AN ECONOMIC ANALYSIS OF
NON- PERFORMING ASSETS OF HIMALAYAN BANK LIMITED

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LIST OF ABBREVIATIONS

EC	-	Electronic Commerce
EC	-	European community
EU	-	European Union
FNCCI	-	Federation of Nepal Chamber of Commerce and industry
FOB	-	Free on Board
FY	-	Fiscal Year
GATT	-	General Agreement on Trade and Tariff
GDP	-	Gross Domestic Products
GSP	-	Generalized system of Preference
HAN	-	Handicrafts Association of Nepal.
INGO	-	International Non- Government Organization
Int’l	-	International
ITC	-	International Trade Corporation
JICA	-	Japan International Cooperation Agency
LDC	-	Least Developed Countries
Mt.	-	Mount
NACIDA	-	National Cottage Industries Development Corporation
NCC	-	Nepal Chamber of Commerce
NG	-	Nepal Government
NGO	-	Non- Government Organization
NIDC	-	Nepal Industrial Development Corporation
NRB	-	Nepal Rastra Bank
QC	-	Quality Control
RS	-	Rupees
SIDO	-	Small Industries Development Organization
SME	-	Small & Medium Sized enterprises
TEPC	-	Trade and Export Promotion Center
TUCL	-	Tribhuvan University Central Library
UK	-	United Kingdom
UNCTAD	-	United Nation Conference on Trade and Development
UNDP	-	United Nation Development Program
USA	-	United States of America
WWW	-	World Wide Web

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The world has now made itself more & more commercial hence turned it's inner shell as a global village. With the introduction of WTO concept in Nepal's context we can see the emergence of industrial, commercial & financial race taking pace. Financial services are the backbone of modern economy. Financial services are crucial for savings and efficient resource allocation which facilitate economic growth. The level of overall development of a country is characterized by the level of economic growth and the crux of the economic growth lies in the development of a well planned and well managed banking system. The increase in investment impacts positively in every sector of economy such as employment, production, income, government revenue, international trade etc. What role a bank can play to assist the economic development is the main issue that the banking sectors are facing in Nepal and world wide today. The liberalization of the economy has posed more responsibility and challenges on competitive risks. The existence of banks have its roots in the economic development and the banks have a role to play in the fund mobilization to increase the pace of development.

Generally speaking performing loans are those loans whose principal and interest payment are regular. These assets constitute primary source of income to the banks. Banks are willing to lend as much as possible but they have to be careful about the quality of lending. Loans are risky assets, nevertheless banks invest most of their resources in granting loans. Banks are adopting different principles for granting loans (i.e, liquidity, profitability, security, social responsibility etc.) however it's very difficult to control level of NPAs.

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration about the people and system required for the evaluation and approval of loan request, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios ((Rose, 1999).

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 (NRB, 2010).

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 29 commercial banks. NABIL (previously Nepal Arab Bank Limited), the first joint venture bank in Nepal which was established on 1984 A.D. after adopting financial and economic liberalization policy by the government (NRB, 2015).

The first financial institution was introduced during the prime-ministership of Ranodip Singh (1876 A.D.) 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 1937 A.D. HBL 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 30th April, 1956 A.D. Nepal Bank Limited was only one commercial bank until 1965 A.D.. 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 1965 A.D.

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 1984 A.D. 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, 2009).

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, 2012).

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.

“There are 29 commercial banks in the country as of mid- March 2016. The number of commercial bank branches operating in the country reached to 1682 including 233 financial institutions. Out of them, 29 are “A” class commercial banks, 76 “B” class development banks, 47 “C” class finance companies, 38 “D” class micro-credit development banks, 15 saving and credit co-operatives and 27 NGOs. In mid- March 2016. Among the total bank branches, 49.6 percent bank branches are concentrated in the central region followed by Eastern 18.4, Western 17.4 percent, Mid-Western 9.0 percent and Far Western 5.5 percent respectively (NRB, 2016).

1.1.1 Profile of Himalayan Bank Limited

Himalayan bank limited is a joint venture bank with Habib bank of Pakistan, was established in 1992 A.D. under the company act 1964. This is the first joint venture bank managed by Nepalese chief executive. The operation of the bank had started from February 1993. 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. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking.

The main objective of the bank is to provide modern banking facilities like banking to businessman, industrialist and other professional and provide loans for commercial, agriculture and industrial sectors. This bank is the first joint venture bank managed by Nepalese chief executive. The bank adopting modern technologies such as computer system in each branch, credit card, master car and VISA international card etc. recently this bank has made an agreement with smart choice Technology Pvt. Ltd. For expanding ATM network in Kathmandu valley. Since its establishment, Himalayan Bank Limited has been well-known as one of the most secure and reliable banks in the country. In the fiscal year 2009/10, the Bank's deposit base reached Rs. 37.61 billion, and loans and advances Rs. 29.12 billion.

During the period under review, the Bank's total deposit reached Rs. 37.61 billion, recording an increase of 8.44 percent over the previous year. Similarly, the loans and advances reached Rs. 29.12 billion during the period under review, recording an increase of 14.12 percent over the previous year. The net assets of the Bank increased by 10.24 percent, reaching Rs. 3.44 billion during the review period, while the gross assets increased by 9.50 percent and were valued at Rs. 43.86 billion.

The Bank was able to make an operating profit of Rs. 579.23 million during the review period. The net profit of the Bank reached Rs. 508.80 million. During the period under review, the Bank's operating profit and net profit declined by 43.74 percent and 32.42 percent respectively.

1.2 Statement of the Problem

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

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

Commercial banks are the apex entities of economy in any nation for prompting different business activities such as agriculture, trade, industry and commerce. As such activities get momentum; excess dependency on agriculture sector about livelihood will automatically be reduced. Hence necessity of these institutions have been realized the must. In addition to this, HBL has been providing a nice platform for the businessmen who plan to capitalize future opportunities with both financial and technical support which helps on the increment of entrepreneurial activity.

As the number of banking and financial institutions is increasing tremendously and the size of economy is not growing correspondingly, competition among banks and financial institutions is being fiercier and fiercier, which is leading to make compromises in the quality of lending. This is the chief reason for increase in the size of Non Performing Assets. If a bank is not able to recover a substantial part of its lending , bank falls into a big crisis which may result in the collapse of the bank because bank may loose all the capital and the depositors' assets. So, in order to play a safe and long lasting game in this competitive international arena, bank must make itself strong internally by making enough caution in the loan management. In loan management there lies the role of non performing assets management. So, the management of NPA has become a major challenge in today's banking sector. So, it was found quite interesting and challenging to choose the topic of NPA management.

As shown above, number of financial institution in the country is growing rapidly. Competition among such institutions is on a rise as all these institutions are elevating themselves in the financial market. In this taut environment, HBL is standing with weak financial position regarding to NPA. In HBL, the management is foreign and the audit process is very slow. Endowing loan without proper analysis was the great error of both the banks. Even the banks have strong credit manuals, the NPA level of these banks are still high in comparison with the other banks in Nepal. No company can earn smoothly without well managed loan portfolio.

Hence, study has taken NPA in HBL as thesis topic trying to make an open scenario about NPAs in these banks. While giving the supportive framework to the research study, the following questions 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:

- What is the trend and growth pattern of NPA of HBL?
- What are the problems and prospects associated with management of NPA?

1.3 Objectives of the Study

The main objective of the study is to evaluate the management of NPA of Himalayan Bank Ltd with various statistical measures. In detail the specific objective of the study are highlighted below:

- To examine trend and growth pattern of NPA of HBL
- To identify major problems and prospects associated with NPA.

1.4 Significance of the Study

The success of commercial bank highly depends on the efficient management of credit as per environment. The economy of country is already in the recession due to slowdown of global economy and unstable internal environment leading to adverse affect in business and industrial sector. Such phenomenon has unfavorable affect on banking sector. A crisis in bank is the indicator of crisis in the economy. Hence, the quality of management of credit is considered an important topic as it directly influences the performance of the bank. This study is an attempt to get insight on credit operation and management practiced in the sampled bank. It encompasses credit policy, loan approval, loan administration and loan repayment including the credit risk and its mitigation. This information will help to determine the efficiency and effectiveness of the bank's credit management practice.

