NON-PERFORMING ASSETS AND PROFITABILITY OF NEPALESE COMMERCIAL BANKS

(A Case Study of NABIL, HBL and SCBNL)

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Lending is one of the most important functions of a commercial bank and the composition of loans and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available.

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

Loan management is the essence of commercial banking; consequently the formulation and implementation of lending policies are among the most important responsibilities of directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit. Loan management effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks. The banks take almost care in analyzing the creditworthiness of the borrowing customer to ensure that the interest and the principal amount on loans are timely recovered without much trouble and legal process for the recovery. A sound lending policy is essential for the good performances of the bank are further to attain economic objectives directed towards acceleration of the development. Lending policy should be carefully analyzed and the banks should be careful while performing its credit creation effectively and to minimize the risk factor.

The wave of rising expectation and aspiration of people at present context of society, realized the need for rapid socio-economic development in the nation building process. The government has imparted a dynamic role and assigned the public sector with greater responsibility in fulfilling national goals and objectives. With this realization, the government initiated to build up multi-sector infrastructure in the fields of agriculture, industry, commerce, public works, transport, etc. In this context, banking was seen as a major supportive industry to uplift the economic condition of nation and its residents. Therefore, the government has adopted a liberal economic policy regarding operations of banks. About the financial liberalization process it is stated that the interest rate deregulation, curtailment or elimination of directed credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization. This led to the influx of commercial banks in Nepal resulting today into 31 commercial banks. NABIL (previously Nepal Arab Bank Limited), the first joint venture bank in Nepal which was established on 2041 B.S. after adopting financial and economic liberalization policy by the government.

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

Despite all these efforts, financial sector was found sluggish. The traditional financial system could not provide the public a quality service. Thus, the government initiates a liberal competition, which started to attract foreign investments. A foreign joint venture bank was established in 2041 B.S. with the name of Nepal Arab Bank Limited (now NABIL), which was the first joint venture commercial bank in Nepalese financial history. NABIL started knocking the doors of customers breaking the trend of knocking the doors of banks by customers (Bhattarai; 2061: 4-6).

It has been fully established that economic development of any country can be achieved only through a balanced growth in the field of industry, trade commerce and agriculture. And it has equally self-evident that commercial banks play vital role in the development of these fields. Therefore, productivity and competitiveness of commercial banks is very essential.

Lending is the primary business of any commercial bank and interest earned from them is the main source of income. Once the loan is given, it is supposed that the repayment of interest and principal shall have to be served without any hindrance. But it is not always true. Loans and interests are not always paid so easily by all the customers. Loans lended to the customers come under the Assets heading of balance sheet; and those loans which are not paid in time are considered as Non Performing Loan or Non Performing Assets (NPA). The criteria that determine a loan as NPA varies in different countries. In Nepalese scenario, Nepal Rastra Bank has classified the loans and advances as Non Performing Assets which are due for more than 90 days. Whatever the criteria is, the unhidden fact is that the NPA affects the banks operation and growth adversely. NPA has several impacts on financial institutions. Investments become worthless as expected return cannot be realized on the one hand and on the other hand, due to provisioning required for the risk mitigation, the profitability is directly affected. Similarly, monitoring expenses of such loans are costly too. Therefore, proper management, cost efficiency and speedy disposal of Non Performing Assets (NPA) are the most critical tasks of banks today to remain competitive. The problem of NPA in banks and financial institutions has been a matter of grave concern not only for the banks but also the real economy in general, as NPA can choke further expansion of credit which would impede the economic growth of the country. Any bottleneck in the smooth flow of credit is bound to create adverse repercussions in the economy. NPA is not therefore the concern of only lenders but also the public at large. Similarly, profit making is one of the major mottos of commercial banks and reducing the operating cost is one of the main deterministic factors to increase profitability. So, cost efficiency is also a major area of concern of commercial banks (Thapa, 2007:20-22).

A number of international researches show that there is a negative relationship between cost efficiency and NPA. Cost-inefficient banks may tend to have loan performance problems for a number of reasons. For example, banks with poor senior management may have problems in monitoring both their costs and their loan customers, with the losses of capital generated by both these phenomena potentially leading to failure.

Some other researches also show that there is a positive relationship between cost efficiency and NPA. They show that controlling extra cost such as underwriting and loan monitoring expenditures in order to achieve cost efficiency may reduce the operating cost in short run but it leads towards the increase in NPA in long run.

The proposed study will try to find out the trend of NPA, and its effects on profitability in Nepalese commercial banks. It will also try to find out whether NPA is preceding reduced cost efficiency or cost efficiency in present is contributing increase in future NPA.

Till the date there are 31 commercial banks in Nepal. Agriculture Development Bank (ADB) has also been listed in A class financial institutions two years ago. Therefore, there are 31 ‘A’ class financial institutions (commercial banks). Till the period of this study, a new commercial bank has also been found to be licensed to practice commercial banking operations in Nepal. Besides, there are 35 Development Banks, 5 Grameen Vikas Banks, 68 Finance Companies, 19 Cooperatives Societies and 47 NGOs conducting financial transactions operating under the rules and regulations of Nepal Rastra Bank (NRB; Banking and Financial Statistics, 2013).

Bank is defined as a financial intermediary that channelizes funds between depositors and entrepreneurs. It is a financial institution that accepts deposits and channels the money into lending activities. In a general sense, bank acts as a financial intermediary. Intermediation is between depositors and entrepreneurs. A bank is an institution that deals with money by accepting deposits from the general public, corporate bodies and private organizations and deploys those deposits for profitable purposes in the form of loans and advances. Bank, by accepting deposits, takes up the role of custodian of public money. The transactions in the financial market heavily depend upon the banking system of the country. Without bank, it will be quite impossible for the industrialist and entrepreneurs to go directly to general public for getting their saving or investments. So, the simplest definition is that, bank takes the savings of the public by providing them with certain rate of interest and loans it to needy customers charging them higher rate of interest and thus, earns some profit by doing these transactions. This is the broadest form of banking, but at this age of time, their functions have increased manifold. Remitting of money, letter of credit, guarantee, issue of money, controlling monetary activities of country, etc. are also major functions of bank. For better understanding, an in-depth study of bank has been conducted. The term bank is mainly related to financial transitions to operate, run and facilitate various monetary activities.

According to Concise Oxford Dictionary, the term bank has been defined as ‘A bank is an establishment of the custody of money which it pays out on customers’ order’. In the word of Kent, ‘A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure’. A banker or bank is a person or company carrying on the business of receiving moneys, and colleting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts.

Therefore bank can easily be defined as the custodians of deposits. Bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services “A bank is a business organization that receives and hold deposits of funds from other, grants loans or extends credits and transfers funds by written orders of depositors” (Dhungana, 2000: 2-4).

The more developed financial system of the world characteristically falls into three parts: central bank, commercial banks and other financial institutions. The two banks selected for the study are joint venture commercial banks (Dhungana, 2000: 2-4).

Banks have today gained paramount trust of the public. Banking industry offers a wide range of services addressing the needs of public in different walks of life. At present, a large number of banks are operating in Nepal. Naturally, they are rendering a wide range of services. They are trying to keep up pace with the changes taking place in the world. But quantity does not count for quality. The financial institutions of all classes ‘A’ to ‘D’ are increasing every year. In a small economy like Nepal, it is a question of great concern as to how so many banks are surviving and reaping profit. The concern is not only about these days but also the sustainability of the operating banks in future days also. Therefore, the report will try to concentrate on three major private sector banks of Nepal, i.e., Himalayan Bank Limited (HBL), Nabil Bank Limited (NABIL) and Standard Chartered Bank Nepal Limited (SCBNL). It will focus on the comparative Profit Accountability of these three banks regarding profitability, liquidity, leverage positions, NPA status etc.

1.1.1 Introduction of the Sampled Commercial Banks

i) Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 44 points of representation across the country and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele banking system (www.nabilbankltd.com).

ii) Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status the largest international bank currently operating in Nepal.

An integral part of the only international banking Group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. With 14 points of representation (11 Branches) and 15 ATMs across the country and with over 300 local staff, Standard Chartered Bank Nepal Ltd. is in a position to service its customers through a large domestic network. In addition to which the global network of Standard Chartered Group gives the Bank the unique opportunity to provide truly international banking in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers from individuals, to mid-market local corporate to multinationals and large public sector companies, as well as embassies, aid agencies, airlines, hotels and government corporations.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

iii) Himalayan Bank Limited

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

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

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

1.2 Statement of the Problem

Banking business in Nepal though seemed developed and mushroomed only in urban areas of the country in recent days, has its own limitations and problems as regards to security, profitability and financial soundness. Currently there are 31 commercial banks under 'A' class financial institutions operating in the country. The inflow of money in the banks in the form of several kinds of deposits is huge but it could not be invested in more profitable, sustainable and riskless projects. In addition, many banks are found centered in the urban areas of the country. Therefore, there is a situation that needy people and small entrepreneurs residing in rural areas are still deprived from institutional credit. However, this study will not go to this vast sector and thus focus only on the level and quality of deposit mobilization of the three sampled banks as regards to profit earning capacity or status of profitability. Therefore, this study is centered on assessing the clear picture of the profitability of the three commercial banks in Nepal.

There is no confusion that NPA and Cost efficiency both affects the profitability of commercial banks. But it without a systematic research or study, we cannot say that how much these two are affected by NPA. On the surface, cost efficiency and NPA might appear to be largely unrelated, because operations personnel typically do not participate in screening and monitoring loan customers, and because loan officers and review personnel typically do not participate in overseeing operations costs. Despite this separation between these two, we cannot reach to a conclusion that there is no any relationship between Problem Loans (NPA) and cost efficiency of commercial banks. Therefore, to reveal the secret, it is necessary to conduct a systematic study. That is why this research will try to find out the relationship between these two. Likewise, this study will also highlight on the effect of NPA in banks profitability.

While giving the supportive framework to the research study, the following questionnaires have been designed to be the main problem areas of the study and hence all tasks will be performed to provide the answers to these questions:

i. What are the key financial indicators of these banks with respects to major sources of funds, their mobilization and their contribution on profit?

ii. What is the situation of profitability of these banks?

iii. What is the relationship of NPA in bank’s operation cost and loan loss provision?

iv. What is the relationship of NPA with profitability?

1.3 Objectives of the Study

The general objective of this study is to investigate the relationships between Non Performing Assets and its effect on profitability of Nepalese Commercial Banks. Therefore, the main objective is to find out exact financial performance of the three banks over the period of recent five years. The specific objectives of the study are:

i. To find out the key financial indicators of these banks with respect to major sources of funds, their mobilization and their contribution on profit
ii. To analyze the profitability position of these banks.
iii. To examine the relationship of NPA in bank's operating cost and loan loss provision.
iv. To assess the relationship of NPA with profitability.

1.4 Significance of the Study

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

i. Further researchers and financial analysts:
This study will leave over a lot of space to carry out further research studies in this topic and the related. This research report will be very helpful and will act as a potential guide to those interested research students or groups as well as financial analysts in the Nepalese market.

ii. University students of new generation:
This study will be a valuable and a useful guideline to the upcoming students who want to gain some knowledge on this sector.

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

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

v. Commercial Banks:

Apart from the various groups and individuals mentioned above, this study will also be helpful to the respective commercial banks themselves to identify and have some glimpse of their own true picture.

vi. Researcher:

This study has a lot of significance to me and further researchers also. On the course of preparation of this report study, I got acquainted with various newer terminologies and also was able to deal with different parties. As a result, my knowledge on banking sector of Nepal has also become broader both practically as well as theoretically which will also provide ample opportunities to new researchers.

1.5 Limitations of the Study

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

i. The study was confined only to the fiscal years 2007/08 to 2011/12. So the generalization was based on these periods only.

ii. Only three banks, namely HBL, NABIL and SCBNL were selected for the study. Comparison with only these three out of so many contemporary firms may not present the clear position of any firm.

iii. Reports were based mainly on the published data of the sampled banks, which have been manipulated from annual reports.

iv. Most of the data were secondary, which itself was a limiting factor. But for the clarification purpose some primary data were also collected.

1.6 Organization of the Study

The whole study is divided into the five different consecutive parts as mentioned below:

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

Chapter second is divided into three two explicit headings. First part deals with the reviewing of the various literatures, definitions and concept of profit and profitability. The second one consists of the review of the existing studies, journals, articles and review of books concerned to profit and profitability.

Chapter third consists of the total population, sample of the study, data collection procedures and the analytical tools and techniques used in the study.

Chapter fourth constitutes the tabular and graphical representation of the collected data, their interpretation and analysis using various financial as well as statistical tools. Apart from it, summary of the major findings are also presented at the end of the chapter.

Chapter fifth contains the summary of the whole study and relevant conclusions were drawn based on the study. A suitable set of recommendations were made at the end of the chapter.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Theoretical Framework

The term non-performing asset is, "loans or advances whose credit quality has deteriorated such that full collection of principal and /or interest in accordance with the contractual repayment terms of the loan or advances are in question (Dhanuskodi, 2006:7).

An asset which ceases to generate income of the bank is called non-performing asset. The past due amount remaining uncovered for the two quarter consequently the amount would be classified as NPA for the whole year. It includes borrowers' defaults or delays in interest or principal repayment (Dhanuskodi, 2006:7).

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

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Rose (1999) in her book "Commercial Bank Management" states achieving superior profitability for a bank depends upon several crucial factors:

1. Careful use of financial leverage or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.

2. Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank used to boost its operating earnings before taxes as bank output grows.

3. Careful control of operating expenses so that more dollars of sales revenue become net income.

4. Careful management of assets portfolio to meet liquidity needs while seeking the highest returns from any assets acquired.

5. Careful control of the bank's exposure to risks so that the losses don't overwhelm its income and equity capital".

Michael, Baye and Jansen (1996) through their book 'Money, banking and financial market: an economic approach' have tried to analyse the bank's profitability under an economic approach. They state to maximize profits, banks should attract deposits unto the point where the value of marginal producer of deposits equals the interest rate paid on deposits.

Kolari and Fraser (2002) in the book, 'Financial Institutions: Understanding and managing financial services' says the following:

Banks earn interest on loans and investments; they pay interest to the depositors. When interest rates changes, there may be an effect on income if a bank holds rate sensitive assets and liabilities. If, for example, a bank holds more rate sensitive assets than liabilities when interest rate rise, profits will be improved because the bank will receive more in increased interest revenue than it will pay out in rising costs. The reverse would be true during a period of falling interest rates.

The interest gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive assets than liabilities is called a positive gap and excess of rate sensitive liabilities over assets result in a negative gap (Fraser & Ormiston, 2002: 32).

Emphasizing the bank's modern functions Meir Kohn (1999) writes in his book, 'Financial institutions and markets': Banks now have steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economies of scope, relatively unconstrained by regulations (Kohn; 1999:15).

Analyzing the behaviour and future prospects for profitability of a financial institution is a complex task. Many factors affect each institution's profitability. Among the most important factors are the friskiness of loans and investments made; liquidity needs and the institution's provision for these needs; the effectiveness of tax management practices; the level of efficiency in utilizing human and non-human resources; and the ability of management to control expenses (particularly interest expenses and employee costs). Well conceived lending policies and lending practices are essential if a bank is to perform its creating function effectively and minimize the risk inherent in any extension of credit (Kolari & Fraser, 2002: 124-125).

2.1.1 Reasons for Assets Becoming NPA

A multiplicity of factor is responsible forever increasing size of NPAs in banks. A few prominent reasons for assets becoming NPAs are as under.

i) Poor credit appraisal system
ii) Lack of proper monitoring
iii) Reckless advances to achieve the budgetary targets.
iv) There is no or lack of corporate culture in the Bank. In adequate legal provisions on
v) Foreclosure and bankruptcy.
vi) Change in economic policies/ environment.
vii) No transparent accounting policy and poor auditing practices.
viii) Lack of coordination between banks.
ix) Directed lending to certain sectors.
x) Failure on the part of the promoters to bring their portion of equity from their own
xi) Source or public issue due to market turning lukewarm.

2. 2 Methods of Management of NPA

The management of NPA is the difficult task in practice. Management of NPAs means, how to settle the NPAs account in the books. In simple it focuses on the methods of settlement of NPAs account. The methods are differs from bank to bank. The following paragraph explains some general methods of Management of NPAs by the banks (Dhanuskodi, 2006:10-13).

a) Compromise:

The dictionary meaning of the term compromise is settlement of dispute reached by mutual concessions (Dhanuskodi, 2006:13). The following are the detailed guidelines for compromise/negotiated settlements of NPAs.

