liberal, it may easily impair its profits by bad debts. Therefore, bank should not forget the reality that most of the bank failures in the world are due to shrinkage in the value of the loan and advances. Despites of being loan and advances more profitable than other assets, it creates risk of non repayment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets, the loan and advances are classified into performing and non performing assets on the basis of overdue aging schedule. If the dues in the form of principal and the interest are not paid, by borrower within a maturity period, that amount of principal and interest is called non performing loan or assets. It means NPA could wreak branch profitability both through loss of interest income and need to write off the principal loan amount. Performing assets have multiple benefits to the company as well as to



the society while non performing assets erode even existing capital of the bank. Escalating level of NPAs has been becoming great problem in banking business in the world. In this context, Nepal can not be run off from this situation. The level of NPA in Nepalese banking system is very alarming. It is well known fact that the bank and financial institution in Nepal have been facing the problem of swelling non performing assets and the issue of becoming more and more unmanageable day by day. it is well known from different financial reports, newspapers and news that the total NPA in Nepalese banking system is about 32 Billion while it is very worse in case of two largest commercial banks RBB and NBL. (Nepal Rastra Bank, Banking and financial statistics, 2006 : 06)

Therefore, this study is concerned to find out the level of NPA and its effects on the returns on assets and the other factors of the Nepalese commercial bank. This study especially focuses on five commercial banks of Nepal, viz. Lumbini, Everest, , Nepal SBI, Himalayan and Nabil only, out of the 31 commercial banks operating in the banking industry of Nepal. the performance of the NABIL bank is found to be satisfactory as the level of NPA is gradually decreasing and net profit is gradually increasing over the years covered by this study period. Followed by EBL, NSBIBL and HBL respectively. But in case of LBL the NPA is increasing and the net profit is gradually decreasing which was worse. Himalayan Bank Limited and Nabil Bank Limited can able to decreased the level of NPA during the study period as a result they can able to increased to net profit of the banks. In case of Everest Bank limited and Nepal SBI Bank Limited, they able to increase net profit of the bank although they can not control the level of non performing assets. The level of NPA also increasing during the study period. Unfortunately Lumbini Bank Limited cannot increase their net profit because of increment in the level of non performing assets. The level of non performing assets plays vital role in increment and decrement of profit of the commercial banks.

Every commercial Bank should follow the NRB directives. Commercial bank has to maintain loan loss provision as per NRB directives for the commercial bank. According to NRB directives, loan loss provision for pass loan should be 1 % of pass loan, for substandard loan it should be 25 % of substandard loan, for doubtful loan it

should be 50 % of doubtful loan and for bad loan it should be 100 % of bad loan.

Every commercial bank is trying to exactly met the NRBs directives regarding non performing assets. But the sample banks of the study could not maintained loan loss provision perfectly accordance to the NRB directives for all classed. The bank maintained higher the loan loss provision requirement for one class loan when lower another class loan. Everest Bank Limited could maintain loan loss provision, perfectly in accordance to NRB directives with compare to another sample bank of the study. Therefore it can conclude the EBL able to maintain the loan loss provision. The remaining sample banks should give priority to maintain the loan loss provision as requirement as per NRBs directives. The percentage of performing assets to total assets of the LBL have found to be high among the sample banks, which was 67.09 % and the HBL have been found to be 45.04 % which was lower than other banks. Among the sample banks the percentage of non performing assets to total assets of the EBL was found low which was 1.00 % and it was found to be 14.27 % of the LBL which was high. The percentage of performing assets to total lending was found higher in EBL and lower in LBL which was 98.43 % and 83.08 % respectively. The percentage of non performing assets to total lending was found lower in EBL and higher in LBL which was 1.57 % and 16.59 % respectively among the sample banks. The percentage of performing assets to total deposit of EBL have been found to be 73.35 % which was higher than other banks and it was 50.14 % of the HBL. The percentage of non performing assets to total deposit was 1.19 % of EBL and 14.75 % of LBL respectively which was lower and higher ratio. The average ratio of pass loan to total loan of five years have been found higher in EBL and lower in LBL which was 97.13 % and 80.85 % respectively. The average ratio of restructured loan to total loan of five years has been found higher in NSBIBL which was 6.08 %.

The average ratio of nonperforming assets to total loan of five years was found lower in Everest Bank Limited The average ratio of substandard loan to total loan and bad loan to total loan of five years have been found lower in EBL and higher in LBL. The average ratio of doubtful loan to total loan of five years was found higher in NSBIBL and lower in EBL.

## **5.2 Conclusion:**

The profitability of Nepalese commercial bank is affected by non performing assets of bank. When the level of nonperforming assets is increasing then the profit of the bank is decreasing and vice versa. Therefore the NPA and profitability of the bank have negative correlation. The level of NPA is found that of EBL in the fiscal year 2067/68 which was Rs 42388116. In overall, the performance of the NABIL bank is found to be satisfactory as the level of NPA is gradually decreasing and net profit is gradually increasing over the years covered by this study period. But in case of LBL the NPA is increasing and the net profit is gradually decreasing which was worse. Every commercial bank is trying to exactly meet the NRB s directives regarding non performing assets. In overall, Everest Bank Limited could maintain loan loss provision, perfectly in accordance to NRB directives with compare to another sample bank of the study. Therefore it can conclude the EBL able to maintain the loan loss provision as per NRB s directives. The remaining sample banks should give priority to maintain the loan loss provision as requirement as per NRBs directives.

## **5.3 Recommendations:**

High level of non performing assets not only decreases the profitability of the banks but also entire financial as well as operational health of the country. If the NPA were not controlled immediately, it would be proved as a curse for the banks in near future. Therefore, following are some of the recommendations, which will help to reduce the level of NPA of the Nepalese commercial banks:

1. Corporate structure of bank plays key role in the effective loan management. Being loan a risky asset, efforts should be made to have proper control in every steps of loan management. The banks should establish separate department for credit appraisal, documentation, disbursement, inspection and recovery of loan which have possibility of finding mistakes of one department by the others, so that the effectiveness can be achieved.
2. Loan must be given if the banker is satisfied that the borrower can repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan is repaid even in case of failure of business. To prevent banks from such happenings, the bank take collateral is disposed for the recovery of loan. Therefore the bank should take proper valuation of collateral so that the

bank at least will be able to recover its principal and interest amount in case of failure of the borrower to repay the loan.

3. Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. Therefore, proper financial analysis should be performed before giving loan to the borrower.
4. Those banks, which have high level of NPA, should take necessary action towards recovering their bad loan as possible. In case of doubtful to repay the loan by the borrower, the bank should dispose off the collateral taken from them and recover the principal and the interest amount there of.
5. Diversification of the loan should be managed by the individual banks. In the context of Nepal it is provided to the borrower so often go to the bank not in the new sector. Default by older borrower can be found, which should be avoided.
6. Control mechanism of the bank should be managed properly. Black listed customers should not be given the new loan, as it would lead to the same situation to the bank.
7. Political influences in the loan disbursement should be avoided as it may lead to worse condition to the bank as it may increase the non performing loan of the bank.
8. Every commercial bank should maintain loan loss provision as per NRBs directives regarding non performing assets.

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