Commercial banks are going a wide popularity through their efficient management and professional service and playing an eminent role in the economy. Considering the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly increasing financial institutions are creating threats to the commercial banks. In this context, the study would analyze strengths, weaknesses, opportunities and threats of selected commercial banks. The research will be helpful for commercial banks to formulate strategies to face the increasing competitions. Besides, it also helps to identify the importance of shareholders, policy formulators, professionals and outside investors.

The problem of non performing loans is faced by every commercial banks. So well management of this aspect is a must for the smooth functioning of the organization. For this problem being a major problem the study and research is definitely going to have some sort of significance for the banking sector. Since very few research had been so far conducted in this particular topic this research is going to add to the literature of NPA management. Basically this study will identify the major areas of NPA. This study will help the commercial banks to timely identify the non performing assets and the major contributing factors causing the NPA and timely identification for the reduction of NPA level. This study will also help for the regulation and administration of the non performing assets. Hence this study will be helpful to banker, researcher, shareholders, depositors, further researchers and students.

1.5 Limitations of the Study

Despite the fact that banking sector is the most controlled and transparent sector of the Nepalese economy, and published Financial Statements of the Banks are regarded as highly credible and our study is largely based on the published Financial Statements of Banks, there are certain limitations inherent to any study, such as:

- Only Himalayan Bank Ltd has been considered for sample study.
- The research is limited to the analysis of non performing assets which the sample banks were holding the period of FY 2005/06 to 2015/16
- The analysis is based on the data depicted from annual reports of the sample bank that are secondary in nature and is assumed that the data depicts the true picture of the bank.

1.6 Organization of the Study

The study is divided into five chapters and they are as given below.

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

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

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

The fourth chapter includes presentations and analysis of data to indicate the computed facts on NPA level on HBL.

The fifth chapter summarized the whole thesis report, presenting findings of all analysis along with concluding remarks with recommendations.

Bibliography and appendices are also enclosed at the end of the thesis.

CHAPTER- II

LITERATURE REVIEW

2.1 Theoretical Review

One of the important and major roles banking sector plays is of lending business or giving away loans. Lending business is generally encouraged because it has the effect of funds being transferred from the system to the productive purpose, which eventually results into strong economic growth. The main con of this business if that it carries credit risk, which arise from the failure of the borrower to fulfill its contractual obligations either during the course of a transaction or on a future obligation. Non-performing Assets here after called NPA, also called non-performing loans, are loans, made by a bank or finance company, on which repayments of interest payments are not being made on time. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time a loan is classified as past due. Once a payment becomes really late (usually 90 days) the loan classified as non-performing. If any advance or credit facility granted by a bank to borrower becomes non-performing, then the bank will have to treat all the advances/credit facilities granted to the respective borrower as non-performing without having any regard to the fact that there may still be certain advances/credit facilities having performing status.

“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).

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.

2.1.1 Credit Policy and Its Parameters

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified date on demand. Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit. Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely (Francis, 2003: 6)

In fact, it is a very sensitive subject that what sort of credit policy a bank should have. So, it should pay more attention to the loan, advances that it provides. The commercial banks are inspired with the motive of gaining profit. To fulfill these objectives, they should manage and improve its banking sector. They must give more attention to the flow of loan. Regarding loan policy, it should be clear and follow such policy which would match the economic policy of the nation.

Credit policy of HBL is the approved methodologies for conducting its lending operations with an objective to maximize profit of the bank and serve its best to the nation. The general assembly is the sole authority to approve such policy. Normally, the Board of Directors is authorized to approve such policy on the recommendation of the management. The general assembly in its annual general meeting or special meeting may initiate the approve changes or can guide the Board management to implement, suggest, renew or cancel the existing policies.

Credit management in HBL basically covers loan approval process, credit analysis, method and mechanism, lending documentation, disbursement and administration of loan including credit audit. As there is a saying “Precaution is better than cure” bank should be more analytical and farsighted while disbursing loan in order to prevent loan flow in unproductive sector and non-performing assets.

2.1.2. Execution of Legal Formalities

When the memo is approved from the top level, some legal formalities are obtained before sanction of loam. The legal formalities are obtained in accordance to the nature of securities and loan. Now, let us discuss about the type of securities and methods of execution.

- **Moveable securities**

Moveable securities include Current Assets, Business Stock, Merchandise Items, Shares, Debentures, Government Bond, Treasury Bills, Fixed Deposits Receipts, Vehicles under Hire Purchase and Export Documents.

- **Immovable Securities**

Immovable Securities are fixed properties such as land and building, heavy plant and machines installed within factory premises. Such types of security can not be replaced from one place to other place; therefore it is called immovable securities.

So the way of charging according to various types of movable and immovable securities is different. Generally the major way of charging are as mentioned below:

- **Mortgage**

The fixed properties of immovable properties are taken as a security by way of mortgage. Mortgage formality shall be done by preparing mortgage deed. Required information is carried out from Title Deed and valuation report. Mortgage is the transfer of an interest in specific immovable property for the purpose of securing bank's finance. There are two kinds mortgage as mentioned below:

- **Equitable Mortgage**

Equitable Mortgage is an agreement, express or implied where the interest of property shall pass to the bank as security for a debt due or to become due. It is created by a simple deposit of original title deed with an intent letter of property owner.

- **Legal Mortgage**

In legal Mortgage the property owner transfer his legal title in favor of bank under "Dristi Bandhak" where the bank gets legal estate in the property and he will endow with all sorts of right and remedies if required.

- **Pledge**

Various types of merchandise items and the business stocks can be considered as security for short term credit facilities by way of pledge arrangement. In this arrangement, bank has effective control over the security and the customer cannot allow transacting over the security before clearing dues outstanding. Furthermore, various types of Government Bond, Treasury Bills and Development Bonds where the lien from the issuing authority is not possible (as observed from the present practice) is also considerable as a pledge item to provide bank advances to its customers. In this situation customers are required to simply pledge the certificates to the bank and bank will make necessary arrangement.

- **Hypothecation**

Banks can make hypothecation fixed assets and current assets of their customers for the purpose of availing loans and advances against the security of the same. Hypothecation documents are duly signed by authorized person of Loan Company. Goods under hypothecation is under control of customers itself and he is allowed to do the transaction on goods solely, however he is also required to adjust the liability created against hypothecation according to change in the level of stocks/ goods. Under hypothecation there is also an arrangement by which bank can convert the hypothecated item into pledge, if required.

- **Lien**

Various types of documents security such as share certificates of listed company, Fixed Deposit receipt of different banks and other negotiable instruments can also be considered as a security for loans and advances under lien arrangement of the same. It can be done with request to issuing authority by making lien over the same under permission of owner of such documents. The owner of such documents will provide such documents. The owner of such documents will provide such certificates duly discharge in favor of bank along with letter of lien signed by him.

- **Hire Purchase**

Hire Purchase transaction is a kind of bailment where the hirer pays money in consideration of the use of goods yet the ownership continues to remain with the bank and who gives the commodities/ goods on hire purchase finance.

After being finalized to grant the loan, bank obtains/ executes various documents to make legally liable to lone for repayment of sanctioned loan. This process is called documentation. Since, different documents are required to be executed accordance to the nature of loan, normally following documents are necessary.

- Promissory Note

- Letter of Request

- Letter of Continuity (it is filled up for the continue use of those facilities as provided)

- Letter of Arrangement (it is the commitment to the bank by the borrower to arrange the repayment of loan)

- Letter of Disbursement

- Hypothecation of entire current assets and fixed assets.

- Personal guarantee of all the directors and the property owners.

- Mortgage Deed.