- The compromise should be a negotiated settlement under which the bank should ensure recovery of its dues to the maximum extent possible of minimum expenses.
- Proper distinction should be made between willful defaulters and borrowers defaulting in repayments due to circumstances beyond their control.
- Where security is available for assessing the realizable value, proper weight age should be given to the location, condition and marketable title and possession of sub security.
- An advantage in settlement cases is that banks can promptly recycle the funds instead of resorting to expensive recovery proceedings spread over a long period.
- All compromise proposals approved by any functionary should be promptly reported to the next higher authority for post facto scrutiny.
- Proposal for write off/ compromise should be first by a committee of senior executives of the bank.
- Special recovery cells should be set up at all regional levels.

b) Legal Remedies:

The legal remedies are one of the methods of management of NPAs. The banks observed that the borrower is making willful default; no more time should be lost instituting appropriate recovery proceedings. The legal remedies are filling of civil suits.

c) Regular Training Program:

The all levels of executives are compelling to undergrowth the regular training program on credit and NPA management. It is very useful and helpful to the executives for dealing the NPAs properly.

d) Recovery Camps:

The banks should conduct the regular or periodical recovery camps in the bank premises or some other common places; such type of recovery camps reduces the level of NPAs in the Banks.

e) Write Offs:

Write offs is also one of the common management techniques of NPAs. The assets are treated as loss assets, when the bank writes off the balances. The ultimate aim of the write off is to cleaning the Balance sheet.

f) Spot Visit:

The bank officials should visit to the borrowers' business place or borrowers field regularly or periodically. It is also help full to the bank to control or reduce the NPAs limit.

g) Rehabilitation of Potentially Viable Units:

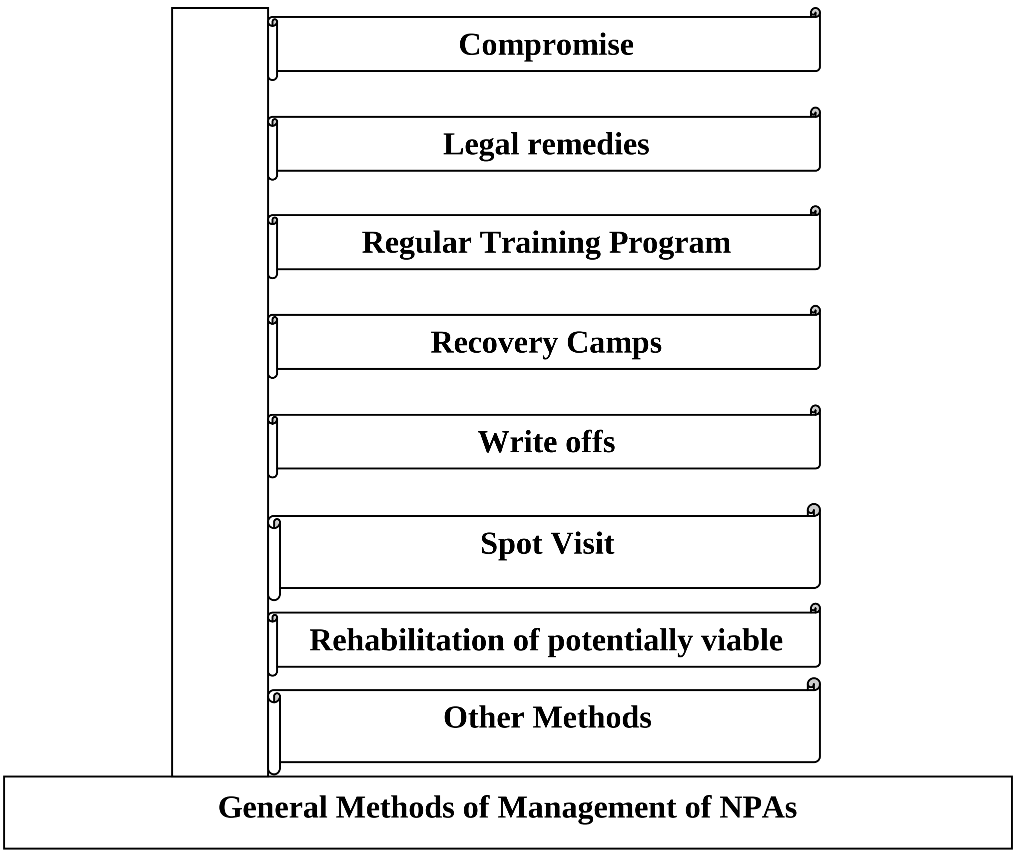
The unit is sick due to technical obsolescence's of inefficient management or financial irregularities. When the Bank settles the dues, of such, companies through the compromise or through the legal actions the better is to be followed.

h) Other Methods:

i) Persistent phone calls.

ii) Media announcement

General Methods of Management of NPAs



Source: R. Dhanuskodi, 2006

2.3 Nepal Rastra Bank Directives

NRB is the apex institution in the money and capital market. Being the central bank of the nation, it directs, supervise and control the function of commercial banks and other financial institutions. NRB has issued various directives. In order to develop healthy, competitive and secured banking and economic system to ensure national development. The following are the some of the relevant directions that NRB has circulated to the commercial banks.

2.3.1 Capital Adequacy Norms

2.3.1.1 Maintenance of Minimum Capital Fund

Effective from F.Y. 2062/63 (2005/06) the licensed institutions shall maintain minimum capital fund on the basis of their risk-weighted assets, as follows:

Institutions	Required Capital Fund on the basis of weighted risk assets (in percentage)	
	Core Capital	Capital Fund
Banks	6.0%	12.0%

2.3.1.2 Classification of Capital

For the purpose of calculation of Capital Fund, the capital of the banks shall be classified into the following 2 components.

(i) Core Capital

The amounts under the following heads shall be included in the Core Capital:

(a) Paid Up Capital

(b) Share Premium

(c) Irredeemable Preference Shares

(d) General Reserve Fund

(e) Accumulated Profit and Loss Account

(f) Capital Redemption Reserve

(g) Capital Equalization Reserve

(h) Other Free Reserve

The following items shall be deducted for the purpose of calculation of the Core Capital.

(a) Goodwill

(b) Excess amount of investment in shares and debentures of organized institutions than prescribed by Nepal Rastra Bank.

(c) Entire amount of investment made in shares and debentures of organized institutions having a financial interest.

(d) Fictitious Assets.

(ii) Supplementary Capital

For the purpose of calculation of Capital Fund, the amount under the following heads, not exceeding one hundred percent of the Core Capital, shall be included under the Supplementary Capital.

a) General Loan Loss Provision

Under this head, provision made only against the Pass Loan shall be included.

b) Assets Revaluation Reserve

The amount of Assets Revaluation Reserve can be included for the purpose of calculating Supplementary Capital subject up to 2 percent of the Total Supplementary Capital, inclusive of the amount of this Reserve.

c) **Hybrid Capital Instruments**

This includes the following instruments.

(1) Unsecured, fully paid up instruments which are subordinated to (priority of payment after) depositors and creditors, and

available to absorb losses as well as convertible into ordinary capital.

(2) Instruments, which are non-redeemable at the option of the holder except with the approval of Nepal Rastra Bank.

However, the licensed institutions cannot hold (purchase) Hybrid Capital Instruments issued by another licensed institution.

d) Unsecured Subordinated Term Debt

It includes unsecured and subordinated debt instruments (priority of payment after the depositors) with a minimum maturity term of over five years and limited life redeemable preference shares. To reflect the diminishing value of these instruments, a discount (amortization) factor of 20 percent during the last five years shall be applied.

The issue of these instruments shall not exceed 50 percent of their core capital.

a) Exchange Equalization Fund maintained by the licensed institutions authorized to deals in foreign exchange transactions.
b) Additional amount of loan loss provision maintained in excess of the requirement.
c) Provision for Possible Loss on Investment and Investment Adjustment Fund.

2.3.2 General Loan Loss Provision

Banks shall classify the loan and advances in accordance with Clauses 1 to Section 7, as follows:

2.3.2.1 Classification of Loan and Advances

(a) **Pass**

Loans or advances in this category are fully protected by the current financial and paying capacity of the borrower and or not subject to critism. In general, any loans or advance or portion thereof, this is fully secured, both as to principal and interest, by cash or cash substitutes, shall be classified under this category regardless of past due status or other adverse credit factors. All Loans and Advances which are not past due or past due for a period up to 3 (three) months shall be included in this category.

(b) Substandard

All loans and advances which are past due for a period of more than 3 months and up to 6 months shall be included in this category.

(c) Doubtful

All loans and advances which are past due for a period of more than 6 months or up to 1 (one) year shall be included in this category.

(d) Loss

All loans and advances which are past due for a period of more than 1 (one) year shall be included in this category.

2.3.2.2 Loan Rescheduling and Restructuring

The term "reschedule" means process of extending repayment period/time of credit taken by the borrower and the term "restructuring" means process of changing the nature or conditions of loan/facility, adding or deleting of conditions and change in time limit.

Banks may reschedule or restructure loans only upon submission of a written Plan of Action by the borrower, which is resurrecting on the following grounds. The basis of loan restructuring or rescheduling shall be enclosed with each credit files.

(a) Evidence of existence of adequate loan documentation and securities.

(b) Licensed institution is assured on possibility of recovery of restructured or rescheduled loan.

2.3.2.3 Loan Loss Provisioning

The loan loss provisioning on the outstanding loans and advances and bills purchases shall be provided on the basis of classification made as per this Directives, as follows:

Classification of Loan	Loan Loss Provision
Pass	1 Percent
Substandard	25 Percent
Doubtful	50 Percent

Loss	100 Percent

Full provisioning as per Sub-section (1) shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans. However, in case of insured loans, the provisioning requirement will be only 25% of the rates stated under Sub-section (1).

2.3.2.4 Single Borrower Obligor Limit

2.3.2.4.1 Fixation of Limit On Credit And Facilities

Bank may extend to a single borrower or group of related borrowers the amount of fund based loans and advances up to 25 percent of the Core Capital Fund and non fund based off-balance sheet facilities like letters of credit, guarantees, acceptances, commitments up to 50 percent of its Core Capital Fund. Fixation of limit on credit and facilities to single borrower shall be made on the basis of Core Capital Fund as per the latest quarterly balance sheet certified by the Internal Auditor of concerned institution. The Fund-Based loan and Non-Fund Based facilities are separate and accordingly the single borrower limit shall not be calculated by aggregating the both.

2.4 Review of Previous Studies

2.4.1 Review of Article

Dhanuskodi (2006) in his article entitled, “A Study on Non-performing Assets (NPAs) - with Special Reference to Commercial Bank of Ethiopia (CBE)”, in which he pointed out some major issue in NPAs. NPA reduce the yield on evidences but also reduces the profitability of CBE. The effect of NPAs can be classifies in to two categories i.e. Impact on internal factors and Impact on external factors. In NPAs affect the internal position of the bank. The following are the impact of internal factors. The overall expenses of the bank continued to rise for a number of reasons. The Provision for doubtful accounts, that caused the dramatic increase in total expenses. The size of provision for doubtful accounts varies from year to year because of the differences in the levels of the risk anticipated.

The NPA affects earning capacity of the bank. In general various causes reduce the profitability performance of the bank. The provision for doubtful debts is one among the most important cause for reducing the profitability of the bank. The net income before tax for the year 2004 was 712 million Birr, which is significantly lower than that of the preceding year. In anticipation of risks stemming from unfavorable business conditions, weak domestic investment and business activities and the global economy, the CBE set aside a large part of its income for provisioning for doubtful accounts. NPA reduce the earning capacity of assets, return on assets also gets affected. NPA is a double-edged weapon, which affects bank profitability due to interest income not being recognized on NPA accounts and loan loss previously to be created from profit earned. The bank must adopt structured NPAs management policy for elimination or reducing the NPAs in the Bank. In general the trend of NPAs in CBE are increasing trend, on the same time the CBE has been adopted a very good techniques to control over the NPAs (Dhanuskodi, 2006:27-31). With the help of the analysis, the researcher has observed the following findings. The findings are as follows:

The loans and advances have increased from the year 1994-95 to 2000-01 continuously. The loans and advances have started to decrease from the fiscal year 2001-02.

From the year 1994-95 to 2003-04, the gross NPA has increased continuously. In the fiscal year 1995-96, the gross NPA percentage has increased (5.74% - 5.02%) 0.72 percent. The highest percentage of increase in gross NPA was the year between 2001-02 and 2002- 03 i.e. 5.34%. The lowest percentage of increase in gross NPA was the year between 1997-98 and 1998-99 i.e. 5.34%.

The amount written off against the loans and advances has been made in the years 2001-02 and 2003-04 for Birr 192.4 and Birr 656.8 million respectively. The CBE has created the additional provisions every year, proportionately on loans and advances.

Total expenses including provision for doubtful debts has showed increasing trend except the fiscal year 2000 and 2003. There is no uniformity in net income before tax of CBE. In the fiscal year 2002, the CBE has incurred loss of Br. 506 million. The major reason for slight decrease in the level of ROA and ROE, of course, the provision for doubtful debts account.

Shrestha (2008), Deputy Chief Officer of Nepal Rastra Bank, Banking Operation Department, giving a short glimpse on the "Portfolio management in commercial bank, theory and practice" figured out the following.

Investors would like to select a best mix of investment assets subject to following aspects:

1. Certain capital gains
2. Good liquidity with adequate safety of investment
3. Maximum tax concession
4. Flexible investment
5. Economic, efficient and effective investment mix.

He suggested that the banks having international network can also offer access to global finance markets. He pointed out the requirements of skilled manpower, research and analysis team and proper management of information system (MIS) in any commercial bank. Mr. Shrestha concluded that:

- The survival of the banks depends upon their own financial health and various activities.
- The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client base and contribute in national economy (Shrestha; 2008: 45).

Karki (2009) summarized some of the challenges of Nepalese financial sector through his article "Nepalese Financial Sector: Challenges and Some Solution" that:

"The liquidity position of the banking sector is rated as high as 24 percent, but the productive sector of the economy is starved by credit crunch. This has created a paradoxical situation in the banking sector. The financial institutions especially commercial banks have to identify new areas of investment to increase loans and advances to reduce the liquidity position.

With the rapid growth in the number of bank, deposit insurance scheme is a must for social justice rather than economic justification” (Karki; 2009: 26-30).

Sharma opined, “Private commercial banks have mushroomed only in the urban areas where banking transactions in larger volume is possible. The rural and sub-urban areas mostly remain unattended to any of these kinds of opportunities. This is likely to prevail till competition takes its full pace and reign in the urban areas” (Sharma; 2009: 13).

2.4.2 Review of Thesis

Dhungana (2000) in his thesis entitled “A study on joint venture banks’ profitability” concluded that the profitability ratio of all the joint venture banks i.e., NABIL, NIBL and SCBNL were satisfactory, and their efficiency was also satisfactory in utilizing the deposits. However, they were found to mobilize savings from different parts of the country. The profit indicated in their financial statement was an inflated one, fluctuation in the foreign currency being the main reason.

The basic objective of the research was to appraise joint venture banks appropriately for the application of profitability and other objectives were listed as below:

- To highlight the current profit planning adopted and its effectiveness in Joint Venture Banks.
- To observe Joint Ventures Bank Profit Planning on the basis of overall managerial budget developed by the bank.
- To analyze the variance of budget and actual achievement.
- To study the growth of the business of the Joint Venture banks over the Period.

Major findings observed in the study were as follows:

- Objectives of the joint venture bank are expressed in literary form and not specified clearly therefore there is higher danger of it being misinterpreted in the ways of one's benefit by the concern

- Commercial banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial banks have lots of deposits but very little investment opportunities. They are even discouraging people by offering very low interest rates and minimum threshold balances.

- The study found that since the liquidity position of Nabil and SCBNL have not found satisfactory. It is therefore, suggested them to improve cash and bank balance to meet current obligations. SCBNL's loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow liberal lending policy for enhancement of lend mobilization.

- It was found that NIBL had not invested its fund on share and debenture of other companies. It is suggested to enhance off balance sheet transactions, diversifying investment, open new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher profit margin. Nabil and SCBNL are recommended to increase cash and bank balances to meet current obligations and loan demand.

- The above finding showed that there were some conflicting statements, which are obviously not matching with his statements of the problems. This study ignored the industry average and also failed to figure out what is right industry like banking among the excess of investment and advances. Again, he thought liberal lending policies to solve the problem to increase the level of loans and advances. But somewhere in his recommendation, he has warned commercial banks to increase the level of investment to government securities or other safe instrument just to avoid risk arising from lending. From this, it can be concluded that Mr. Dhungana has made his entire conclusion absolutely and he has not made any relative analysis of the pros and cons of the entire factor, affecting the study.

- Major concentration of resources mobilization of NB bank is at deposit mobilization. In this respect they are increasing higher cost towards deposit mobilization.

- Deposit mobilization of Joint Ventures bank is found to be considerable growing every year (Dhungana; 2000:78).

Khadka, (2004) has conducted a research on "*A Study of Investment Policy in Nepal Arab Bank Limited*", in comparison other joint venture banks in Nepal.

The research objectives of the study were as follows:

i) To measure the banks investment policy. The lending strength shall be measured in absolute to analyze the volume of contribution made by each bank.

ii) To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.

iii) To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.

iv) To measure the impact of investment in quality, efficiency and its contribution in total income.

Based on the above objectives of the study, the research findings of the study were as follows:

The steady and high volume of loans and advances throughout the years has resulted Nabil's ratio to be the highest. Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the normal ratios. This is the indicative of that in fund mobilizing activities Nabil is significantly better. In that topic he had recommended that in order to become success in competitive banking environment, bank should be able to utilize depositor's money as loans and advances. Since the largest items in bank's asset side is loans and advances, negligence of administering this could be the main cause of a liquidity crisis in the bank and also one of the main reasons of bank failure.