2.1.3. Loan Disbursement

Usually, loan is disbursed maintaining a 75:25 loan/equity ratio at any stage of the project. For example, the first disbursement may be made against land and building to the extent of 75% of the total cost of the land and building and the disbursement is made only when the promoter has purchased the land and completed the construction of the building at least up to plinth level through equity financing. Similarly, the bank may disburse loan for the purchase of machinery by opening a letter of credit, ensuring however that out of the total investment, including that to be made for the machinery, 40% is out of once operation are about the start, the concerned sectoral division appoints a team to prepare a project completion report (PCR). At the time of disbursement of loan bank charges 1% as the service charge of loan amount.

2.1.4 Loan Recovery Procedure

After the client enjoys the facility they have to return the fund within the purposed time period. The working capital loan is given for the one-year period and has to be renewed every year on the request of the client. The repayment schedule of the loan has different methods as mention below:-

- Term loans are granted for a maximum period of 15 years, depending on the nature and debt-servicing ability of the project. And whole amount of principal as well as interest must be settled within the given time period.
- Principal dues are payable in monthly installments where as interest is payable on quarterly basis.
- A grace period (moratorium) for repayment of principal is granted on the basis of the time required for the project to come in to operation and interest dues during the construction period are capitalized. And this moratorium period up to 1 year is in the practice of the commercial bank.
- Short-term loans of working capital loans may be granted for a period of 1 to 3 years and are subject to renewal.
- Repayment of interest become due on quarterly basis, as follows:

  - End of Chaitra (Mid April)
  - End of Ashad (Mid July)
  - End of Ashwin (Mid October)
  - End of Poush (Mid January)

- In the event of failure of payment of interest, the interest charged on Ashad (mid-June to mid July) and Paush (Mid December to mid January) will automatically be capitalized after one month and the capitalized interest will carry the same interest rate as on the pertinent loan.
- The payment of the retail lending is based in the EMI (Equal Monthly Installment) basis where the principal and the interest is paid every end of the month. In this method of repayment of the loan the borrower have to pay equal installment every month for the given time period
- If the borrower want to pay the loan before the maturity of the granted loan then the bank charges panel of additional 1% charged form the sanctioned loan as the premature settlement of the loan.

And in generally practice of the commercial banks the prepayment charges are:

i) 2% of amount prepaid before 1 year
ii) 1% of amount prepaid after 1 year
iii) Partial payment allowed after 1 year only
iv) Service Charge: 1% of loan amount of loan sanction

2.1.5 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.

2.1.6 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).

a) Compromise

The dictionary meaning of the term compromise is “settlement of dispute reached by mutual concessions” (Dhanuskodi, 2006). 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

2.2 NRB Regulations about NPA

NRB has issued new sets of regulations similar with international standards to address and minimize risks in financial business. These regulations include capital adequacy, loan classification and provisioning, single obligor limit, accounting policies and financial statements, liquidity risk, interest rate risk, foreign exchange risk, corporate governance, implementation of regulatory directives, regulation regarding investment in earnings assets etc. The new regulation addresses upon the classification of loan and advances and provisioning. Loans are classified as performing and non-performing loans. Regulation provides for "Overdue period of outstanding loans and advances' as minimum criteria for classification of loans and advances. Performing loans includes pass loans only, while non-performing loans includes substandard, doubtful and bad loans. Provisioning requirements are changed as pass loan is provisioning with one percentage of total due loan, substandard is provisioning with 25 percentage of total due loan, doubtful is provisioning with 50 percentage of total due loan and bad is provisioning with 100 percentage of total due loan.

Provision of 12.5 percent is to be made on all restructured and rescheduled loans. Repayment of principal and interest amount by overdrawing current accounts resulting in debit balances or by exceeding limit of overdraft facility is not allowed. Additional provision of 20 percent should be made for the loans, which are disbursed against personal guarantees only. The new regulation on single obligor limit reduces the fund-based limit to a single customer (or group) from 35 percent of capital fund to 25 percent of core capital and non-fund based limit from 50 percent of capital funds to 50 percent of core capital. The regulation also addresses the cases when bank will be over exposed on the single industry or single sector of economy. The new regulation also aims to disclose true and fair picture of the banks through their financial statements. Accounting policies and formats of the financial statements redefined and restructured to cope with best international practices. New disclosure requirements have enhanced quality of commercial bank's financial statements. The directives, regarding corporate governance, sets code of ethics for directors, chief executives, and employees of the banks. One of the provisions in the regulation is to form the internal audit committee under the chairmanship of non-executive board member to enhance the internal control system. The shareholders having more than one percent shares, the directors and employees of the banks are prohibited from availing credit facilities.

2.3 Empirical Review

Shrestha (2005), studied that investors would like to select a best mix of investment assets subject to following aspects: Certain capital gains, Good liquidity with adequate safety of investment, Maximum tax concession, Flexible investment and Economic, efficient and effective investment mix. The study 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.

Chhetri (2007) studied about: need for rationalization" that to provide connation of the NPA and its potential sources, implication of NPA in financial sector in the South East Asian Resign. He has also given possible measure to contain NPA. "Loan and Advances of financial institution are mean to be serviced either part of principle of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes past dues, the loans becomes non-performing assets. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing".

As per his opinion, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months; similarly, it is after three months in India, loans thus defaulted are classified into different categories having their differing implication on the assets management of financial institution. He also stated that NPAs are classified according to international practice into three categories namely substandard, doubtful and loss depending upon the temporal position of loan default. "Thus the degree of NPA assets depends solely on the length of time the assets has been in the form of none obliged by the lone. The more time it has elapsed the worsted condition of asses is being perceived and such assets are treated according."

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extend to extra amount that requires by regulation of supervisory authority in the form of provisioning as the amount required for provisioning depends upon the level of NPAs create a psyche of worse environment especially in the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc NPAs can be reduced. Finally he concluded that financial institutions are beset with the burden of mounting level of NPAs in developing countries. "Such assets debar the income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPAs can't be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth.

Karki (2007) has 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”.

Sharma (2008) has studied on private commercial banks 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”. It is a known fact that the banks and financial institutions in Nepal face the problem of amplification of NPA and this issue is being unmanageable day by day. In order to bring this critical situation under control, Nepal Rastra Bank (NRB) introduced a new directive to blacklist all the big loan defaulters.

Pyakuryal (2010) has stated in the articles entitled 'Our Economy is in a Volatile Stage' that the banks have not able to collect their overdue due to the increasing cumulative NPAs in Nepalese commercial banks. There is no additional demand of the investment due to the higher risk and present uncertainty.

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

He also added, "The government is about to establish an Assets Management Company to take over the non-performing assets (NPAs) of the government-owned banks. On the other hand, it looks like the government's entire concentration has been on two commercial banks only (Nepal Bank Ltd. and Rastriya Banijya Bank). Due to cumulative growth of the NPAs, the banks haven't been able to collect their overdue. Due to the present uncertainty and higher risks, there is virtually no demand for new investments. That's why many banks are concentrating on conventional areas. We haven't been able to explore potential areas of competitive advantage in the regional context" (Pyakuryal, 2010).

Neupane (2010) said in his article titled 'NPAs in Nepalese Financial Institutions' that thinking rationally no one shall be surprised to note two of the giant commercial banks of this country such as Nepal Bank Ltd. and Rastriya Banijya Bank accounting for the highest number and amount of non-performing assets (NPA) among players in the industry. In general and more specifically, in least developed countries like ours, the larger the size of the credit portfolio the larger the amount of NPAs.

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

He expressed the one major reason that can be attributed for the already prevalent and ever increasing NPA is unhealthy competition among the commercial banks. Since, the size of our economy has remained more or less stagnant over the past half a decade or so, the size of the total pie has not changed much. Every player in the market means bu7siness and its primary motto is "making profit". This has enhanced unhealthy competition among the banks through interest rate reduction, issuing loans irrespective of borrowers' credibility and authenticity, etc. in course of making their credit portfolios bigger, all the players have been pouring their investments into the same pie thereby over financing the pie. Given this scenario, it is no surprise to discover a good loan turning into an NPA because of over financing.

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

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

Basyal (2009), in a broader term has stated that the large intermediation cost and inefficiencies in the financial system have remained major drawbacks of the Nepalese financial structure. He further emphasizes the challenges and complexities of the Nepalese financial system as below: Weak financial position of most of the government owned financial institutions . Negative net worth and large accumulated losses of the government owned commercial banks. High interest rate differentials between formal and informal financial sector. Large interest spread in the formal financial sector. Operational inefficiencies, managerial deficiencies and least improvements in financial dealings. Active participation of government in the financial system. Lack of internationally recognized accounting and auditing practice in the system and Higher proportion of non-performing assets.

Paudel (2010) has added some other factors like unnecessary influences of the employees’ union, weak corporate governance (lack of transparency, accountability, laws and bye-laws), lack of effective regulation and supervision caused to worsening the financial system. From the analysis above, it can be said that weak legal and regulatory Framework are the responsible factors for weakening the Nepalese financial system, which is, to some extent, similar to the factors that caused to worsen the East Asian financial sector in the late 1990s. Obviously, a distress financial system adversely hits the quality of the assets in the system. As such, the non-performing loans as a %age of total loans in the banking sector was 14.3% in 2000 while it increased by over cent %age point to 29.3% in 2009 and to 30.1% in 2010. However in the mid of Jan, 2010, NPLs declined marginally to 29.9% of total loans. Similarly, both the state-owned banks comprised over 50.00% if bib-performing loans as at mid-Jan 2003, which seems to be alarming.

Dungana (2010) has studied on why assets management company is considered the best to solve the non-performing loan problem" as above has tried to highlight one of the approach mainly Assets Management Company (AMC) for resolving the problem of NPL. As per him, AMC is specialize financial intermediary to manage the non-performing and distress loans of banks and financial instructions who buy the NPL from financial institution and take necessary steps to recover the maximum value from the acquired assets. As per his view, if NPLs are not resolved in time there would be inherent direct of indirect costs to the economy. As stated by him NPL may arise due to the external factors like decrease in market value of collateral deterioration borrower's repayment capacity, economic slowdown, borrower's misconduct, improper credit appraisal system, lack o frisk management practice, ineffective credit monitoring and supervision system. Hence he suggested that, NPL should be kept at minimum level and the specialized institution such as AMCs should manage the distressed loans.

He said that both traditional approach and AMC are available to deal with NPL problem. Under traditional approach, bank handles the NPLs in its own way especially through recovery unit who focus on continuing negotiation with the approach is useful in dealing with small business loans where personal touch is adopted but for big loan this approach does not work. "AMCs seem as the only realistic option when the financial sector recovery is the underlying objective in financial system where the institution fails to resolve the NPL problem through their own efforts."

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

He concludes, "As in most of the countries, Nepalese Financial System is largely dominated by the banking sector. The banking sector is severely affected by the NPL problem, it is estimated that the NPL of the Nepalese Banking system is around 16%. Therefore there is no doubt that is has serious implication on the economic performance of the country. It will be the eclipse in the development of financial soundless in the economy, if not controlled in time. However, traditional or AMC root can be practiced to get recovery from this sickness of the financial system, the AMC root may be more effective approach to be quick recovery as it has been experience around the world."

Sapkota (2010) has written as article titled "portion of NPA in commercial Banks – High in Public, Low in Private" which was published in Rajdhani on 19th May 2010. In this article, Mr. Sapkota has stated that the problem o f NPL is seen less in private banks in comparison to public banks. The NPA of two big nationalized banks being about 60% if the total loans are very serious situation. He further mentioned that in order to improve this situation and to make healthy banking environment, financial reform program has been brought as its consequences, the management of two bog banks was handed to foreign company on a contract but the ratio of NPL was not reduced.

Even most of the privately owned banks has NPA within international standard, some privately owned bank's NPA is higher that international standard. As per international standard 5% NPA is acceptable. He also states that, Nepal's total NPA of banking sector is 30%, which is very high (Shapkota, 2010).

Adhikari (2010) studied on “Non-performing Loan and its Management” states in articles one of the main function of commercial bank is to management of non-performing loan. Main function of commercial bank and financial institution is accepting deposit and provide loan. In underdeveloped country like Nepal providing Loan and interest income generating through loan is the main source of bank and financial institution. If provided loan become non-performing loan the bank and financial institution suffer from big financial scarcity. One side un-recover interest cannot make income and other side loan its self converts in NPL that make huge effect in financial condition of bank and financial institution. So management of NPL is crucial factor any bank and financial institution.

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

- Lack of proper analysis
- Lack of specific loan policy
- Lack of supervision
- slump on aggregate economy
- monopoly on corporate loan and its unsuccessful
- weak in consortium loan
- less responsibility of borrower
- Inadequate in internal Control and Audit
- Inadequate in supervision of Central bank

In this way NPA generate in bank and financial institution. Every Banking s system there is some level of non-performing loan. So it should be managed differently. Bank manages their loan and credit if nonperforming loan are acceptable level. But if bank's NPL are more than acceptable levels then it impacts on aggregate financial position of bank and market as worse. In this case bank should manage and treat its NPL differently. A single unit with expert should be assign for proper and appropriate management of huge amount of non-performing loan. For better management of nonperforming loan asset Management Company or corporation (AMC) is required. Proper management of nonperforming loan and recapitalization, these two important improvements are requiring for better every banking system (Adhikari, 2010).

Regmi, (2011) has studied on non-performing assets management. The writer stated about the management of NPAs in the commercial banks. He writes, the NPAs includes the non-performing loan, non-banking assets, remaining non-performing loan, suspend interest and unutilized assets. The increasing NPA are the emerging problem in commercial banks, which is the main factor for failure of the banks.

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

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

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

"The directives if not properly addressed have potential to wreck the financial system of the country as they are the only tool of the NRB to supervise and monitor the financial institution. The directives in themselves aren't that important unless properly implemented, the implementation part depends upon the commercial banks. In case commercial banks are making such huge profit with full compliance of NRB directives, then the commercial banks would deserve votes of praise because they would be instrumental in the economic development of the country. All the changes in

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

All the aforesaid results lead to one direction: the bank will be financially healthy and which the bank is undergoing at present will prevail only for a couple of years but in the long run, it will be strong enough to attract more deposits and expose itself to more risk with capital cushion behind it. The quality of the assets of the banks will become better as banks will be careful creating credit. Ultimately, the changes in the directives will bring prosperity not only to the shareholders but also to the depositors, the employees and economy of the country as a whole"

Shrestha, (2011) in studied "*A Study on Non-Performing Loan and Loan Loss Provisioning of Commercial Banks*" with reference to Nepal Bank Ltd, NABIL Bank ltd. and Standard Chartered Bank Nepal ltd., has made an attempt to analyze the various aspects of non-performing loan in the commercial banks. Her main objectives of the study is to find out the proportion of non-performing loan, factors lending to accumulation of non-performing loan, relationship between loan and loan loss provision and impact of loan loss provision on profitability of the commercial bank.

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

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

Khadka, (2011) stated that 'despite of being loan and advances more profitable those other assets, it creates risk of non-payment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets on the basis of overdue schedule. Escalating level of NPAs has been becoming great problem in banking business in the world. In this context, Nepal can't be run off from such situation. The level of NPAs in Nepalese banking business is very alarming. It is well known fact the problem of swelling non-performing assets (NPAs) and the issue is becoming more and more unmanageable day by day. We are well known from different financial reports, newspaper and news that the total NPA in Nepalese banking system is about 35 billion, while it is very worse in case of two largest commercial banks Rastriya Banijya Bank (RBB) and Nepal Bank Ltd. (HBL).