Ojha, (2005) has conducted a research on" *Lending Practices: A Study of Nabil Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited*"

The research objectives of the study were as follows:

i) To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
ii) To measure the banks lending strength. The lending strength shall be measured in absolute measures also to analyze the volume of contribution made by each bank in lending.
iii) To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
iv) To measure the lending performance in quality, efficiency and its contribution in total income.
v) To measure the growth rate and propensity of growth based on trend analysis.

Based on the above objectives of the study, the research findings of the study were as follows:

The measurement of the study revealed that the mean current ratio of all three banks is not widely varied. All the banks are capable in discharging their current liability by current assets. The ratio of liquid fund to current and total deposits has some degree of deviation among the banks as compare to current ratio. Cash and bank balance to interest sensitive liability has measured the liquidity risk arising from fluctuation of interest rate in the market. The measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. The steady and high volume of loans and advances throughout the years has resulted Nabil's ratio to be the highest. Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratios of other two banks. This is the indicative of that in fund mobilizing activities Nabil is significantly better than SCBNL.

Shrestha, (2007) has conducted a research on "*Investment Practice of Joint Venture Banks in Nepal*". He has selected three joint venture banks i.e. Nabil Bank Limited, Standard Chartered Bank Limited and SBI Bank Limited for the study of lending and investment practice.

The objectives of the study were as follows:

i) To highlight the features and problems of investment lending procedure in foreign commercial banks and their implementation in practical life

ii) To study priority sector investment and repayment rate of commercial banks in Nepal through intensive banking program.

iii) To show the repayment position of the sector of the three commercial banks.

The major findings of the study were as follows.

Commercial banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial banks have lots of deposits but very little investment opportunities. They are even discouraging people by offering very low interest rates and minimum threshold balances.

The study had concluded that since the liquidity position of Nabil and SCBNL have not found satisfactory. It is therefore, suggested them to improve cash and bank balance to meet current obligations. SCBNL's loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow liberal lending policy for enhancement of lend mobilization.

It was found that SBI had not invested its fund on share and debenture of other companies. It is suggested to enhance off balance sheet transactions, diversifying investment, open new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher profit margin. Nabil and SCBNL are recommended to increase cash and bank balances to meet current obligations and loan demand.

The above finding showed that there are some conflicting statements, which are obviously not matching with his statements of the problems. This study ignored the industry average and also failed to figure out what is right industry like banking among the excess of investment and advances. Again, he thought liberal lending policies to solve the problem to increase the level of loans and advances. But somewhere in his recommendation, he has warned commercial banks to increase the level of investment to government securities or other safe instrument just to avoid risk arising from lending. From this, it can be concluded that Mr. Shrestha has made his entire conclusion absolutely and he has not made any relative analysis of the pros and cons of the entire factor, affecting the study.

Shrestha, (2009) in her study entitled "*Impact and Implementation of NRB Guidelines (Directive of Commercial Banks- A study of NABIL Bank Limited and Nepal SBI Bank*" have been fully implantation the NRB's directives.

The main objectives of the study were as follows:

i) To analyze the significance and impact of Nepal Rastra Bank's directives on commercial banks;
ii) To examine the capital adequacy of selected banks.
iii) To examine the relation of capital funds to the other stakes of bank
iv) To make necessary suggestions and recommendations.

The major findings of the study were as follows:

Capital adequacy Ratio of NABIL and Nepal SBI are 13.40% and 12.86% respectively, which are more than 9%. Banks are following the directives but in same cases such like supplementary capital and balance at NRB there is shortfall. The excurses amount of total deposit in balance of NRB there is shortfalls. The banks have categorized the loan amount into four diffident categories as per NRB's directives. The increasing loan loss- providing amount decreased the profit of the banks. The charge in the single borrower limit has brought down the limits of the fund based and non-fund based loans which have resulted to reduced loan exposure to banks.

In her thesis she found that both NABIL and SBI banks has not increased supplementary capital as it has shortfall in comparison with NRB guidelines and to meet the supplementary capital adequacy ratio even though it can be compensated by the excess amount of core capital. The supplementary capital needs to be increased by Rs.122.74 million in NABIL Bank and Rs.125.57 million in Nepal SBI Bank. She says liquidity and profitability are like two wheels of one cart so banks cannot run in the absence of any one of them. One can be activated only at the cost of the other. Only liquid banks can attract loan core deposit, which helps in reducing interest expenses and give loan to good customer at lower rate, which results in requirement of less provision and high net profit. So banks should increase their primary reserve now to maintain the liquidity risk due to scrap out the secondary reserve. On the basis of findings, NABIL Bank has a shortfall of Rs.140.74 million thus NABIL has to increase its balance at NRB by such amount for better performance even after adding 1% excess amount of ash of total deposit.

Primary data has been used in order to get the view of banks on the directives issued by NRB. Question related to NRB directives 1.5 are used to collect for the study and implementation of directive by commercial bank. Secondary data are also used for the analysis this study the general directives issued in 2001 and 2002 are considered for the study. In issued directives of 2001 and 2002 there are 10 directives but only five directives i.e. (1-5) are highlighted and taken in the study.

Kafle, (2010) in his study entitled "*Non-performing Loans of Nepalese commercial banks*."

The researcher's main objectives of the study were as follows:

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

The major findings of the study were as follows:

Through the research he has found that the no banks have been following NRB's directives regarding the loan loss provision. He also conclude that the return on assets (ROA) and return on equity (ROE) of the bank deposed upon the NPLs. The high degree of negative correlation between NPL and ROA and the NPL and ROE clearly indicates that there is inverse relation between them. He has recommended that for the smooth operation of the commercial banks, the NPLs should be controlled for this bank should provide necessary training regarding loan management to the manpower's. In order to remove, the NPLs, banks should take enough collateral so that banks can recover its loan amount. For the loan loss provision as per the NRB directive and to reduce the NPL, the bank management should be effective and the NRB's monitoring and regulation is necessary.

Thapa, (2011) entitled "*A Study of Non-performance Assets of Nepalese Commercial Banks in Nepal*" of the period from FY 2005 to FY 2010.

The objectives of the study were as below:

a) To highlight Loans and Advances trend in commercial banks.
b) To point out the amount of NPAs in Nepalese commercial banks
c) To make the suggestions to overcome the problems of commercial banks regarding the NPAs

The major findings of his study were as follow:

- The status of non-performing loan of commercial banks shows that, they are making positive improvement over it. By the end of mid July 2007, the ratio of non-performing loans to total loan and advances declined to 9.65 percent. Total amount of non-performing loan remained to Rs. 22182.9 million in the same year. In the last year the percent and amount of non-performing loan were 14.22 percent and Rs. 26770.42 million respectively.
- Loans and advances, the major component of assets, constituted the 46.66 percent of total assets in mid July 2006. Similarly, investment and liquid funds, another component of assets, registered the 19.06 percent and 8.98 percent of total assets in the same year. In the preceding year the respective share of loan and advances, investment and liquid funds were 40.44 percent,

19.15 percent and 9.06 percent. In the current year the loan and advances increased by higher rate of 32.05 percent compare to 8.61 percent in the last year. By the end of mid July 2006 the total outstanding amount of loan and advances of commercial bank reached to Rs.228951.9 million. It was Rs. 173383.4 million in mid-July 2005.

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

Yadav, (2012) in his thesis entitled "*A Study on Non-performing Assets- with Special Reference to Nepal Bank Limited and Rastriya Banijya Bank Limited*"

The objectives of the study were as below:

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

The major findings were as follows:

- The share of RBB and NBL in the assets and liabilities of the banking sector is around 50%. Although international financial experts have been managing these banks, the performance especially for reducing NPA is not satisfactory.
- The management teams were supposed to bring NPA level to 5% level. The NPA total credit ratios of RBB increased from 20.17% in FY 1997/98 to 60.15% in FY 2002/03. It increased by 5% points in FY 2002/03 than the previous year. Like wise, the NPA / total credit ratio of NBL also increased from 27.46% to 60.47% in FY 2002/03, which shows the rising trend.
- Both of them has negative net worth since FY 1998/99 and the net worth figures continuously increased in the last five years. Although financial performance of both the management teams is totally unsatisfactory, they have improved in other areas. People are questioning the returns of such a huge expense. Is it going to be a futile exercise, suppose they brought down the NPA level to a satisfactory level? But what will happen after the management teams leave the banks? Questions are still remaining unanswered.
- The net profit trend of NBL and RBB is highly negative in first three fiscal year because more than 60% non performing asset. But now, NBL and RBB is earning profit from last two years.
- Total deposit is not correlated with this two banks' loan and advance. This is very serious matter and the main cause of over liquidity.
- Situation of deposit mobilization is poor in NBL and RBB. NBL and RBB was not focusing on the quality of loan rather focusing on the volume of loan.
- After the implementation of financial sector reform NBL and RBB is able to earn profit from 2060/61 and also able to decreasing volume of non - performing assets. But NBL and RBB have to more focus to improve the credit management because NBL and RBB are not able to maintain NPA as the specified standard of NRB i.e. 5 %.
- Credit related financial indicators in NBL and RBB seem irrelevant in comparison with the specified standard of NRB.
- Various acts and regulations are enacted for the financial sector reform but implementation of policies and directives like directed sector credit, sufficient provision for loan loss, volume of NPA is vital because of the increasing trend of NPA in commercial banks.

2.5 Concluding Remarks

There is no confusion that NPA and Cost efficiency both affects the profitability of commercial banks. But without a systematic research study, it cannot be said that how much these two are affected by NPA. On the surface, cost efficiency and NPA might appear to be largely unrelated, because operations personnel typically do not participate in screening and monitoring loan customers, and at the same time loan officers and review personnel typically do not participate in overseeing operations costs. Despite this separation between NPA and cost efficiency, it cannot be reached to a conclusion that there is no any relationship between NPA and cost efficiency of commercial banks. Therefore, to reveal the secret, it is necessary to conduct a systematic study. That is why this research will try to find out the relationship between NPA and cost efficiency. Likewise, this study will also highlight on the effect of NPA on banks profitability. Our main research problem is to analyze whether the sample banks have right level of NPA and liquidity as well as is able to utilize its resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Therefore, this study is useful to the concern bank as well as different persons: such as shareholders, investors, policy makers, stockbrokers, government agencies etc.

CHAPTER THREE

RESEARCH METHODOLOGY

Research may be defined as the systematic and objective analysis and recording of controlled observations that may lead to the development of generalization principles or theories, resulting in prediction and possibly ultimate control of events (Kothari, 1990:94). Since the definitions of this sort are rather abstract, a summary of some of the characteristics of research may help to clarify its spirit, meaning and methodology. This chapter describes the approach, materials, and procedures of the present study in order to analyze the primary and secondary data.

3.1 Research Design

"Research design is the plan structure and strategy of investigation convinced so as to obtain answer to research questions and to control variance. The plan is the overall scheme of program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implication to the financial analysis of data" (Kothari, 1990:102). Three banks were selected for the research purpose. The study has attempted to see the non performing assets and effect on profitability and NPA status of the selected banks. Analytical and descriptive research designs were applied.

3.2 Population and Sample

There are 31 commercial banks operating in the country which were the population of this research study. Out of this population, only three commercial banks namely HBL, NABIL and SCBNL were taken as the sample of the study based on some commonalities.

3.3 Sources of Data

Mainly, the data used in the study are of secondary type. Published annual reports of the concerned organizations were taken for the basic source of data. Similarly, official records, other related magazines and bulletins, data of Nepal Stock Exchange and Nepal Rastra Bank's banking directives and financial statistics, etc as well as other supplementary data and various economic surveys were also used. Previous studies related to the subject and unpublished official records of the banks were also accounted as the source of information.

3.4 Data Collection Procedure

First of all, bibliography cards were prepared on the basis of available literature studies, journals and reports. Pertinent literature and studies were accumulated from various libraries, documentation centers and required financial statements and records were collected from concerned office and downloaded from the internet. Thereafter, necessary clarifications were also made through officials of the banks. Collected secondary data were tabulated, organized and presented in tabular form. Data were analyzed with the aid of analytical tools. On the basis of study, conclusions were drawn and suitable recommendations were also made. This study covered a period of immediate past five years from fiscal year 2007/08 to 2011/12.

3.5 Tools Used in the Study

Primary and secondary data which collected from the different sources are used for analytical study by using the following statistical and financial tools.

- Financial Tools
- Statistical Tools

3.5.1 Financial Tools

The financial tools used for analyzing the data were profitability and asset management ratios under ratio analysis. The formulas of key indictors used in this study were as follows:

a. Return on Equity (ROE) = $\frac{\text{Net profit available to common stockholders}}{\text{Total shareholders' equity}} \times 100$

b. Return on assets (ROA) = $\frac{\text{Net profit after taxes}}{\text{Total assets}} \times 100$

c. Profit margin ratio = $\frac{\text{Net profit}}{\text{Total Sales}} \times 100$

d. Return on loans & advances = $\frac{\text{Net profit}}{\text{Total loans \& advances}} \times 100$

e. Return on fixed assets = $\frac{\text{Net profit}}{\text{Fixed assets}} \times 100$

f. Total credit to total deposit ratio = $\frac{\text{Total credit (loans \& advances)}}{\text{Total deposit}}$

g. Gross interest income to loans & advances ratio = $\frac{\text{Gross interest income}}{\text{Total loans \& advances}}$

h. Interest expenses to total deposit = $\frac{\text{Total interest expenses}}{\text{Total deposits}} \times 100$

i. Net interest income (Interest Spread) = Total Interest Income earned – Total Interest Paid

j. Total interest income to gross income = $\frac{\text{Total interest income}}{\text{Gross income}} \times 100$

k. Credit & Advances to Total Assets = $\frac{\text{Credit \& Advances}}{\text{Total Assets}} \times 100$

l. Non-performing credit to credit & advances = $\frac{\text{Non - performing credit}}{\text{Total credit \& advances}}$

m. Earnings per share (EPS) = $\frac{\text{Net profit available to equity shareholders}}{\text{No. of common shares outstanding}}$

n. Operating expenses to total assets ratio = $\frac{\text{Total operating expenses}}{\text{Total assets}}$

3.5.2 Statistical Tools

Arithmetic Average (Mean)

For the purpose of study as regards to interpretation and comparison arithmetic average was used for the individual data. The arithmetic average is calculated by summing up the ratios and by dividing this figure by the number of observations. In this study case, the study is limited to the past five-year data.

Arithmetic mean (Average) = $\frac{X}{n}$

Standard deviation (S.D.)

It was calculated as an absolute measure of dispersion or variability in the given data with regard to the average variable. Standard deviation for the ratios has been calculated as follows:

$$\text{S. D. } (\sigma) = \frac{(X - \bar{X})}{n}$$

Coefficient of Variation (C.V.)

We use coefficient of variation as a relative measure of dispersion or as a test for consistency of the given data (ratios) as regards to the variation per unit of average ratio. It is always expressed in percentage and is calculated as follows:

$$\text{C.V.} = \frac{\text{Average (Mean)}}{\text{S.D.}}$$

Karl Pearson's Coefficient of Correlation

It is a kind of statistical tool used for measuring the intensity or magnitude of linear relationship between the two variables. Also known as Pearsonian correlation coefficient between two variables (say X and Y), denoted by 'r_{xy}' or simply 'r' can be obtained as

$$r = \frac{n \quad XY - \quad X \quad Y}{\sqrt{\left[n \sum X^2 - (\sum X)^2\right] \times \left[n \sum Y^2 - (\sum Y)^2\right]}}$$

Where, n = number of observations in series X and Y
The value of correlation coefficient, 'r', always lies between '-1' to '+1'.
If r = +1, it can be stated that there is perfect positive relationship between variables X and Y.
If r = -1, it can similarly be stated that there lies perfect negative relationship between the given two variables.
If r = 0, it states that there is no correlation at all between the two study variables.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

Presentation, Analysis and Interpretation of data is essential to find out efficiency between these there sampled Commercial banks i.e Himalayan Bank Limited, Nabil Bank Limited and Standard Chartered Bank Nepal Limited. Secondary data available in the annual report is the main source of the analyzing and same data is interpreted and analyzed using both statistical as well as financial tools.

4.1. Financial Analysis

4.1.1 Return on Assets

This is one of the best measures of profitability of the commercial banks, which indicates the extent of the utilization of the overall assets of the commercial banks in generating income. Higher ratio is desirable for all banks. This ratio is computed by using the following formula.

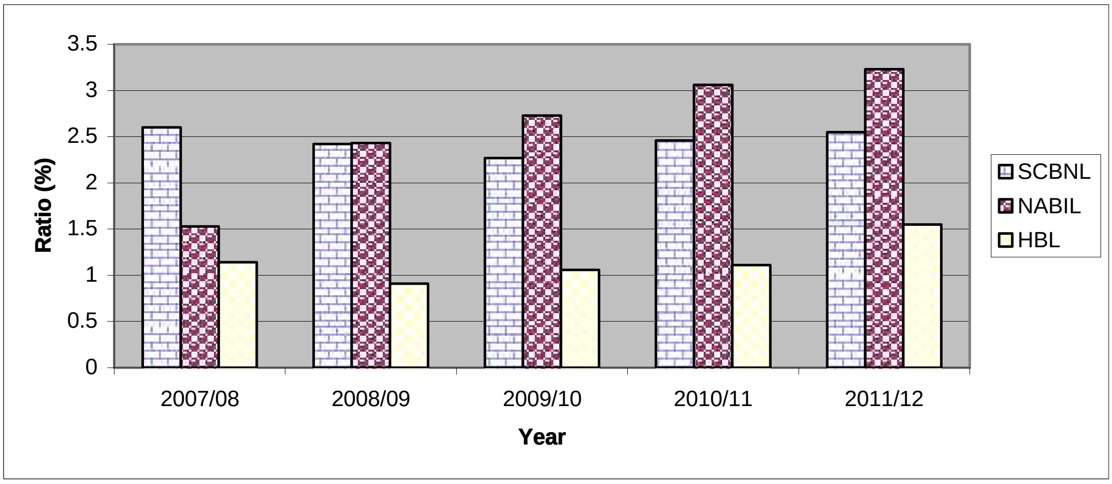
$$\text{Return on assets (ROA)} = \frac{\text{Net profit after taxes}}{\text{Total assets}}$$

Table 4.1
Return on Total Assets of Commercial Banks

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D	C.V.
SCBNL	2.6	2.42	2.27	2.46	2.55	**2.46**	**0.13**	**5.20**
NABIL	1.53	2.43	2.73	3.06	3.23	**2.60**	**0.67**	**25.83**
HBL	1.14	0.91	1.06	1.11	1.55	**1.15**	**0.24**	**20.66**

Source: Annual Reports of Banks and Appendix-I

Figure 4.1
Return on total assets of Commercial Banks



The table 4.1 depicts the scenarios of return on total assets of commercial banks. The return on total assets gives the major indicator of profitability of the banks. The return on assets ratios of SCBNL were 2.6%, 2.42%, 2.27%, 2.46% and 2.55% for the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average ROA for the bank over the immediate past five year period was found to be 2.46% with a coefficient of variation of 5.20%.

The ROAs of NABIL were 1.53%, 2.43%, 2.73%, 3.06% and 3.23% for the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively with an average of 2.60% over the period. The variability of ratio per unit of average remained 25.83%.

The ROAs of HBL were s 1.14%, 0.91%, 1.06%, 1.11% and 1.55% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average ROA of the bank was found to be 1.15% with a coefficient of variation of 20.66%.

The above table shows that NABIL had the highest average ROA for the period and HBL had the lowest average return on assets ratio among the three banks. The average ROA of SCBNL lied between the ROAs of the two banks. Likewise, the coefficient of variation of the ratios of NABIL was the highest and the coefficient of variation of the return on assets of SCBNL was the lowest of the three. This indicated that SCBNL's returns on assets ratios were more consistent as compared to the ROAs of the other two banks.

The return on assets ratios of NABIL and HBL were at an increasing trend over the years while the ratios of SCBNL was found at an almost horizontal trend over the years as given by the ratios plotted in graph for the fiscal years.

4.1.2 Return on Equity

Equity here means shareholders' equity, which includes common share capital, preference share capital, share premium, reserves and surpluses, and retained earnings. It is also known as net worth. This ratio indicates how well the firm has used the resources of the owners. This ratio is calculated by using the following formula.

$$\text{Return on shareholders' equity} = \frac{\text{Net profit after tax}}{\text{Shareholders' fund}}$$

Table 4.2
Return on Equity of Commercial Banks (%)

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V (%)
SCBNL	38.79	37.03	35.96	34.07	37.55	**36.68**	**1.78**	**4.85**
NABIL	10.91	18.28	20.93	19.67	33.88	**20.73**	**8.31**	**40.10**
HBL	27.39	19.95	19.87	20.00	25.90	**22.62**	**3.71**	**16.40**

Source: Annual Reports of Banks and Appendix-I

Figure 4.2
Return on Equity of Commercial Banks (%)

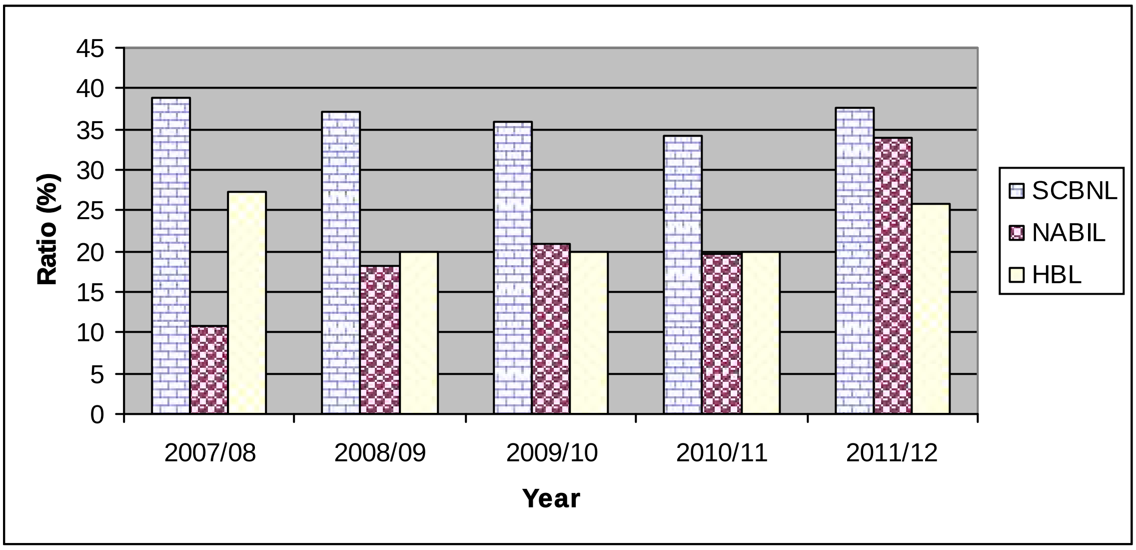


Table 4.2 shows that the ROEs of SCBNL were 38.79%, 37.03%, 35.96%, 34.07% and 37.55% for the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively with an average ratio of 36.68% over the period. The variability of ratio per unit of average return on equity ratio remained 4.85% for SCBNL.

The ROEs of NABIL were 10.91%, 18.28%, 20.93%, 19.67% and 33.88% for the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively with an average of 20.73% over the period. The variability of ratio per unit of average return on equity remained 40.10% for NABIL.

The ROEs of HBL were 27.39%, 19.95%, 19.87%, 20.00% and 25.90% for the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively with an average of 22.62% over the period. The variability of ratio per unit of average ratio remained 16.40% for HBL.

The above study showed that SCBNL had the highest average return on equity ratio over the study period. HBL had the lowest average return on equity ratio over the period in comparison with the three banks. The average return on equity ratio of NABIL remained in between these two banks' ratios. Again SCBNL had the least coefficient of variation of return on equity ratios. And NABIL had the highest coefficient of variation of ratios as compared to the other banks. This indicates that SCBNL's ROEs were more consistent and NABIL's ROEs were more variable among the three banks.

Only the return on equity ratios of NABIL showed an excessively increasing trend over the study period. The ratios of SCBNL and HBL showed a slightly decreasing trend.

4.1.3 Net Profit Margin

This ratio is also one of the major indicators of the profitability of the commercial banks. This ratio shows the portion of the net profit left over the bank's (shareholders) after meeting aside all expenses and provisions. Higher ratio indicates the better position and vice versa. This ratio is calculated by using the following formula

$$\text{Profit margin ratio} = \frac{\text{Net profit}}{\text{Total Sales}} \times 100$$

Table 4.3
Profit Margin

Banks \ Year	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V (%)
SCBNL	33.12	33.71	33.95	34.01	37.06	**34.37**	**1.54**	**4.49**
NABIL	16.57	29.16	31.92	34.33	35.32	**29.46**	**7.59**	**25.76**
HBL	28.96	27.51	30.75	32.98	21.77	**28.39**	**4.23**	**14.90**

Source: Annual Reports of Banks and Appendix-I

Figure 4.3
Profit Margin

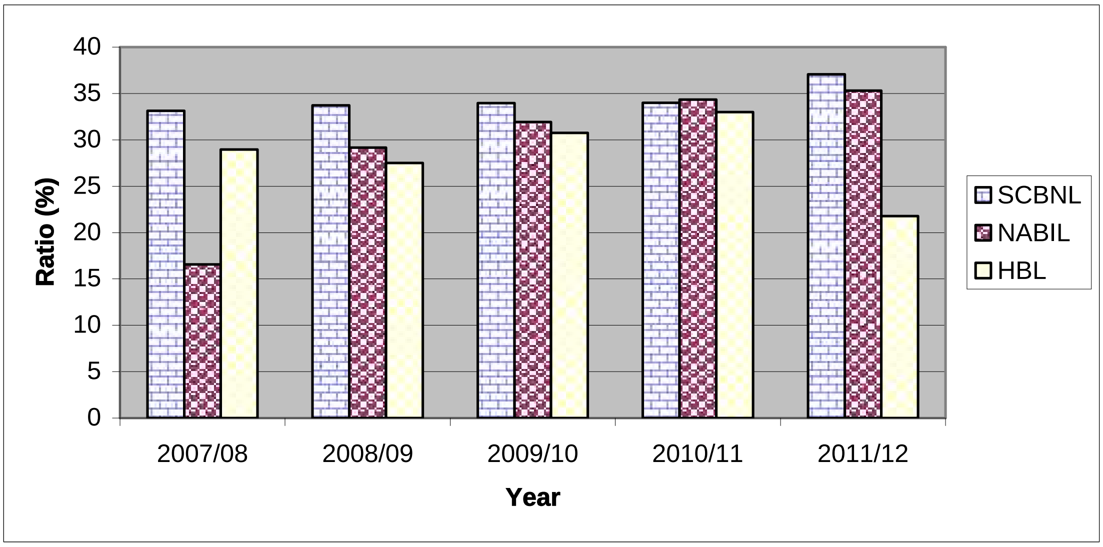


Table 4.3 shows that the net profit margin ratios of SCBNL were 33.12%, 33.71%, 33.95%, 34.01% and 37.06% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively with an average of 34.37% over the period. The variability of ratio per unit of average net profit margin ratio remained 4.49%.

The net profit margin ratios of NABIL were 16.57%, 29.16%, 31.92%, 34.33% and 35.32% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively with an average of 29.46% over the period. The variability of ratio per unit of average net profit margin remained 25.76%.

The net profit margin ratios of HBL were 28.96%, 27.51%, 30.75%, 32.98% and 21.77% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively with an average of 28.39% over the period. The variability of ratio per unit of average net profit margin remained 14.90%.

SCBNL again had the highest average net profit margin ratio over the study period. And HBL had the lowest average profit margin ratio over the study period as compared to the other two banks. The coefficient of variation of the ratios of SCBNL was the lowest of all the sampled banks. Similarly, the coefficient of variation of the ratios of NABIL was the highest of the three. Therefore, it indicated that the profitability in terms of SCBNL was the best of the three.

The trend of the profit margin ratios of SCBNL showed an upward slope curve. The trend of the same ratios of NABIL showed an excessively upward slope as compared to the trend lines of the ratios of the three. However, the ratios of HBL were found to be declining over the years which led to the slightly downward trend line of the ratios.

4.1.4 Return on Loans & Advances

This ratio is useful in evaluating the overall efficiency of the management of the banks in generating meaningful returns in a year. This ratio is calculated by dividing the net profit after taxes by total loans & advances by using the following formula:

$$\text{Return on loans \& advances} = \frac{\text{Net profit}}{\text{Total loans \& advances}}$$

Table 4.4
Net Profits to Loans & Advances

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S. D.	C.V (%)
SCBNL	9.13	9.09	8.51	6.85	7.63	**8.24**	**0.99**	**11.97**
NABIL	3.51	5.27	5.33	5.32	5.24	**4.93**	**0.80**	**16.15**
HBL	2.64	2.12	2.20	2.48	3.12	**2.51**	**0.40**	**15.90**

Source: Annual Reports of Banks and Appendix-I

Figure 4.4
Net Profits to Loans & Advances

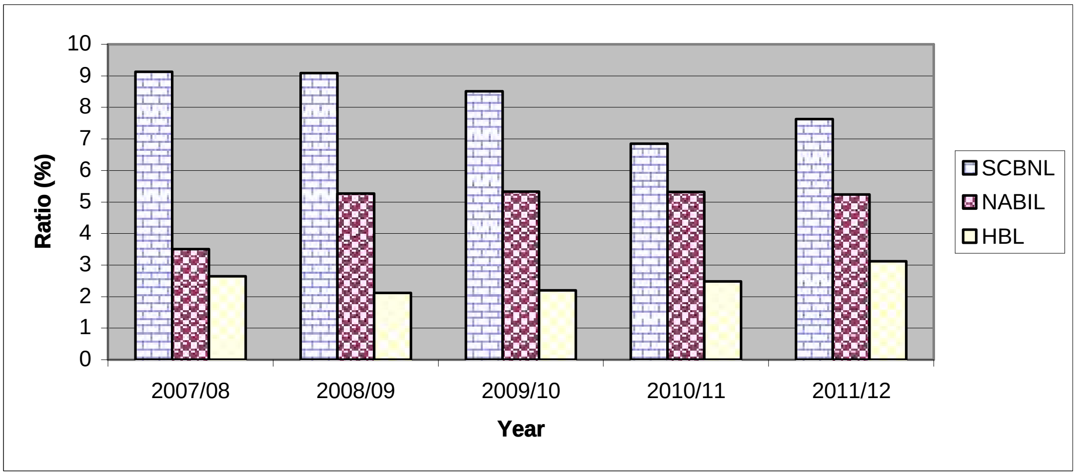


Table 4.4 shows that the return on loans & advances ratios of SCBNL were 9.13%, 9.09%, 8.51%, 6.85% and 7.63% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average return on loans & advances of the bank was found to be 8.24% with a coefficient of variation of 11.97%.

The return on loans & advances ratios of NABIL were 3.51%, 5.27%, 5.33%, 5.32% and 5.24% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average return on loans & advances of the bank was found to be 4.93% with a coefficient of variation of 16.15%.

Similarly, the return on loans and advances ratios of HBL were 2.64%, 2.12%, 2.20%, 2.48% and 3.12% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average return on loans & advances of the bank was found to be 2.51% with a coefficient of variation of 15.90%.

On the basis of the above analysis it was found that SCBNL had the highest return on loans & advances on an average for the immediate past five years data of the sampled commercial banks. Similarly, HBL had been found to be having the lowest average return on loans & advances. The coefficient of variation of the ratios of NABIL was found to be highest of the three. Similarly, the coefficient of variation of the ratios of SCBNL was found to be the least of the three.

The ratios of the SCBNL provided a downward sloping trend line. The ratios of NABIL and HBL led to an upward sloping trend line. However, the rate of inclination of the trend line is higher for NABIL than in case of HBL.

4.1.5 Return on Fixed Assets

This ratio measures the effectiveness of banks in generating profits through the usage of available fixed assets. This ratio is calculated by dividing the net profit after taxes by net fixed assets of the banks as given below:

$$\text{Return on fixed assets} = \frac{\text{Net profit}}{\text{Fixed assets}}$$

Table 4.5
Return on Fixed Assets

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V. (%)
SCBNL	474.18	264.44	397.74	755.08	656.34	509.56	197.27	38.71
NABIL	114.31	165.23	134.66	143.57	199.14	151.38	32.36	21.37
HBL	73.71	92.28	87.79	104.21	84.59	88.52	11.13	12.58

Source: Annual Reports of Banks and Appendix-II

Figure 4.5
Return on Fixed Assets

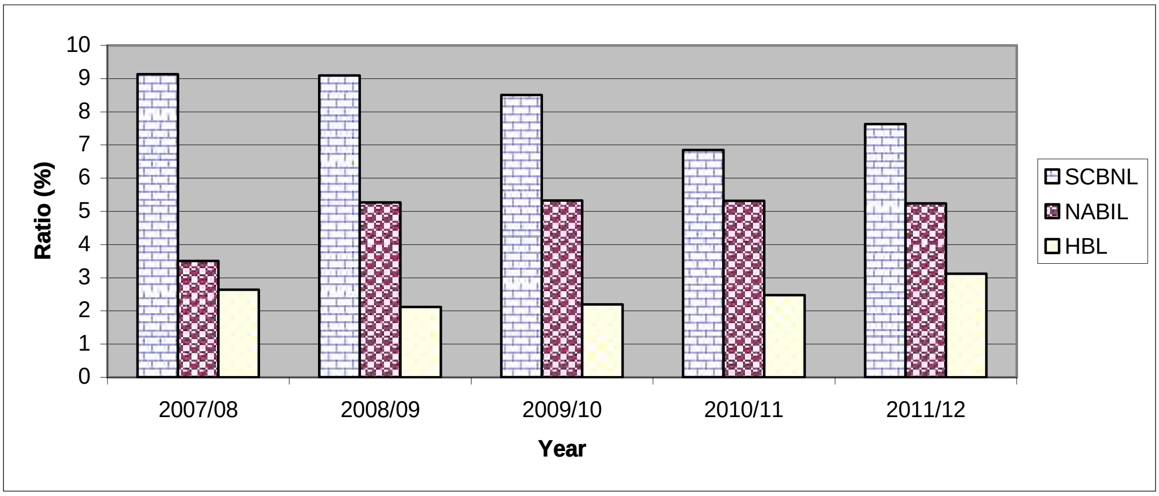


Table 4.5 shows that the return on fixed assets ratios of SCBNL were as 474.18%, 264.44%, 397.74%, 755.08% and 656.34% in the respective fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12. The average return on fixed assets ratio of the bank over the five year period was 509.06% with a coefficient of variation of ratio of 38.71%.