Finally, the study concluded that the level of NPA in sampled Nepalese Commercial banks is not so alarming. The situation is quite satisfactory. But the increasing trend remain continue in coming days, the situation will be unmanageable and alarming. The commercial banks could not give full attention towards supervising their lending and towards recovering their bad loans perfectly. Level of NPA has been increasing. The level of NPA of Nepal Bangladesh Bank ltd.(NBBL), Nepal SBI Bank ltd. (NSBIBL), and Bank of Kathmandu ltd (BOK) seems very unsatisfactory. If the situation is not handing right now, it will be unmanageable and difficult to handle.

Shrestha, (2012) studied on "*Comparative Analysis of Non-Performing Assets of Nepalese Commercial Banks*" is aimed of studying the non-performing assets of private commercial banks. For this purpose, descriptive and analytical research design was adopted out of total population 29 commercial bank, four private banks were taken as sample using judgment sampling method, and they are Lumbini, NCC, NBBL and SCBNL. In this study secondary data are used. Besides this, newspaper, relevant thesis, journals, articles, related website etc. are also taken for this research. The data collected from various sources are recorded systematically and presented in appropriate forms of table and charts and appropriate mathematical, statistical, financial and graphical tools have been applied to analyze the collected data in suitable manner. The data of five consecutive yrs of the four banks have been analyzed to meet the objective of the study.

The major objective of this research is to examine the level of non-performing assets (NPAs). The specific objectives are;

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

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

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

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

Thapa (2012) study entitled "A Study of Non-performance Assets of Nepalese Commercial Banks in Nepal" of the period from FY 2004 to FY 2010. The 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.

Yadav (2013) studied on "A Study on Non-performing Assets- with Special Reference to Nepal Bank Limited and Rastriya Banijya Bank Limited". The study concluded that the share of RBB and HBL 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 2004/05. It increased by 5% points in FY 2004/05 than the previous year. Like wise, the NPA / total credit ratio of HBL also increased from 27.46% to 60.47% in FY 2004/05, which shows the rising trend.

The net profit trend of HBL and RBB is highly negative in first three fiscal year because more than 60% non performing asset. But now, HBL 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 HBL and RBB. HBL and RBB was not focusing on the quality of loan rather focusing on the volume of loan. After the implementation of financial sector reform HBL and RBB is able to earn profit from 2060/61 and also able to decreasing volume of non - performing assets. But HBL and RBB have to more focus to improve the credit management because HBL and RBB are not able to maintain NPA as the specified standard of NRB i.e. 5 %. Credit related financial indicators in HBL 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. There are many previous studies related to financial performance of Nepalese commercial banks. Very few studies have been done on credit management and loan recovery especially public commercial banks. Credit management affects the profitability of commercial banks. But without a systematic research or study, it cannot be said that how much the HBL is affected by credit management. On the and review personnel typically do not participate in overseeing operations costs. Despite this separation between NPA and profitability, it cannot be reached to a conclusion that there is no any relationship between problem loans (NPA) and profitability of commercial bank. That is why this research has try to find out the relationship between NPA and profitability. Likewise, this study has also highlight on the effect of NPA on banks profitability. The main research problem is to analyze whether the sample bank has right level of NPA and liquidity as well as is able to utilize its resources effectively or not. Therefore, this study is useful to the concern bank as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc.

CHAPTER-III

RESEARCH METHODOLOGY

The basic objective of this study is to highlight the overview of non-performing assets and its effect on loan recovery status of HBL. For systematic analysis of related data and information proper research methodology is necessary. Research methods helps to analyze, examine and interpretation of data and information in research work. The sole objective of this study is to examine and to analyze the NPA management of HBL and to provide recommendation for their financial improvement. Research design, nature and source of data, period covered, research variables, sample and method of data analysis are incorporated under this chapter.

3.1 Research Design

The bottom line of this research is to analyze the soundness of HBL in relation to loan disbursement and NPA. The research design of this study is descriptive as well as analytical. This available information from primary and secondary sources is used to examine, explain and evaluate the disbursement and collection situation of HBL. Descriptive research design has been adopted in fulfilling the objectives of this study. It is tough to study the principle causes arising from borrowers' side and quantify them in relation to weak repayment performance of HBL.

3.2 Nature and Sources of Data

For this study, mainly secondary data are used. These secondary data are collected mainly from published source like annual report, prospectus, balance sheet, jouranal , Internet and other sources.

Secondary data published on annual reports of concerning organizations, like NPA and loans and advances are collected through personal visit of respective organization as well as from their web sites. Some secondary data like loan classification of respective bank, comparative study, and NPA situation are collected from Nepal Rastra Bank..

3.3 Population and Sample

The sample size has been drawn in such a manner that it gives most of the information with maximum accuracy and relevancy with the research objective. Out of 29 operating commercial banks, HBL has been chosen as sample. HBL represents the private bank of Nepal. The sample size has been chosen in size a manner that it would be enough to provide all necessary information.

The population of this study comprised all the 29 commercial banks operating in Nepal. Secondary data were taken from annual report of HBL which has been collected from the credit department of sample bank.

3.4 Sampling Method

The sampling method used for the study is the purposive sampling. It entails that the selection of the sample is deliberate and not random. The rationale behind taking sample of HBL is that this is the bank which has a medium level of NPA than the other banks and joint venture bank has been covered in this thesis.

3.5 Data Collection Procedure

The data has been collected through the annual reports of HBL. It is difficult to get the primary data from the staffs of HBL. So, the data of HBL has been gathered as secondary data through annual report and with the help of the staffs at the Credit Department of Kathmandu Head Office. Other required information has also been collected from central bank i.e. Nepal Rastra bank at mutually convenience time. Based on the review of literature, comprehensive literature has been reviewed which included articles pertaining NPA in Nepalese bank. Moreover, a few additional literatures have been reviewed for analysis.

3.6 Presentation and Analysis of Data

Any statistical tools can be used in solving the problem of the study. For the purpose of the study, all collected secondary data are arranged, scanned, tabulated, under various heads and then after descriptive cum statistical analysis have been carried out to enlighten the study. Mean, standard deviation, correlation, coefficient of variation, trend analysis are being calculated under statistical analysis. The statistical analysis is done to assess the trend of loan disbursement and NPA from FY 2066/67 to 2071/72. Karl Person's Coefficient of correlation is used to analyze the relationship between total loans and advances and NPA. Average, Percentage, graph, chart and diagrams and hypothesis are included.

3.6.1 Financial Tools

Ratio Analysis: Ratio analysis is the numerical relationship between any two given variables of financial statement, which serve meaningful purpose for study. Ratios are expressions of coherent relationship between items in the financial statements of a fiscal year. We can compute many ratios from a set of financial statement. Ratio shows a rapport between two items on the same financial items or between two items in different financial statements. Ratio analysis is the apparatus of scanning the financial statements of the firm. With the help of ratio analysis, we can know the areas of action in which the organization is strong and vice versa It should be noted that a single ratio in itself would not indicate favorable or unfavorable expenses. So, it should be compared with some set standards.

Ratio analysis isn't just used for comparing different numbers from the balance sheet, income statement and cash flow statement. It's comparing the number against previous year, other companies, the industry, or even the economy in general. Ratios look at the relationships between single values and relate them to how a company has performed in the past and indicate the future as well.

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:

~~b.~~a. Return on assets (ROA) = $\frac{\text{Net profit after taxes}}{\text{Total assets}}$ **x 100%**

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

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

~~g.~~d. Income from loan and advances to total loans ratio

$$= \frac{\text{Income from loan and advances}}{\text{Total loans}}$$

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

3.6.2 Statistical Tools

Collected data and information from different sources are analyzed and presented in proper tables, charts, formats and graphs. To analyze the collected data some financial and statistical tools have been used as per the requirements like trend analysis, ratio analysis and correlation.

For holding up the study, statistical tools like mean, Standard Deviation, correlation, coefficient of variation, diagrams and pictorial tools, hypothesis testing have been used.

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.

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

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:

$$\text{S. D. } (\sigma) = \frac{\sum \left(X - \overline{X}\right)^2}{n}$$

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:

$$\text{C.V.} = \frac{\text{Average (Mean)}}{\text{S.D.}} \times 100\%$$

Trend Analysis

The performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. In this analysis the past trend is analyzed of any data and future movement is predicted. A widely and most commonly used method to describe the trend is the method of least square.