The return on fixed assets ratios of NABIL were found as 114.31%, 165.23%, 134.66%, 143.57% and 199.14% in the respective fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12. The average return on fixed assets ratio of the bank over the five year period was 151.38% with a coefficient of variation of ratio of 21.37%.

Likewise, the return on fixed assets ratios of HBL were found as 73.71%, 92.28%, 87.79%, 104.21% and 84.59% in the respective fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12. The average return on fixed assets ratio of the bank over the five year period was 88.52% with a coefficient of variation of ratio of 12.58%.

The above study showed that SCBNL had the highest average return on fixed assets ratio over the study period out of the three sampled commercial banks. Similarly, NABIL had the second highest average return on fixed assets ratio over the study period. And HBL had the least average return on fixed assets ratio over the study period. However, the coefficient of variation of the ratios of HBL was found the least of all. And the coefficient of variation of the ratios of SCBNL was the highest of all the three banks.

The ratios of the SCBNL provided an excessively upward sloping trend line. The ratios of NABIL and HBL also gave slightly upward sloping trend lines.

4.1.6 Total Credit to Total Deposit Ratio

This ratio is the major indicator of the lending efficiency of the banks. In other words, it is the ratio that measures the extent of the mobilization of the deposits in extending credit (loans and advances).

$$\text{Total credit to total deposit ratio} = \frac{\text{Total credit (loans \& advances)}}{\text{Total deposit}}$$

Table 4.6
Total Credit to Total Deposit ratio

Banks \ Year	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S. D.	C.V (%)
SCBNL	35.97	31.99	31.63	43.49	39.92	**36.60**	**5.12**	**13.99**
NABIL	50.31	60.34	60.55	75.05	68.63	**62.98**	**9.37**	**14.87**
HBL	47.89	47.61	54.30	50.07	55.27	**51.03**	**3.58**	**7.01**

Source: Annual Reports of Banks and Appendix-I

Figure 4.6
Total Credit to Total Deposit ratio

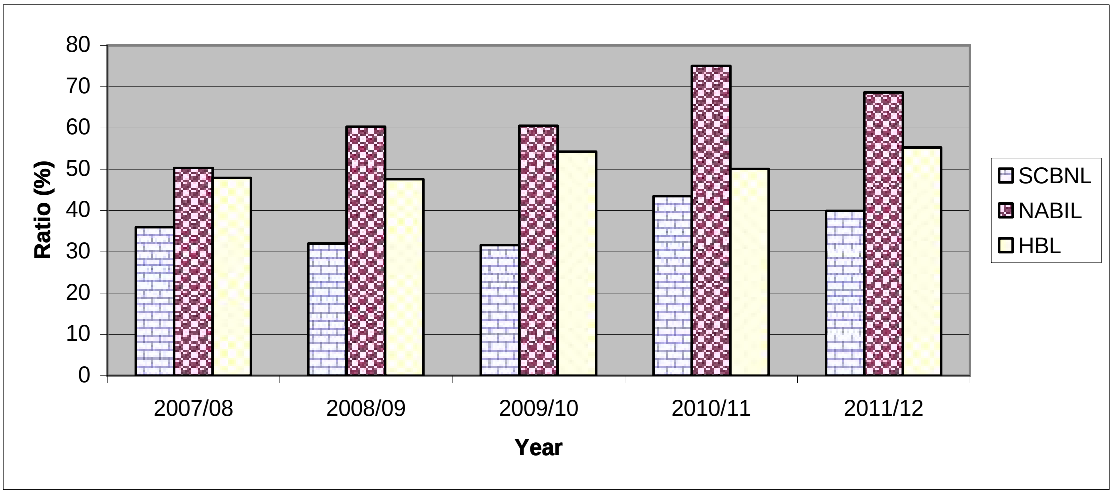


Table 4.6 shows that the ratios of total credit to total deposit of SCBNL were 35.97%, 31.99%, 31.63%, 43.49% and 39.92% over the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average total credit to total deposit ratio of the bank over the five year period was 36.60% with a coefficient of variation of 13.99%.

The total credit to total deposit ratios of NABIL were 50.31%, 60.34%, 60.55%, 75.05% and 68.63% over the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average total credit to total deposit ratio of the bank over the five year period was 62.98% with a coefficient of variation of 14.87%.

And, the total credit to total deposit ratios of HBL were 47.89%, 47.61%, 54.30%, 50.07% and 55.27% over the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average total credit to total deposit ratio of the bank over the five year period was 51.03% with a coefficient of variation of 7.01%.

The above study showed the extent of the deposit mobilized by the banks out of total deposits accepted for the three sampled banks. It was found that NABIL had the highest average total deposit mobilization ratio as compared to the other two banks. The second leading position was occupied by HBL, whose average total credit to total deposit ratio was the second highest among the three banks. And SCBNL had the lowest average total deposit mobilization ratio out of the three sampled banks. Similarly, HBL had the lowest coefficient of variation of the ratios thus signifying the highest consistency in mobilizing total deposits over the study period. And NABIL had the highest coefficient of variation of the ratios thereby indicating more volatility or variability in mobilizing deposits.

The trend of the total deposit mobilization ratios for all the three banks remained upward slope over the study period. The ratios for the banks were at an increasing rate over the years. The deposit mobilization indicators of the banks were rising over the years.

The indicator of the total credit-deposit ratio only is not sufficient for judging the sound deposit mobilization of the total deposits of the banks. For effective judgment and correct analysis, judgment of the quality of lending with the help of ratio of non-performing loans to total credit ratios. Only then it can be stated which bank is the best in lending credit.

4.1.7 Gross Interest Income to Loans & Advances

This ratio also indicates the amount of the interest income (before deducting interest expenses) earned by the commercial banks through mobilization of deposit as loans & advances. This ratio also has positive relation with the profit of the commercial banks. This ratio is computed by using the following formula

$$\text{Gross interest income to loans \& advances ratio} = \frac{\text{Gross interest income}}{\text{Total loans \& advances}}$$

Table 4.7
Total Interest Incomes to Loans & Advances

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S. D.	C.V (%)
SCBNL	10.31	10.11	8.83	7.43	6.23	**8.58**	**1.75**	**20.38**
NABIL	10.34	9.83	9.45	8.70	8.29	**9.32**	**0.83**	**8.92**
HBL	12.89	11.08	9.64	10.75	11.11	**11.09**	**1.17**	**10.53**

Source: Annual Reports of Banks and Appendix-II

Figure 4.7
Total Interest Incomes to Loans & Advances

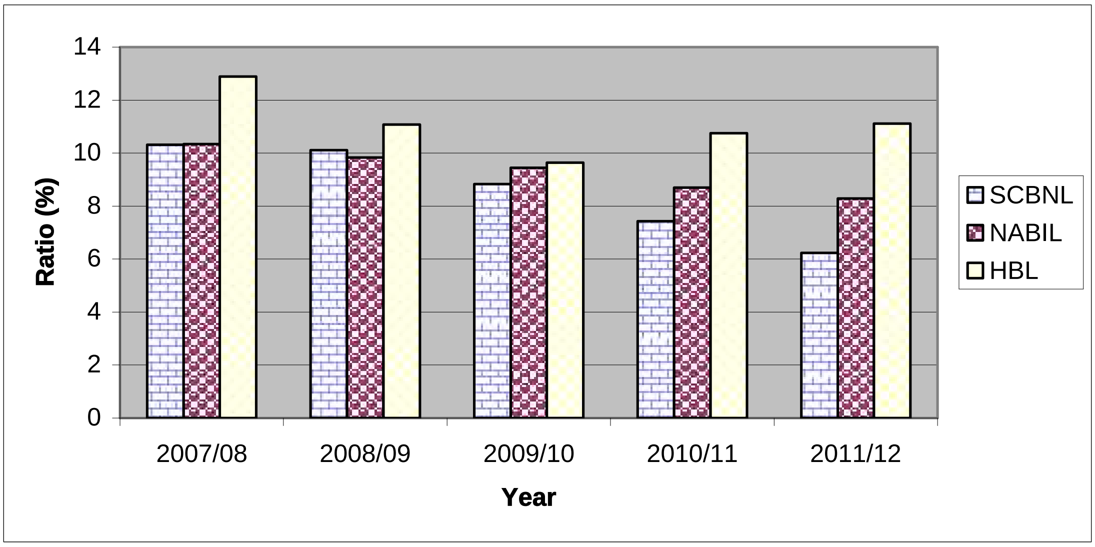


Table 4.7 shows that the interest incomes to loans & advances ratios of SCBNL were 10.31%, 10.11%, 8.83%, 7.43% and 6.23% during the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average interest income to loans & advances ratio of the bank over the five year period remained at 8.58% with a coefficient of variation of 20.38%.

The interest income to loans & advances ratios of NABIL were 10.34%, 9.83%, 9.45%, 8.70% and 8.29% during the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average interest income to loans & advances ratio of the bank over the five year period remained at 9.32% with a coefficient of variation of 8.92%.

The interest income to loans & advances ratios of HBL were 12.89%, 11.08%, 9.64%, 10.75% and 11.11% during the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average interest income to loans & advances ratio of the bank over the five year period remained at 11.09% with a coefficient of variation of 10.53%.

The study of the total interest income to total loans & advances showed that HBL had earned the highest interest income on loans & advances over the period. And SCBNL had earned the lowest average income in the form of interest over loans & advances over the study period in comparison to other two banks. SCBNL had the highest coefficient of variation of the ratios and NABIL had the lowest coefficient of variation of the ratios out of the three sampled commercial banks.

The trends of the ratios of all the three banks remained downward sloping over the years. It indicated that the incomes earned on loans & advance in the form of interest declined over the years.

4.1.8 Interest Expenses to Total Deposit

This ratio is a good indicator to find out the proportion of expenses paid on behalf of interest paid to the deposit holders for accepting the deposit liabilities by the banks. Here, the total deposit includes all kinds of deposits including deposit in current account, savings account, fixed account, etc. This ratio is calculated by using the following formula:

$$\text{Interest expenses to total deposit} = \frac{\text{Total interest expenses}}{\text{Total deposits}}$$

Table 4.8
Interest Expenses on Total Deposit

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S. D.	C.V (%)
SCBNL	1.82	1.35	1.3	1.31	1.31	**1.42**	**0.23**	**15.91**
NABIL	16.57	29.16	31.92	34.33	35.32	**29.46**	**7.59**	**25.76**
HBL	3.11	2.64	2.23	2.26	2.40	**2.53**	**0.36**	**14.38**

Source: Annual Reports of Banks and Appendix-II

Figure 4.8
Interest Expenses on Total Deposit

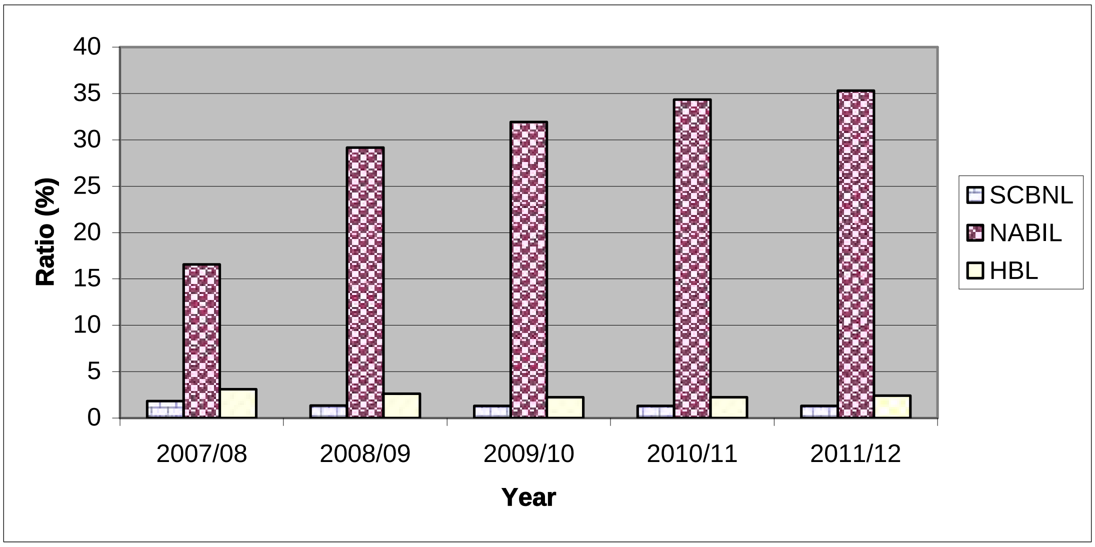


Table 4.8 shows that the shares of interest expenses on total deposit for SCBNL were 1.82%, 1.35%, 1.30%, 1.31% and 1.31% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average share of interest expenses on total deposit for the bank was 1.42% with a coefficient of variation of 15.91%.

The shares of interest expenses on total deposit for NABIL were16.57%, 29.16%, 31.92%, 34.33% and 35.32% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average share of interest expenses on total deposit for the bank was 29.46% with a coefficient of variation of 25.76%.

The shares of interest expenses on total deposit for HBL were 3.11%, 2.64%, 2.23%, 2.26% and 2.40% in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average share of interest expenses on total deposit for the bank was 2.53% with a coefficient of variation of 14.38%.

The above study clearly showed that NABIL had the highest average share of interest expenses on total deposit over the study period. SCBNL had the lowest average share of interest expenses over total deposit among the three banks. And HBL had the second lowest average interest expenses on total deposit ratio out of the three banks. Again NABIL had the highest coefficient of variation of the ratios. And HBL had the lowest coefficient of variation of the ratios.

The shares of interest expenses on total deposit for NABIL showed a highly increasing trend over the years. And the same for SCBNL and HBL were at almost horizontal trend. This meant that the interest expenses were rising for NABIL and were increasing almost at constant rates for the rest two banks.

4.1.9 Net Interest Income

Net interest income is the total net income earned by deducting total interest paid in the total interest income earned by the commercial banks. It is calculated as:

Net interest income = Total Interest Income earned – Total Interest Paid

Table 4.9
Net Interest Incomes of Commercial Banks

(Rs. In million)

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (Rs.)	S.D.	C.V. (%)
SCBNL	713.78	746.23	766.37	804.55	886.40	**783.47**	**66.29**	**8.46**
NABIL	658.11	700.52	718.67	825.2	952.84	**771.07**	**118.80**	**15.41**
HBL	570.87	647.11	754.35	884.50	977.63	**766.89**	**166.71**	**21.74**

Source: Annual Reports of Banks and Appendix-II

Figure 4.9
Net Interest Incomes of Commercial Banks

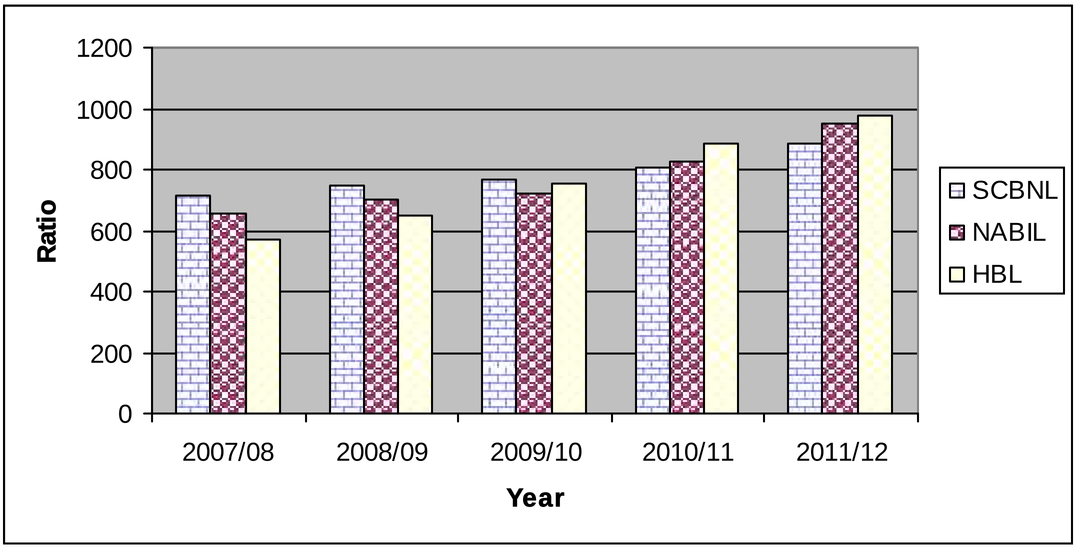


Table 4.9 shows that the net interest incomes of SCBNL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 was Rs. 713.78 million, Rs. 746.23 million, Rs. 766.37 million, Rs. 804.55 million and Rs. 886.40 million respectively. The average net interest income of the bank over the immediate past five-year period remained at Rs. 783.47 million with a coefficient of variation of income of 8.46%.