The straight-line trend is given by the following formula:

$$Y = a + bx$$

Where,

Y =Values of dependent variables

a = y intercept

b= slope of the trend line

x = values of independent variable (Time)

When, $\sum x = 0$, $a = \frac{\Sigma y}{n}$ $\quad b = \frac{\Sigma xy}{\Sigma x^2}$

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular fluctuations, the trend value increase or decrease by a constant absolute amount 'b' per unit of time.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Financial Analysis

Principal Indicators had been accepted to calculate the financial condition of the organizations. Results of operations of the sampled bank is analyzed and interpreted on the basis of the required indicators needed for this thesis. The main motto of the study is to analyze the impact of NPA on the financial ratios of the sampled bank.

4.1.1 Current Ratio

Table 4.1
Current Ratios of Himalayan Bank

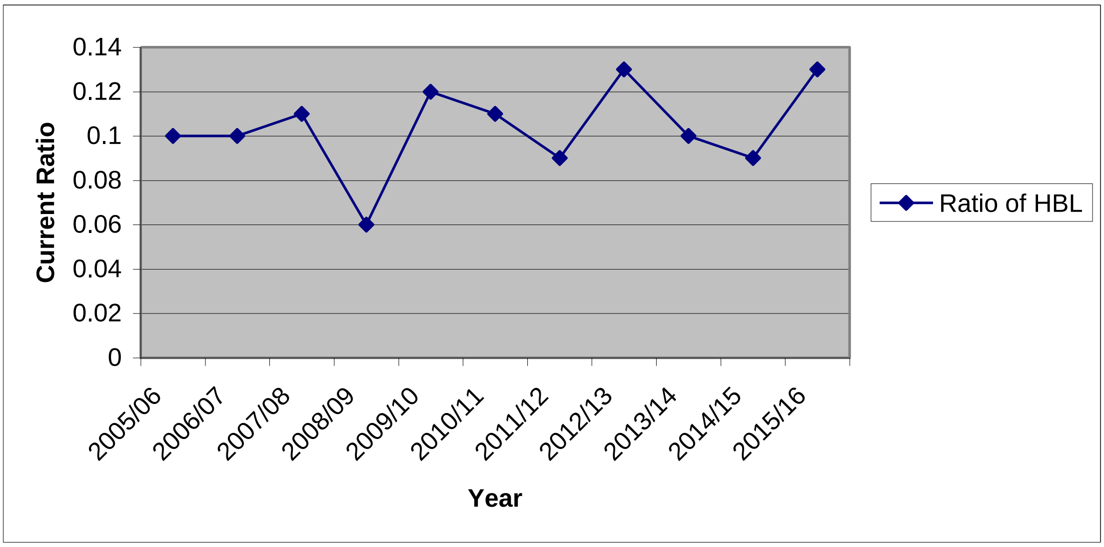
Year	Current Ratio of HBL
2005/06	0.10
2006/07	0.10
2007/08	0.11
2008/09	0.06
2009/10	0.12
2010/11	0.11
2011/12	0.09
2012/13	0.13
2013/14	0.10
2014/15	0.09
2015/16	0.13
Mean	0.10
SD	0.02
C.V	512.65%

Source: Appendix-I

Table 4.1 shows the current ratios of Himalayan Bank Limited for the study period of 2005/06 to 2015/16. The ratios were 0.09, 0.13, 0.10, 0.09 and 0.13 in 2011/12 to 2015/16 respectively. Comparing to eleven year mean, only in the fiscal year 2008/09, 2011/12 and 2014/15 the ratio is lesser than the average i.e. 0.10. The higher the ratio, the better is the liquid position of the bank. The trend of current liabilities is of increasing one, where as current assets is in increasing trend up to the fiscal year 2009/10. From Annex-1 it was found that in the fiscal year 2015/16 the current asset has increased to Rs 74642.65 million fromdard deviation and C.V. of HBL are 0.10, 0.02, and 512.65% respectively.

Figure 4.1

Diagrammatic Representation of Current Ratio



Source: Table 4.1

The bank may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of the liabilities may lead the bank to lose their goodwill. They will have the problem in winning the confidence of current depositors and short-term lenders. Therefore too much liquidity as well as too low liquidity both is not desired and both have negative impacts. Thus maintaining a proper liquidity position is must.

4.1.2 Income from Loan and Advances to Total Loans Ratio

Ratio of Income from loan and advances to total loans is given below:

$$\text{Ratio of Income from loan and advances to total loans} = \frac{\text{Income from loans}}{\text{Total loan}}$$

Table 4.2

Ratio of Income from Loan and Advances to Total Loans

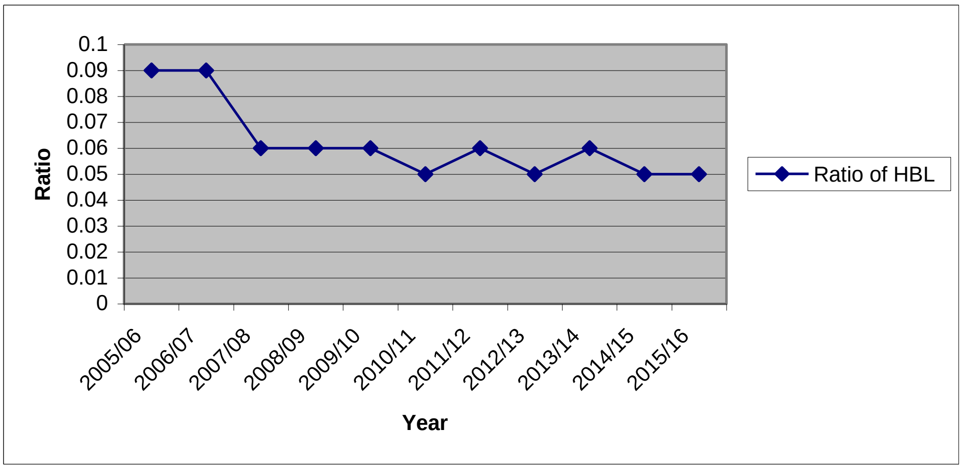
Year	Ratio of HBL
2005/06	0.09
2006/07	0.09
2007/08	0.06
2008/09	0.06
2009/10	0.06
2010/11	0.05
2011/12	0.06
2012/13	0.05
2013/14	0.06
2014/15	0.05
2015/16	0.05
Mean	0.06
SD	0.01
C.V	441.08%

Source: Appendix-I

The above table 4.2 and the figure 4.2 represent the trend of income from loan and advances to total loans of HBL. The income from loan and advances to total loans of HBL is in fluctuating trend from fiscal year 2005/06 till 2015/16 but it declined in fiscal year 2007/08 even though the NPA level was comparatively low. This shows that NPA has no effect on the income from loan and advances to total loans for H 0.01 and 441.08% which shows there is more fluctuation on income trend in HBL.