The net interest incomes of NABIL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were Rs. 658.11 million, Rs. 700.52 million, Rs. 718.67 million, Rs. 825.20 million and Rs. 952.84 million respectively. The average net interest income of the bank over the immediate past five-year period was Rs. 771.07 million with a coefficient of variation of income of 15.41%.

Similarly, the net interest incomes of HBL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were Rs. 570.87 million, Rs. 647.11 million, Rs. 754.35 million, Rs. 884.50 million and Rs. 977.63 million respectively. The average net interest income of the bank over the immediate past five-year period was Rs. 766.89 million with a coefficient of variation of income of 21.74%.

The study shows that SCBNL had the highest average net interest income over the study period. And HBL had the lowest net interest income over the period on an average. The average net interest income of NABIL was the moderate of the three. HBL had the highest coefficient of variation of net interest income and SCBNL had the lowest coefficient of variation. The coefficient of variation of net interest income for the period was moderate in NABIL.

The net interest incomes of all the banks showed an excessively inclining trend over the study period. However, the trend of net interest incomes of HBL was of excessive upward slope over the period as compared to the trend of the other two.

4.1.10 Non-performing Loan to Total Investment

This ratio measures to find out how much amount (%) non-performing loan over the total investment of the commercial banks. This ratio is computed by using following formula.

$$\text{Non-performing loan to total gross loan} = \frac{\text{Non - performing loan}}{\text{Total Investment}}$$

Table 4.10
Non-performing Loan to Total Investment

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V. (%)
SCBNL	5.0	5.0	4.0	3.0	3.0	**4.0**	2.0	34.0
NABIL	7.0	4.0	2.0	2.0	2.0	**3.0**	3.0	92.0
HBL	11.09	9.89	8.15	7.15	4.54	**8.0**	4.0	38.0

Source: Annual Reports of Banks and Appendix-I

Figure 4.10
Non-performing Loan to Total Investment

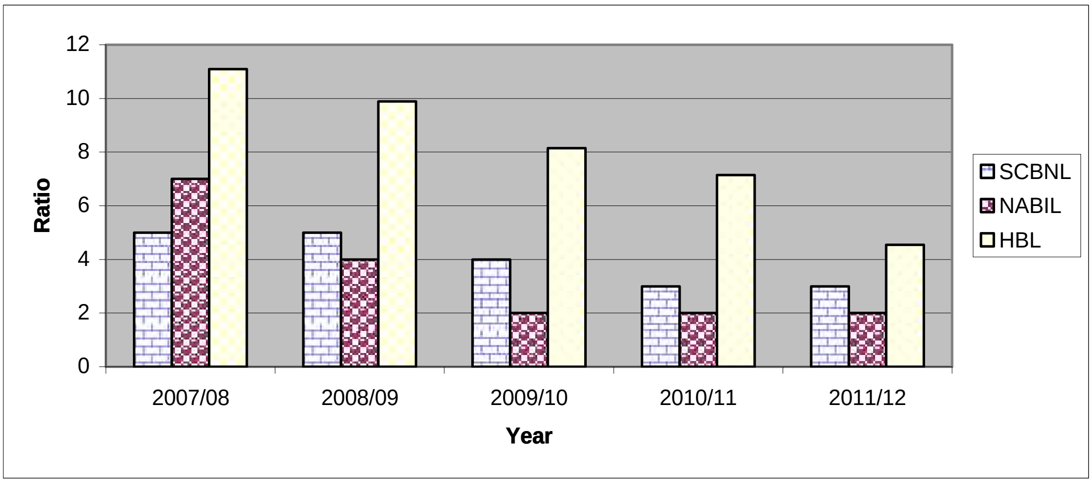


Table 4.10 shows that the shares of non-performing loan on total investment of SCBNL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 remained at 5.0%, 5.0%, 4.0%, 3.0% and 3.0% respectively. The average ratio of the bank for the immediate past five-year period remained at 4.0% with a coefficient of variation of income of just 34.0%.

The shares of non-performing loan on total investment of NABIL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 remained at 7.0%, 4.0%, 2.0%, 2.0% and 2.0% respectively. The average ratio of the bank for the immediate past five-year period remained at 3.0% with a coefficient of variation of income of 92.0%.

Likewise, the non-performing loan on total investment of HBL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 11.09%, 9.89%, 8.15%, 7.15% and 4.54% respectively. The average ratio of the bank for the immediate past five-year period was 8.0% with a coefficient of variation of income of just 38.0%.

HBL had the highest average non-performing loan on total investment ratio and NABIL had the lowest average non-performing loan on total investment ratio. The same average ratio of SCBNL was moderate. This means that the HBL had the highest average share of non-performing loan on total investment in comprising the total investment while the same for the SCBNL was the least. The coefficient of variation of the ratios of SCBNL was the least and the coefficient of variation of the ratios of NABIL was the highest among the three. It indicates that NABIL’s ratios were more variable and SCBNL’s ratios were less variable among the three sampled commercial banks.

The graph of the ratios of the banks showed that the ratios of SCBNL, NABIL and HBL were at a decreasing trend which depicts the improvement in management of NPL.

4.1.11 Non-performing Assets to Loan Loss Provisioning

This ratio is also known as covering of the possible cause of loan loss as compared to non-performing assets. It help to find out how much amount (%) is set aside as loan loss provision to cover the possible cause of loan loss as compared to non-performing assets. Lower ratio is desirable for all firms and so on for commercial banks also. This ratio for banks is given by dividing the total loan loss provision by the non-performing assets of the bank as shown hereunder:

$$\text{Non-performing assets to loan loss provisioning} = \frac{\text{Loan Loss provision}}{\text{Non - performing assets}}$$

Table 4.11
Non-performing Assets to Loan Loss Provisioning

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V. (%)
SCBNL	30.27	27.87	10.31	15.41	24.22	**21.63**	8.44	39.0
NABIL	0.67	0.72	0.73	2.54	2.11	**1.35**	0.90	67.0
HBL	15.24	17.68	18.60	15.03	23.05	**17.92**	3.25	18.0

Source: Annual Reports of Banks and Appendix-I

Figure 4.11
Non-performing Assets to Loan Loss Provisioning

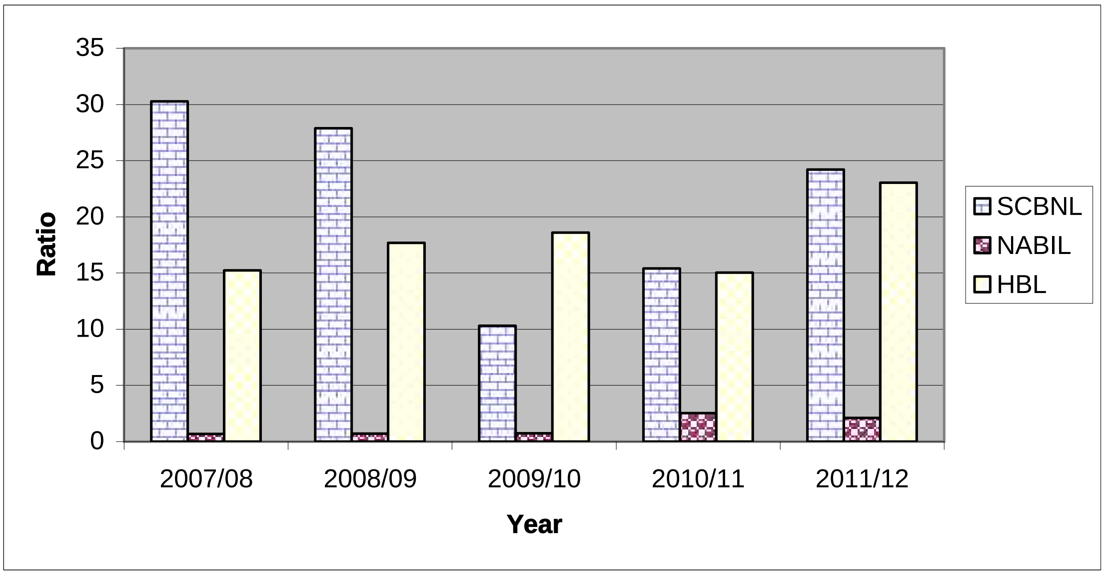


Table 4.11 shows that the non-performing assets to loan loss provisioning ratios given by non-performing assets to loan loss provision of SCBNL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 30.27%, 27.87%, 10.39%, 15.41% and

24.22% respectively. The average ratio of the bank for the immediate past five-year period was 21.63% with a coefficient of variation of just 39.0%.

The non-performing assets to loan loss provisioning ratios, given by non-performing assets to loan loss provision of NABIL in the fiscal years 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 were 0.67%, 0.72%, 0.73%, 2.54% and 2.11% respectively. The average ratio of the bank for the immediate past five-year period was 1.35% with a coefficient of variation of just 67.0%.

The non-performing assets to loan loss provisioning ratios, given by non-performing assets to loan loss provision of HBL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 15.24%, 17.68%, 18.60%, 15.03% and 23.05% respectively. The average ratio of the bank for the immediate past five-year period was 17.92% with a coefficient of variation of 18.0%.

The above study suggests that SCBNL had the highest average non-performing assets to loan loss provisioning ratios, given by non-performing assets to loan loss provision ratio of 21.63%, while NABIL had the lowest average non-performing assets to loan loss provision ratio of 1.35% over the study period. The average non-performing assets to loan loss provision ratio of HBL lied in between these two. It indicates that SCBNL had been recovering its non-performing assets for possible cause of loan loss as compared to NPA in an efficient way in as compared to the other two banks. However, NABIL seemed little backward in recovering its non-performing assets for possible cause of loan loss. HBL had the lowest coefficient of variation of the ratios while NABIL had the highest coefficient of variation of the ratios in comparison of the CVs of the three banks mutually. However, there is slight difference in calculated CVs of the banks. Therefore, it indicates that HBL's non-performing assets to loan loss provisioning ratios were the most consistent of the three while NABIL's ratios were the most variable or fluctuating.

The figure depicted above portrays that the non-performing assets to loan loss provisioning ratios of HBLL and NABIL over the period for all the three banks were at an increasing trend. However, the non-performing assets to loan loss provisioning ratios of SCBNL showed a slightly decreasing trend.

4.1.12 Non-performing Assets to Total Assets

The entire of the funds are invested in the banks in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized so as to get respective returns. This ratio is a major indicator regarding the proportion of total assets comprising non- performing assets. A ratio of over 50% is considered average.

$$\text{Non-performing assets to total assets} = \frac{\text{Non - performing assets}}{\text{Total Assets}}$$

Table 4.12
Non-performing Assets to Total Assets

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V. (%)
SCBNL	1.34	1.20	0.96	0.84	0.76	**1.03**	24.0	23.0
NABIL	2.55	1.73	0.86	0.97	0.80	**1.38**	75.0	55.0
HBL	5.29	4.91	4.04	3.51	2.14	**3.98**	124.0	31.0

Source: Annual Reports of Banks and Appendix-I

Figure 4.12
Non-performing Assets to Total Assets

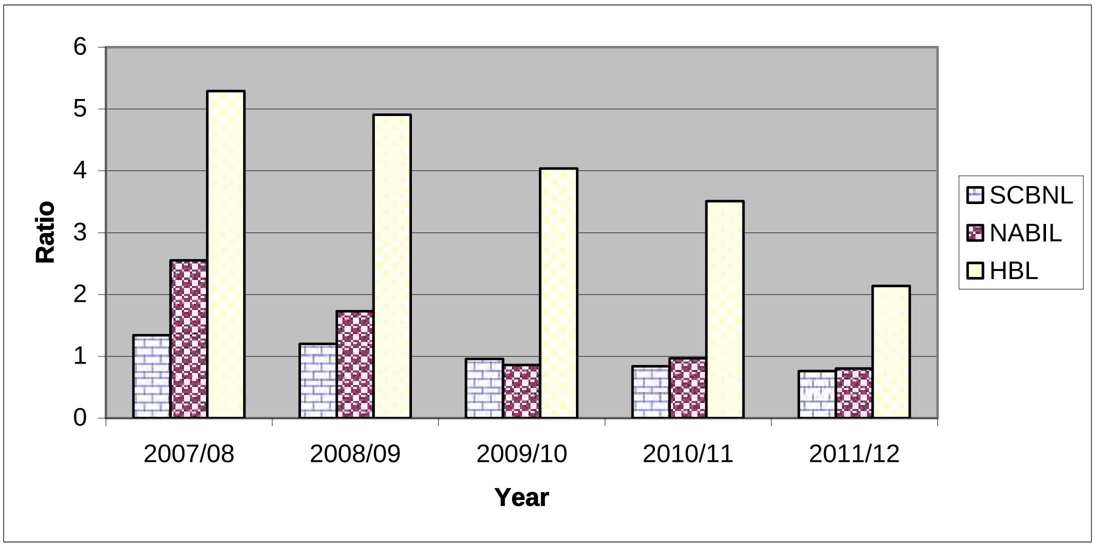


Table 4.12 shows that the non-performing assets to total assets ratios of SCBNL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 1.34%, 1.20%, 0.96%, 0.84% and 0.76% respectively. The average ratio of the bank for the immediate past five-year period was 1.03% with a coefficient of variation of 23.0%.

The non-performing assets to total assets ratios of NABIL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 2.55%, 1.73%, 0.86%, 0.97% and 0.80% respectively. The average ratio of the bank for the immediate past five-year period was 1.38% with a coefficient of variation of 55.0%.

Similarly, the non-performing assets to total assets ratios of HBL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 5.29%, 4.91%, 4.04%, 3.51% and 2.14% respectively. The average ratio of the bank for the immediate past five-year period was 3.98% with a coefficient of variation of 31.0%.

The analysis of above table and graphical representation states that HBL had the highest average non-performing assets to total assets ratio of 3.98% and SCBNL had the lowest ratio of just 1.03% of the three sampled banks. Again the coefficient of variation of ratio was the lowest in case of SCBNL while coefficient of variation of the ratios was highest in case of NABIL. This shows that the ratios of SCBNL were more consistent than the other two. Likewise, the ratios of NABIL were more variable or fluctuating over the period than the other two. In this way, SCBNL seemed more efficient as its total assets comprised less amount of non-performing assets which is a must factor for a bank.

4.1.13 Non-performing Credit to Total Credit & Advances

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

$$\text{Non-performing credit to credit \& advances} = \frac{\text{Non - performing credit}}{\text{Total credit \& advances}}$$

Table 4.13
Non-Performing Credit to Total Credit

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V. (%)
SCBNL	4.85	4.13	3.77	2.69	2.43	**3.57**	1.01	28.21
NABIL	7.14	5.54	3.35	4.32	3.38	**4.75**	1.61	33.91
HBL	12.10	10.08	8.88	7.44	2.43	7.70	4.63	60.14

Source: Annual Reports of Banks and Appendix-I

Table 4.13 shows that the non-performing credits to total credit ratios of SCBNL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 4.85%, 4.13%, 3.77%, 2.69% and 2.43% respectively. The average ratio of the bank for the immediate past five-year period was 3.57% with a coefficient of variation of 28.21%.

The non-performing credits to total credit ratios of NABIL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were 7.14%, 5.54%, 3.35%, 4.32% and 3.38% respectively. The average ratio of the bank for the immediate past five-year period was 4.75% with a coefficient of variation of 33.91%.

The non-performing credits to total credit ratios of HBL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 and 2007/08 were 12.10%, 10.08%, 8.88%, 7.44% and 2.43% respectively. The average ratio of the bank for the immediate past five-year period was 7.70% with a coefficient of variation of 60.14%.

The comparison of non performing credits ratio to total credit and advance showed that HBL had the highest average non-performing loans to total credit ratio among the three banks. HBL had also the highest coefficient of variation of the ratios. SCBNL had the lowest average non-performing credit to total credit ratio over the period among the three sampled commercial banks.

4.1.14 Non Performing Loan to Total Loan and Advances Ratio

Nepal Rastra Bank has directed all the commercial banks to formulate a specific loan loss provision against the doubtful and bad debts. But non of them are willingly provide data on non performing loans nor they show the figure of specific reverse made on doubtful and bad debts in their profit and loss account or balance sheet.

Hence to measure the volume of non-performing loans in total loans and advances, the figure published in a monthly magazine "Bazar Khabarpatrika" in Falgun Chaitra 2008 has been compared to the amount of loan and advances of 2008 of each banks.

Table 4.14
Non Performing Loans to Total Gross Loan Ratio of Banks

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V. (%)
SCBNL	4.13	3.77	2.69	2.12	1.83	**2.90**	1.01	34.82
NABIL	5.54	3.35	1.32	1.25	1.12	**2.51**	1.92	76.49
HBL	10.08	8.88	7.44	6.14	3.53	**7.21**	2.54	35.22

Source: Annual Reports of Banks and Appendix-I

The table 4.14 exhibits that in the total mean volume of gross loan and advances to non performing assets, Nabil represents 2.51% and that of SCBNL and HBL represent 2.9% and 7.21% respectively. Between these three banks HBL has the greatest value. This volume of non-performing assets in the volume of these joints venture banks seems very strange, since these banks are regarded as the best performs in the industry. The magazine has quoted that the bank themselves as the sources of the ratio and if the figure published by this magazine is true, this reflects the good performance of these banks behind the curtain. The banking sector is severely affected by the non-performing loan problems. It is estimated that non-performing loan of the Nepalese banking system is around 16%. Therefore there is no doubt that it has a serious implication on economic performance of the country.

If this 16% turns to be there, the non-performing loan of Nabil, HBL and SCBNL is lesser than the industrial average. The percentage represented in the volume of SCBNL, HBL and Nabil is quite low and if the banks, in time, does not take any corrective action. The banks may fall into the category of Nepal Bank Limited and Rastriya Banijya Bank in future. Nabil, HBL and SCBNL are not so levered by non performing loan and this volume is likely to decrease in the coming future as the ratio of provision of loan loss provision in Nabil and HBL are in decreasing trend and represent the highest volume among these three banks.

4.1.15 Earnings Per Share

The ratio of EPS shows the earnings earned by each common share of bank at the end of the year. There is no limit for it. Higher and higher EPS is desirable for every firm. It shows how efficiently the firm has managed and utilized the funds collected from shareholders. It shows the true picture of the company's growth or death. It is calculated by dividing the profit left over to the common stockholders by number of common stocks outstanding in the market.

$$\text{Earnings per share (EPS)} = \frac{\text{Net profit available to equity shareholders}}{\text{No. of common shares outstanding}}$$

Table 4.15
Earnings per Share of Commercial Banks

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (Rs.)	S.D.	C.V (%)
SCBNL	141.13	149.3	143.55	143.14	175.84	**150.59**	**12.91**	**8.58**
NABIL	55.25	84.66	92.61	105.49	129.21	**93.44**	**24.33**	**26.04**
HBL	60.26	49.45	49.05	47.91	59.24	**53.18**	**5.40**	**10.15**

Source: Annual Reports of Banks and Appendix-I

Figure 4.13
Earnings per Share of Commercial Banks

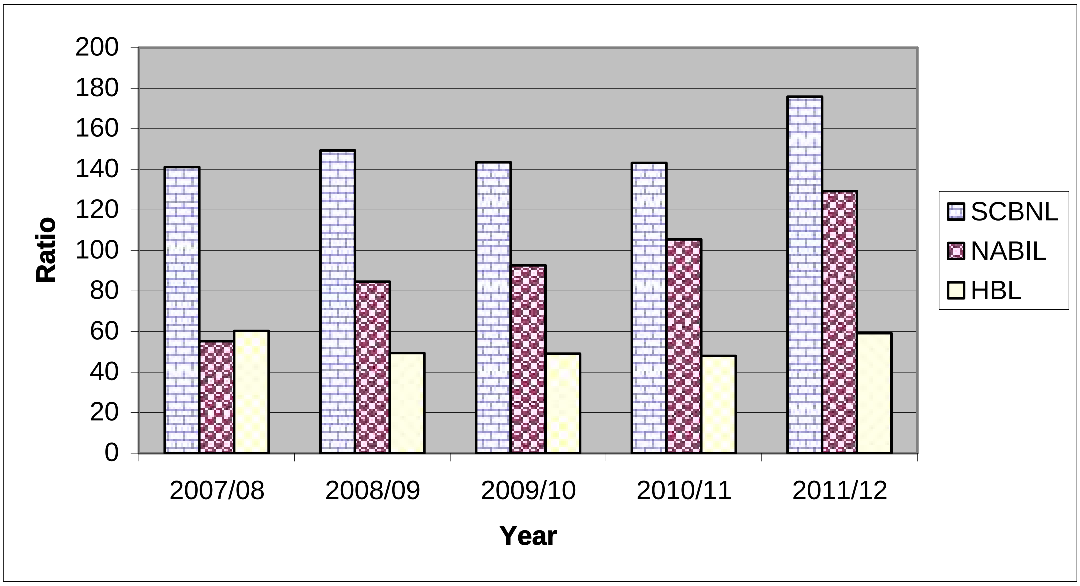


Table 4.15 shows that the earnings per shares of SCBNL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were Rs. 141.13, Rs. 149.30, Rs. 143.55, Rs. 143.14 and Rs. 175.84 respectively. The average earnings per share of the bank over the immediate past five-year period remained at Rs. 150.59 with a coefficient of variation of 8.58%.

The earnings per shares of NABIL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 remained Rs. 55.25, Rs. 84.66, Rs. 92.61, Rs. 105.49 and Rs. 129.21 respectively. The average earnings per share of the bank over the immediate past five-year period remained at Rs. 93.44 with a coefficient of variation of 26.04%.

Similarly, the earnings per shares of HBL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 remained Rs. 60.26, Rs. 49.45, Rs. 49.05, Rs. 47.91 and Rs. 59.24 respectively. The average earnings per share of the bank over the immediate past five-year period remained at Rs. 53.18 with a coefficient of variation of 10.15%.

On the basis of above tabular and graphical representation, it was found that SCBNL had the highest EPS of Rs. 150.59 and HBL had the lowest EPS of Rs. 53.18 out of the three sampled banks. Again the coefficient of variation of EPS was the lowest of the three while that of NABIL was the highest of the three banks. This shows that EPS of SCBNL was more consistent than the other two. Likewise, EPS of NABIL were found more variable or fluctuating over the period than the other two.

The EPS of NABIL and SCBNL showed an increasing trend over the years as plotted in the graph. The EPS of these banks were at a increasing rate. However, the EPS of HBL showed a horizontal trend.

4.1.16 Operating Expenses to Total Assets Ratio

This ratio shows the expenses incurred on behalf of utilizing the total assets of the banks. This ratio includes the operating expenses such as staff costs, depreciation and other operating costs. These expenses are incurred in operating and maintaining the assets of the banks. An excessive rise in these expenses might be detrimental to the banks as it deteriorates the operating profit.

Operating expenses to total assets ratio = $\frac{\text{Total operating expenses}}{\text{Total assets}}$

Table 4.16
Total Operating Expenses to Total Assets

Year / Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Average (%)	S.D.	C.V. (%)
SCBNL	3.35	3.32	2.92	3.03	2.69	**3.06**	0.28	9.08
NABIL	4.20	4.06	3.69	3.73	3.86	**3.91**	0.22	5.58
HBL	4.04	3.65	3.50	3.71	4.13	**3.81**	0.27	7.04

Source: Annual Reports of Banks and Appendix-II

Figure 4.14
Total Operating Expenses to Total Assets

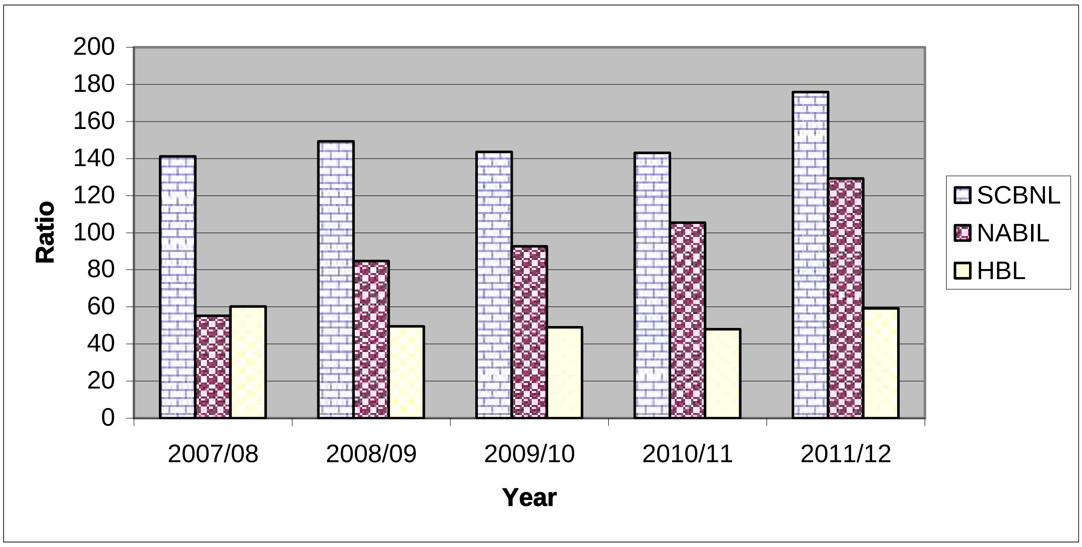


Table 4.16 shows that the operating expenses to total assets ratios of SCBNL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 remained 3.35%, 3.32%, 2.92%, 3.03% and 2.69% respectively. The average ratio of the bank over the recent five-year period was 3.06% with a coefficient of variation of 9.08%.

The operating expenses to total assets ratios of NABIL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 remained 4.20%, 4.06%, 3.69%, 3.73% and

3.86% respectively. The average ratio of the bank over the recent five-year period was 3.91% with a coefficient of variation of 5.58%.

The operating expenses to total assets ratios of HBL in the fiscal years 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 were obtained as 4.04%, 3.65%, 3.50%, 3.71% and 4.13% respectively. The average ratio of the bank over the recent five-year period was 3.81% with a coefficient of variation of 7.04%.

The study showed that the average operating expenses to total assets ratio of NABIL was the highest of the three. The second highest ratio over the period was for HBL and SCBNL had the lowest ratio over the five year period.

4.2 Correlation Analysis

4.2.1 Correlation Coefficient Between ROAs and ROEs of Commercial Banks

The correlation coefficient between ROAs and ROEs has been shown in following table 4.17.

Table 4.17
Correlation Coefficient Between ROAs and ROEs of Banks

	SCBNL	**NABIL**	**HBL**
Number of observations (n)	5	5	5
Correlation coefficient (r)	R = + 0.55	r = +0.84	r = + 0.64
Coefficient of determination (r^2)	0.30	0.71	0.41
Probable Error (P.E.) = 0.6745 x $\frac{1-r^2}{\sqrt{n}}$	= 0.21	= 0.09	= 0.18
6 times P.E.	6x 0.21= 1.26	6x 0.09 = 0.54	6x 0.18 = 1.08
Comment on calculated 'r'	Not significant	Highly significant	Not significant

Source: Appendix III

The correlation coefficients between Return on assets and Return on equities of SCBNL, NABIL and HBL were 0.55, 0.84 and 0.64 respectively. The calculated coefficients of determination of SCBNL, NABIL and HBL were 0.30, 0.71 and 0.41 respectively. It indicates that only 30% of the relationship between return on assets and return on equity of SCBNL had been explained by the correlation. Similarly, it states that around 71% of the relationship had been explained by the given variables for NABIL. Likewise, only 41% of the relationship between return on assets and return on equity of HBL had been explained by the variables. On the basis of above table, the calculated correlation coefficients of SCBNL and HBL were not significant whereas for NABIL it was found highly significant. On the basis of above correlation analysis, it can be stated that return on equity and return on assets of the banks are interrelated with each other.

4.2.2 Correlation Coefficient Between Net Profit Margins and ROAs of Commercial Banks

The correlation coefficient between net profit margin and ROAs has been shown in following table 4.18.

Table 4.18
Correlation Coefficient Between Net Profit Margins and ROAs of Banks

	SCBNL	NABIL	HBL
Number of observations (n)	5	5	5
Correlation coefficient (r)	r = + 0.22	R = +0.99	r = -0.70
Coefficient of determination (r^2)	0.05	0.97	0.49
Probable Error (P.E.) = 0.6745 x $\frac{1-r^2}{\sqrt{n}}$	= 0.29	= 0.01	= 0.15
6 times P.E.	6x 0.29= 1.74	6x 0.01 = 0.06	6x 0.15 = 0.90
Comment on calculated 'r'	Not significant	Highly significant	Not significant

Source: Appendix III

The correlation coefficients between net profit margin and return on assets of SCBNL, NABIL and HBL were obtained as +0.22, +0.99 and -0.70 respectively. It indicates that there was low degree of positive relationship between net profit margin and return on assets of SCBNL. Similarly, there was high degree of positive relationship between net profit margin and return on assets of NABIL. However, there was moderate degree of negative relationship between the same ratios of HBL. The calculated coefficients of determination of SCBNL, NABIL and HBL were 0.05, 0.97 and 0.49 respectively. It indicates that only 5% of the response of any change between two variables of SCBNL had been explained by the relationship. Similarly, it states that around 97% of the relationship between two variables of NABIL had been responded by the given variables. Likewise, only 49% of the relationship between profit margin and return on assets of HBL had been explained by the variables.

On the basis of above table, the calculated correlation coefficients of SCBNL and HBL were not significant whereas for NABIL it was found highly significant. Based on the analysis of above correlations, it can be referred that between profit margin and return on assets of the banks are interrelated with each other regardless of their degree and direction.

4.2.3 Correlation Coefficient Between NPA and Operating Cost of Commercial Banks

The correlation coefficient between NPA and operating cost of commercial bank has been shown in following table 4.19.

Table 4.19
Correlation Coefficient Between NPA and Operating Cost of Banks

	SCBNL	**NABIL**	**HBL**
Number of observations (n)	5	5	5
Correlation coefficient (r)	R = + 0.256	r = -0.666	r = - 0.901
Coefficient of determination (r^2)	0.06	0.43	0.81
Probable Error (P.E.) = 0.6745 x $\frac{1-r^2}{\sqrt{n}}$	= 0.28	= 0.16	= 0.056
6 times P.E.	6x 0.28= 1.68	6x 0.16 = 0.96	6x 0.056 = 0.336
Comment on calculated 'r'	Not significant	Not significant	Highly significant

Source: Appendix III

The correlation coefficients between NPA on operating of SCBNL, NABIL and HBL were 0.256, 0.66 and 0.901 respectively. The calculated coefficients of determination of SCBNL, NABIL and HBL were 0.06, 0.43 and 0.81 respectively. It indicates that only 6.0% of the relationship between NPA on operating cost of SCBNL had been explained by the correlation. Similarly, it states that around 43% of the relationship had been explained by the given variables for NABIL. Likewise, only 81% of the relationship between NPA on operating cost of HBL had been explained by the variables. On the basis of above table, the calculated correlation coefficients of

SCBNL and NABIL were not significant whereas for HBL it was found highly significant. On the basis of above correlation analysis, it can be stated that NPA on operating cost of the banks are interrelated with each other.

4.2.4 Correlation Coefficient Between NPA and Loan Loss Provision of Commercial Banks

The correlation coefficient between NPAs and loan loss provision has been shown in following table 4.20.

Table 4.20
Correlation Coefficient Between NPA and Loan Loss Provision of Banks

	SCBNL	NABIL	HBL
Number of observations (n)	5	5	5
Correlation coefficient (r)	r = + 0.697	r = +0.18	r = + 0.702
Coefficient of determination (r^2)	0.48	0.03	0.49
Probable Error (P.E.) = 0.6745 x $\frac{1-r^2}{\sqrt{n}}$	= 0.15	= 0.29	= 0.15
6 times P.E.	6x 0.15= 0.90	6x 0.29 = 1.74	6x 0.15 = 0.90
Comment on calculated 'r'	Not significant	Not significant	Not significant

Source: Appendix III

The correlation coefficients between NPA on loan loss provision of SCBNL, NABIL and HBL were 0.697, 0.18 and 0.702 respectively. The calculated coefficients of determination of SCBNL, NABIL and HBL were 0.48, 0.03 and 0.49 respectively. It indicates that only 48% of the relationship between NPA on loan loss provision of SCBNL had been explained by the correlation. Similarly, it states that around 3.0% of the relationship had been explained by the given variables for NABIL. Likewise, only 49% of the relationship between NPA on loan loss provision of HBL had been explained by the variables. On the basis of above table, the calculated correlation coefficients of SCBNL, NABIL and HBL were not significant. On the basis of above correlation analysis, it can be stated that NPA on loan loss provision of the banks are interrelated with each other.

4.2.5 Correlation Coefficient Between NPA and net profit margin of Commercial Banks

The correlation coefficient between NPA and net profit margin has been shown in following table 4.21.