Figure 4.2

Ratio of Income from Loan and Advances to Total Loans



Source: Table 4.2

4.1.3 Net Profit to Loans and Advances Ratio

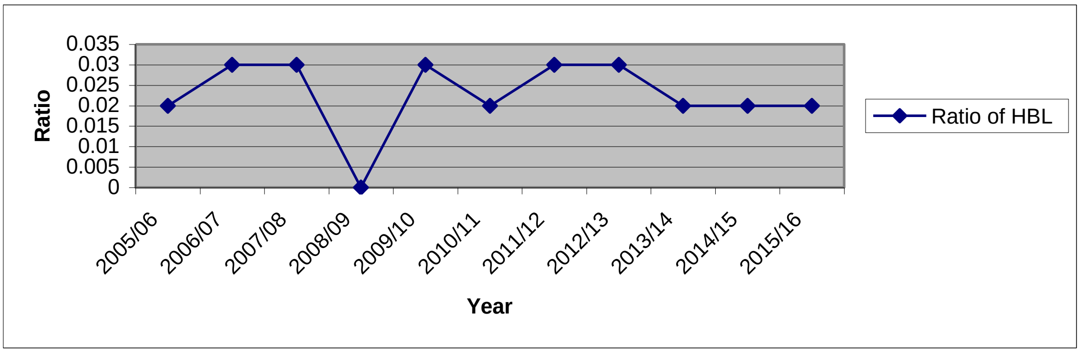
Table 4.3
Ratio of Net Profit to Loans and Advances

Year	Ratio of HBL
2005/06	0.02
2006/07	0.03
2007/08	0.03
2008/09	0.00
2009/10	0.03
2010/11	0.02
2011/12	0.03
2012/13	0.03
2013/14	0.02
2014/15	0.02
2015/16	0.02
Mean	0.02
SD	0.01
C.V	296.23%

Source: Appendix-I

The above table 4.3 shows the ratio of net profit to total loans and ratio of net profit to total loans and advances of HBL is 0.02, 0.01 and 296.23% respectively. It shows that HBL is not earning much of its profit from the total loans and advances and the NPA has caused a serious impact on the bank's profitability.

Figure 4.3
Ratio of Net Profit to Total Loans and Advances



Source: Table 4.3

4.1.4 Non-Performing Credit to Total Credit Ratio

Table 4.4

Ratio of Non-Performing Loan to Total Loan

Year	Ratio of HBL
2005/06	0.07
2006/07	0.07
2007/08	0.04
2008/09	0.02
2009/10	0.02
2010/11	0.03
2011/12	0.04
2012/13	0.02
2013/14	0.02
2014/15	0.03
2015/16	0.03

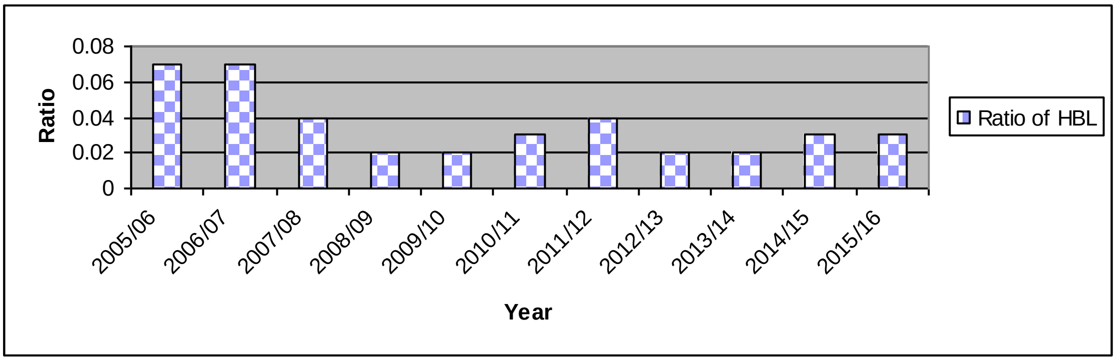
Mean	0.04
SD	0.02
C.V	192.90%

Source: Appendix-I

The above table 4.4 shows the ratio of non-performing loan to total loan for HBL bank. The mean ratio of non-performing loan to total loan of HBL is 0.04. It shows that HBL is earning much of its profit from the total loan and the NPA has not caused a serious impact on the bank's loan collection i.e. improving the NPA level of bank.

Figure 4.4

Ratio of Non-performing Loan to Total Loan



Source: Table 4.4

4.1.5 Return on Assets

Table 4.5
Return on Assets

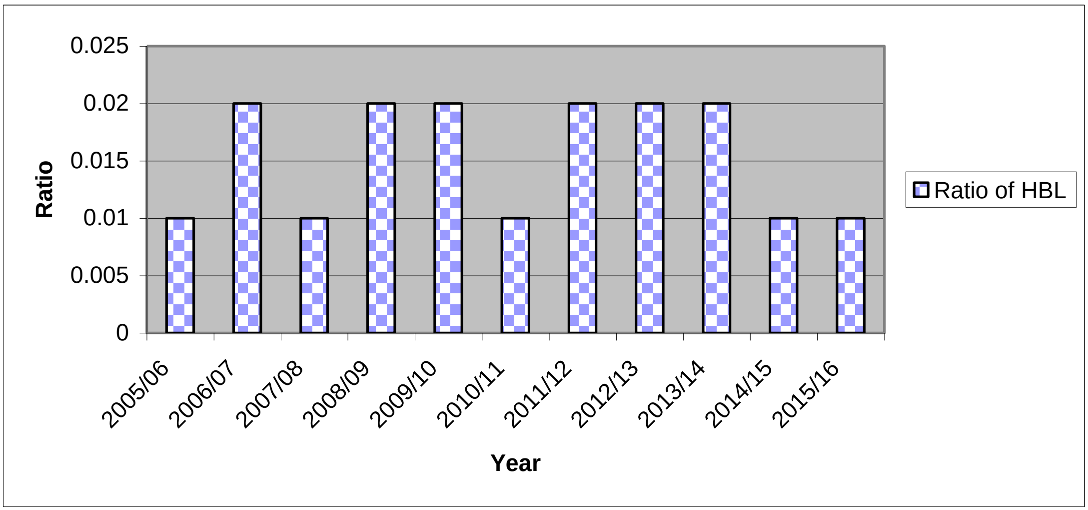
Year	Return on assets
2005/06	0.01
2006/07	0.02
2007/08	0.01
2008/09	0.02
2009/10	0.02
2010/11	0.01
2011/12	0.02
2012/13	0.02

2013/14	0.02
2014/15	0.01
2015/16	0.01
Mean	0.02
SD	0.01
C.V	552.93%

Source: Appendix-I

The above table 4.5 shows the ratio of return on assets for HBL. The mean, standard deviation and C.V. ratio of return on assets of HBL is much of its profit from the assets and the NPA has caused a serious impact on the bank's profitability.

Figure 4.5
Return on Assets



Source: Table 4.5

4.1.6 Return on Fixed Assets

Table 4.6
Return on Fixed Assets

Year	Return on fixed assets
2005/06	1.04
2006/07	0.85
2007/08	0.86
2008/09	0.88

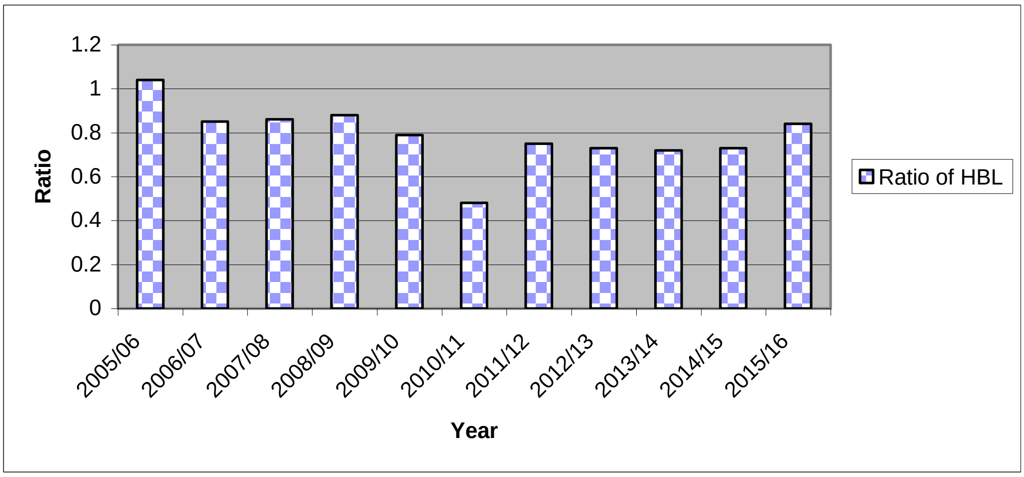
2009/10	0.79
2010/11	0.48
2011/12	0.75
2012/13	0.73
2013/14	0.72
2014/15	0.73
2015/16	0.84
Mean	0.79
SD	0.14
C.V	569.58%

Source: Appendix-I

The above table 4.6 shows the ratio of return on fixed assets for HBL. The mean, standard deviation and C.V. ratio of fixed assets of HBL is 0.79, 0.14 and 569.58% respectively. It shows that HBL is earning much of its profit from the fixed assets and the NPA has some positive impact on the bank's assets management.