Table 4.21
Correlation Coefficient Between NPA and Net Profit Margin of Banks

	SCBNL	NABIL	HBL
Number of observations (n)	5	5	5
Correlation coefficient (r)	R = - 0.66	r = -0.68	r = - 0.70
Coefficient of determination (r^2)	0.43	0.46	0.49
Probable Error (P.E.) = 0.6745 x $\frac{1-r^2}{\sqrt{n}}$	= 0.25	= 0.24	= 0.22
6 times P.E.	6x 0.21= 1.52	6x 0.09 = 1.44	6x 0.18 = 1.36
Comment on calculated 'r'	Not significant	Highly significant	Not significant

Source: Appendix III

The correlation coefficients between NPA on net profit margin of SCBNL, NABIL and HBL were -0.66, -0.68 and -0.70 respectively. The calculated coefficients of determination of SCBNL, NABIL and HBL were 0.43, 0.46 and 0.49 respectively. It indicates that only 43% of the relationship between NPA on net profit margin of SCBNL had been explained by the correlation. Similarly, it states that around 46% of the relationship had been explained by the given variables for NABIL. Likewise, only 49% of the relationship between NPA on net profit margin of HBL had been explained by the variables. On the basis of above table, the calculated correlation coefficients of SCBNL, NABIL and HBL were not significant. On the basis of above correlation analysis, it can be stated that NPA on net profit margin of the banks are negative correlated with each other It meant higher the NPA lower the net profit margin and vice-versa..

4.3 Major Findings of the Study

On the basis of presentation, analysis and interpretation of the data regarding the non performing assets and effect on profitability of the three banks, the major findings of the study can be summarized as follows:

- The average return on assets ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 2.46%, 2.60% and 1.15% with the coefficients of variations of 5.20%, 25.83% and 20.66% respectively. As higher and higher ratio is desirable for banks, it seems that the ratios were low for all banks as regards to the investments in assets made by them. Despite, the assets of HBL were generating the lowest return or profit as compared to the other two. NABIL seemed stronger in earning profits than the other two banks. However, the fluctuation of the ratios of NABIL over the average return was the highest of all. The profitability of SCBNL is second highest among the three but was the best as regards to consistency in earnings.

- The average return on equity ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 36.68%, 20.73% and 22.62% with the coefficients of variations of 4.85%, 40.10% and 16.40% respectively. Though the return on assets ratios were low for all the banks, the profit earned over equity or ownership capital of the banks seemed too high. Among the three, SCBNL had the highest ratio and hence the best profit earnings bank over equity or ownership capital. The second leading position was that of NABIL. And here also HBL came to the least of the three. The ratio was again lowest for the HBL with the second highest volatility among the three.

- The average net profit margin ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 34.37%, 29.46% and 28.39% with the coefficients of variations of 4.49%, 25.76% and 14.90% respectively. SCBNL had been able to earn the highest average profit after taxes from total income generated by the bank with the highest consistency over the period. In case of NABIL, though the ratio of profitability over total income secured the second leading position among the three, its profit margin ratio was found the most volatile over the period.

- The average return on loans & advances ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 8.24%, 4.93% and 2.51% with the coefficients of variations of 11.97%, 16.15% and 15.90% respectively. The data presented above indicated that the loans & advances of SCBNL earned the highest income over the period with the minimum fluctuation in the ratios. NABIL had the second highest earnings generated by loans & advances with the highest fluctuation in the ratios over the period. As HBL had the lowest return on loans & advances, it can be said that HBL's loans & advances were not lent in qualitative and lucrative sectors.

- The average return on net fixed assets ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 509.06%, 151.38% and 88.52% with the coefficients of variations of 38.71%, 21.37% and 12.58% respectively. The highest average ratio of SCBNL indicated that the fixed assets of SCBNL were utilized in the most effective way in order to boost the profitability. The ratio of the bank was outstanding for the study period despite of the highest rate of fluctuation. NABIL occupied the second highest position with regards to effective utilization of fixed assets in generating net profit with medium fluctuation over the period as compared to the other two.

- The average total credit to total deposit ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 36.60%, 62.98% and 51.03% with the coefficients of variations of 13.99%, 14.87% and 7.01% respectively. The average deposit mobilization ratio of NABIL was the highest of all the banks. On an average, 62.98% of the total deposits of NABIL were utilized in extending credit with medium level of fluctuation over the period. Similarly, HBL occupied the second leading position in extending credit over the period. On an average, 51.03% of the total deposits of HBL were used in extending credit (loans & advances). From the viewpoint of deposit mobilization, SCBNL seemed lowest of the three banks. Only 36.60% of the total deposits were utilized in granting loans & advances to the parties.

- The average non-performing loans to total loans ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 3.57%, 4.75% and 7.70% with the coefficients of variations of 28.21%, 33.91% and 60.14%

respectively. SCBNL had the lowest average non-performing loans to total loans & advances ratio with a minimum range of fluctuation over the period as compared to the two banks. The average ratio of NABIL was also low for the period with medium range of fluctuations. However, the share of non-performing loans over total credit extended was found to be the highest for HBL on an average study of past five year period. The quality of credit extended by SCBNL was the best among the three. Similarly, the quality of credit extended by HBL was the worst. This indicated that SCBNL's credit policy and practices of management was the strongest and effective of all banks. And the situation seemed just opposite in case of HBL.

- The average interest income to total loans & advances ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 8.58%, 9.32% and 11.09% with the coefficients of variations of 20.38%, 8.92% and 10.53% respectively. The highest average interest income to total loans & advances ratio of HBL indicated that the interest earned by loans & advances of HBL were the highest of all on an average study of the past five years data. SCBNL's loans & advances were earning the lowest interest income on an average as compared to the other two banks.

- The average net interest income of the banks SCBNL, NABIL and HBL over the five year period were obtained as Rs. 783.47 million, Rs. 771.07 million and Rs. 766.89 million with the coefficients of variations of 8.46%, 15.41% and 21.74% respectively. SCBNL had been found to be earning the highest net interest income with the minimum fluctuation over the period on an average study of past five years. Likewise, HBL had been found to be earning slightly lower net interest income with the higher rate of fluctuation on an average study of past five years. Based on absolute figures of net interest income (interest income minus interest expenses), SCBNL can be regarded as the best, NABIL as the modest and HBL the least performing bank respectively.

- The average total interest income to total income ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 67.34%, 71.09% and 81.37% with the coefficients of variations of 2.40%, 3.32% and 2.73% respectively. 67.34% of the total income of SCBNL had been occupied by the total interest income on an average. Similarly, 71.09% of the total income of NABIL comprised of total interest income and the rest part were occupied by income from other sectors such as exchange gain, etc. And the highest portion of income i.e., 81.37% of HBL's total income comprised of total interest income.

- The average total interest expenses on total deposit & borrowings ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 1.42%, 29.46% and 2.53% with the coefficients of variations of 15.91%, 25.76% and 14.38% respectively. The average interest cost on total deposit & borrowings for NABIL was the highest of all. SCBNL had the lowest interest cost on deposit & borrowings on an average study of five years. HBL had also lower average interest cost than NABIL. The variability per unit of average interest expenses was also highest for NABIL. The variability was moderate for SCBNL and HBL.
- The average ratio of non-performing loan on total investment of SCBNL bank for the immediate past five-year period remained at 4.0% with a coefficient of variation of income of just 34.0%. Similarly the average ratio of the NABIL bank for the immediate past five-year period remained at 3.0% with a coefficient of variation of income of 92.0%. Likewise, average ratio the non-performing loan on total investment of HBL for the immediate past five-year period was 8.0% with a coefficient of variation of income of just 38.0%.
- HBL had the highest average non-performing loan on total investment ratio and NABIL had the lowest average non-performing loan on total gross loan ratio. The same average ratio of SCBNL was moderate. This means that the HBL had the highest average share of non-performing loan on total gross loan in comprising the total gross loan while the same for the SCBNL was the least. The coefficient of variation of the ratios of SCBNL was the least and the coefficient of variation of the ratios of NABIL was the highest among the three. It indicates that NABIL's ratios were more variable and SCBNL's ratios were less variable among the three sampled commercial banks.
- The average price-earnings ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 14.73 times, 12.74 times and 17.68 times with the coefficients of variations of 31.21%, 25.82% and 6.45% respectively. HBL had the highest price-earnings ratio on an average study of past five years with the lowest variability per unit.

- The average earnings per share ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as Rs. 150.59, Rs. 93.44 and Rs. 53.18 with the coefficients of variations of 8.58%, 26.04% and 10.15% respectively. Based on earnings per share data of the three sampled banks, SCBNL was the best, NABIL was the moderate and HBL the lowest performing bank. As regards to earnings per share of common stock, SCBNL seemed the most efficient, NABIL was moderately efficient and HBL seemed weaker. However, on absolute figures, the three banks had earned outstanding returns to each share of common stock.
- The study found that SCBNL had the highest average non-performing assets to loan loss provisioning ratios, given by non-performing assets to loan loss provision ratio of 21.63%, while NABIL had the lowest average non-performing assets to loan loss provision ratio of 1.35% over the study period. The average non-performing assets to loan loss provision ratio of HBL lied in between these two. It indicates that SCBNL had been recovering its non-performing assets for possible cause of loan loss as compared to NPA in an efficient way in as compared to the other two banks.
- The study showed that HBL had the highest average non-performing assets to total assets ratio of 3.98% and SCBNL had the lowest ratio of just 1.03% of the three sampled banks. Again the coefficient of variation of ratio was the lowest in case of SCBNL while coefficient of variation of the ratios was highest in case of NABIL. This shows that the ratios of SCBNL were more consistent than the other two. Likewise, the ratios of NABIL were more variable or fluctuating over the period than the other two. In this way, SCBNL seemed more efficient as its total assets comprised less amount of non-performing assets which is a must factor for a bank.
- SCBNL had the highest net profit after taxes above all sampled banks. The fluctuation in net profit was also the lowest of all. HBL had the lowest net profit over the years as compared to the other two banks. The net profit of HBL had also the maximum variability. And NABIL lied in between these two banks.
- The correlation coefficients between return on assets and return on equities of SCBNL, NABIL and HBL were 0.55, 0.84 and 0.64 respectively. The calculated correlation coefficients between ROA and ROE of SCBNL and HBL were found insignificant. However, the correlation coefficient of NABIL was found to be highly significant. Similarly, the correlation coefficients between net profit margin

and return on assets of SCBNL, NABIL and HBL were obtained as +0.22, +0.99 and -0.70 respectively. The calculated correlation coefficients between ROA and net profit margin of SCBNL and HBL were found insignificant. However, the correlation coefficient of NABIL was found to be highly significant.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study is carried out with the objective of comparing the non-performing assets and profitability of the three sampled commercial banks: SCBNL, NABIL and HBL. At present, there are 31 commercial banks operating in Nepal. However, for this study, only three leading commercial banks were taken as the sample. The study was conducted within a period of five years.

An asset which ceases to generate income of the bank is called non-performing asset. The past due amount remaining uncovered for the two quarter consequently the amount would be classified as NPA for the whole year. It includes borrowers' defaults or delays in interest or principal repayment. The term Non-performing is, "loans or advances whose credit quality has deteriorated such that full collection of principal and /or interest in accordance with the contractual repayment terms of the loan or advances is in question.

Lending is the primary business of any commercial bank and interest earned from them is the main source of income. Once the loan is given, it is supposed that the repayment of interest and principal shall have to be served without any hindrance. But it is not always true. Loans and interests are not always paid so easily by all the customers. Loans lended to the customers come under the Assets heading of balance sheet; and those loans which are not paid in time are considered as Non Performing Loan or Non Performing Assets (NPA).

SCBNL had the highest EPS, net profit, profit margin ratio, return on assets ratios and lowest non-performing to total credit ratios over the period. Similarly, NABIL had the immediate highest position of the above indicators. And HBL had the lowest EPS and net profit. It also had the lowest net profit margin ratio, return on assets, return on fixed assets and highest non-performing credit to total credit ratio over the study period as compared to the other two banks. Similarly, SCBNL had the highest market price over the period. The market price per share of NABIL occupied the second position in the market. And the market price per share of HBL was the lowest of the three.

5.2 Conclusion

On the basis of analysis and interpretation of various ratios indicating the performance of the banks, the whole study can be deduced as follows:

The average non-performing credits to total credit ratios of SCBNL bank for the immediate past five-year period was 3.57% with a coefficient of variation of 28.21%. The average non-performing credits to total credit ratios of NABIL bank for the immediate past five-year period was 4.75% with a coefficient of variation of 33.91%. Similarly average non-performing credits to total credit ratios of HBL bank for the immediate past five-year period was 7.70% with a coefficient of variation of 60.14%.

The comparison of non performing credits ratio to total credit and advance showed that HBL had the highest average non-performing loans to total credit ratio among the three banks. HBL had also the highest coefficient of variation of the ratios. SCBNL had the lowest average non-performing credit to total credit ratio over the period among the three sampled commercial banks.

The average ratio of non-performing assets to loan loss provisioning given by non-performing assets to loan loss provision of SCBNL bank for the immediate past five-year period was 21.63% with a coefficient of variation of just 39.0%. Similarly average ratio of the NABIL bank for the immediate past five-year period was 1.35% with a coefficient of variation of just 67.0%. The average ratio non-performing assets to loan loss provisioning of HBL bank for the immediate past five-year period was 17.92% with a study coefficient of variation of 18.0%.

The study found that SCBNL had the highest average non-performing assets to loan loss provisioning ratios, given by non-performing assets to loan loss provision ratio of 21.63%, while NABIL had the lowest average non-performing assets to loan loss provision ratio of 1.35% over the study period. The average non-performing assets to loan loss provision ratio of HBL lied in between these two. It indicates that SCBNL had been recovering its non-performing assets for possible cause of loan loss as compared to NPA in an efficient way in as compared to the other two banks. However, NABIL seemed little backward in recovering its non-performing assets for possible cause of loan loss. HBL had the lowest coefficient of variation of the ratios while NABIL had the highest coefficient of variation of the ratios in comparison of the CVs of the three banks mutually. However, there is slight difference in calculated

CVs of the banks. Therefore, it indicates that HBL's non-performing assets to loan loss provisioning ratios were the most consistent of the three while NABIL's ratios were the most variable or fluctuating.

The criteria that determine a loan as NPA varies in different countries. In Nepalese scenario, Nepal Rastra Bank has classified the loans and advances as Non Performing Assets which are due for more than 90 days. Whatever the criteria is, the unhidden fact is that the NPA affects the banks operation and growth adversely. NPA has several impacts on financial institutions. Investments become worthless as expected return cannot be realized on the one hand and on the other hand, due to provisioning required for the risk mitigation, the profitability is directly affected. Similarly, monitoring expenses of such loans are costly too. Therefore, proper management, cost efficiency and speedy disposal of Non Performing Assets (NPA) are the most critical tasks of banks today to remain competitive. The problem of NPA in banks and financial institutions has been a matter of grave concern not only for the banks but also the real economy in general, as NPA can choke further expansion of credit which would impede the economic growth of the country. Any bottleneck in the smooth flow of credit is bound to create adverse repercussions in the economy. NPA is not therefore the concern of only lenders but also the public at large. Similarly, profit making is one of the major mottos of commercial banks and reducing the operating cost is one of the main deterministic factors to increase profitability. So, cost efficiency is also a major area of concern of commercial banks.

SCBNL had the highest net profit and EPS. And HBL had the lowest net profit and EPS among the three sampled banks. The profitability ratios of SCBNL were the best among all. SCBNL and NABIL had utilized its assets more efficiently in generating income. And HBL's assets were not utilized efficiently as compared to the other two banks in generating total income of the bank. NABIL was found the most efficient of the three in mobilizing its total deposit. Then came the HBL and the lowest portion of total deposit was found to be mobilized by NABIL in extending credit. However, the quality of extended credit was the best for SCBNL, moderate for NABIL and the worst for HBL among the three banks.

Based on overall performance, assets mobilization, profitability ratios, quality of the lending, and market prices, SCBNL occupied the leading and the highest position, NABIL occupied the second position, and HBL occupied the third position among the three banks. Therefore, it was concluded that SCBNL was the most efficient, NABIL moderately efficient and HBL the least efficient (satisfactory) bank among the three as regards to study of overall performance and profitability.

5.3 Recommendations

On the basis of the whole study and conclusions drawn from the study, following suggestions can be provided:

- The profitability in terms of return on assets and profit margin of all the banks seemed too low in comparison to the huge amount of investment made by them. Therefore, all the three banks are recommended to increase their net income, reduce their operating expenses and try to increase profitability ratios.
- Despite having higher credit to total deposit ratio, HBL had the highest non-performing credit to total loans, which is one of the major factors that reduces profitability. Therefore, HBL should try to decrease its non-performing credit to total loans ratio. Other two banks should also strive to eliminate their non-performing loans ratio.
- Banks should try to correct their market prices according to the net worth, earnings per share and other profitability indicators. The banks are recommended to decrease their price-earnings ratios to a reasonable level.
- HBL should focus more on using non-fund business as compared to the other banks.
- This study carries a lot of limitations. So a more comprehensive study needs to be carried from the concerned authorities and further researchers to reach a more authentic conclusion depicting the picture of the banks' NPA.
- Projects with old technology should not be considered for finance. Large exposure on big corporate or single project should be avoided.
- Operating staffs' credit skills should be up graduation. There is need to shift banks approach from collateral security to viability of the project and intrinsic strength of promoters.
- As for as possible, repayment of term loans should be fixed on monthly basis rather than on quarterly or semi annual basis so that overlap of interest due can be minimized. The Credit section should carefully watch the warning signals viz. non-payment of quarterly interest, dishonor of check etc. Effective inspection system should be implemented

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