Figure 4.6

Return on Fixed Assets



Source: Table 4.6

4.2 NPA as Percentage to Total Loan of HBL

Table 4.7

Percentage NPA of HBL

Year	NPA % of HBL
2005/06	7.4

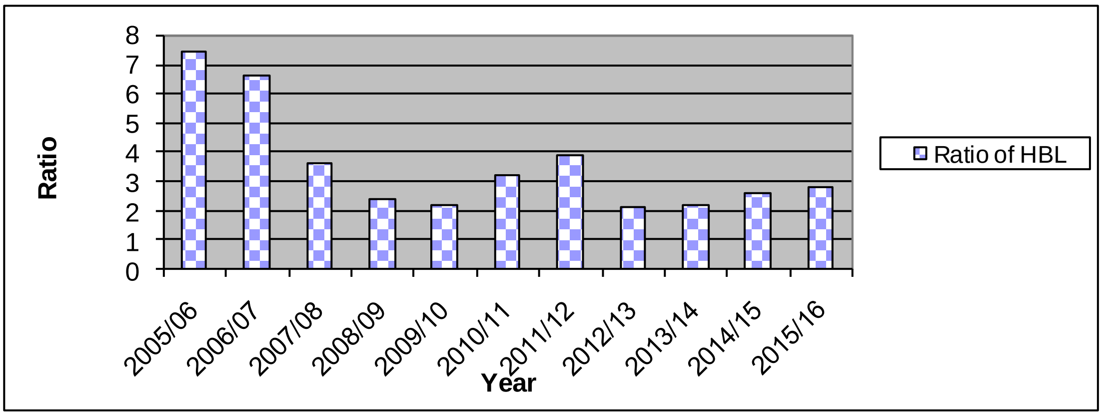
2006/07	6.6
2007/08	3.6
2008/09	2.4
2009/10	2.2
2010/11	3.2
2011/12	3.9
2012/13	2.1
2013/14	2.2
2014/15	2.6
2015/16	2.8

Source: Annual Report of Bank, 2005/06 to 2015/16

From the above table 4.7, it is found that the total NPA as of percentage to total loan is moderate at HBL in comparison to other commercial bank. But it is to be noted that the figure is significantly decreasing in HBL. In fiscal year 2005/06, there was 7.4 percent of NPA in HBL. NPA of HBL decreased to 2.1 percent in 2012/13.

Figure 4.7

Representation of NPA Percentage of HBL



Source: Table 4.7

4.3 Total Gross Loan & NPL of HBL

Table 4.8
Total Gross Loan & NPL of HBL

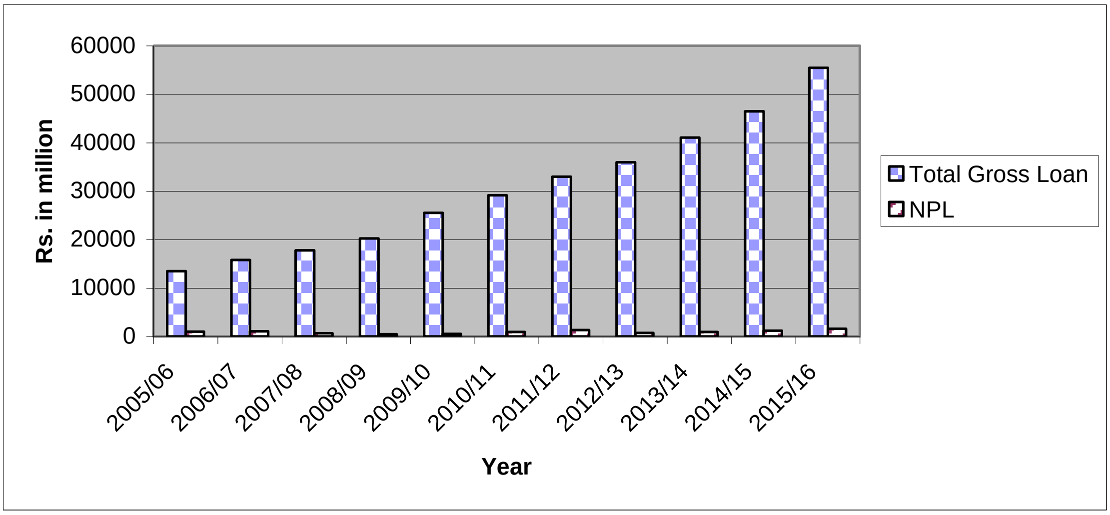
(Rs. in million)

Year	Total Gross Loan	NPL	NPL/ Total Gross Loan (%)
2005/06	13451.2	1001.3	7.4
2006/07	15762.0	1040.8	6.6
2007/08	17793.7	641.6	3.6
2008/09	20233.9	475.8	2.4
2009/10	25519.1	551.2	2.2
2010/11	29123.8	920.3	3.2
2011/12	32968.3	1293.4	3.9
2012/13	35968.6	740.6	2.1
2013/14	41057.4	901.0	2.2
2014/15	46449.3	1196.8	2.6
2015/16	55428.0	1577.5	2.8

Source: NRB, 2016

HBL has fluctuating trend in the total gross loan. It is one of the largest lenders in Nepal. Where as, its non performing loan to total dropped to 2.1% in the 2012/13 from 7.4% in the 2005/06. It is due to strict recovery actions taken during management and write off of loans from books. The ratio has been increased again from 2.1% in 2012/13 to 2.8% in 2015/16. HBL being the supreme joint venture commercial bank of Nepal has a high amount of loans. The figure depicts the level of total gross loan and the level of non performing loan and trend.

Figure 4.8
Total Gross Loan and NPL of HBL



Source: Table 4.8

4.4 Trend Value of Total Gross Loan and NPL of HBL

Trend analysis enables to compare two or more time series over different periods of time and draw important conclusions about them. If the values of a phenomenon are observed at different periods of time, the values so obtained will show considerable varieties or changes. Among various devices for measuring changes in financial statement of the firm, trend analysis is one of the effective tools, which minimizes the statements may be measured in terms of absolute changes or in terms of relative changes or the percentage changes between the dates taken as a base year. To avoid misinterpretation of changes measurement of absolute as well as relative terms must be expressed. In this study, trend analysis shows the trend of total gross loan and non performing loan (NPL) of HBL for the period of ten years. The trend of NPL and total gross loans are presented in table 4.9.

The table 4.9 shows that the total gross loan of HBL is in increasing trend. The average total gross loan of HBL is NRs. 21860.94 million, which is increasing at the rate of NRs. 5221.95 per year. Total gross loans are expected to increase from NRs. 11417.04 million in 2007/08 to 58414.59 million in 2016/17. As HBL is suffering more from the problems of bad debt, they seem to be concentrated more on recovery rather than lending.

Table 4.9

Trend value of Total Gross Loan and Non Performing Loans of HBL

(Amount in million)

	HBL	
Year	**Total Gross Loan** **a =33341.39** **b= 4012.20**	**Trend value of NPL** **a= 940.02** **b= 50.5**
2005/06	13280.39	687.52
2006/07	17292.59	738.02
2007/08	21304.79	788.52
2008/09	25316.99	839.02
2009/10	29329.19	889.52
2010/11	33341.39	940.02
2011/12	37353.59	990.52
2012/13	41365.79	1041.02
2013/14	45377.99	1091.52
2014/15	49390.19	1142.02
2015/16	53402.39	1192.52
2016/17	57414.59	1243.02
2017/18	61426.79	1293.52
2018/19	65438.99	1344.02
2019/20	69451.19	1394.52
2020/21	73463.39	1445.02

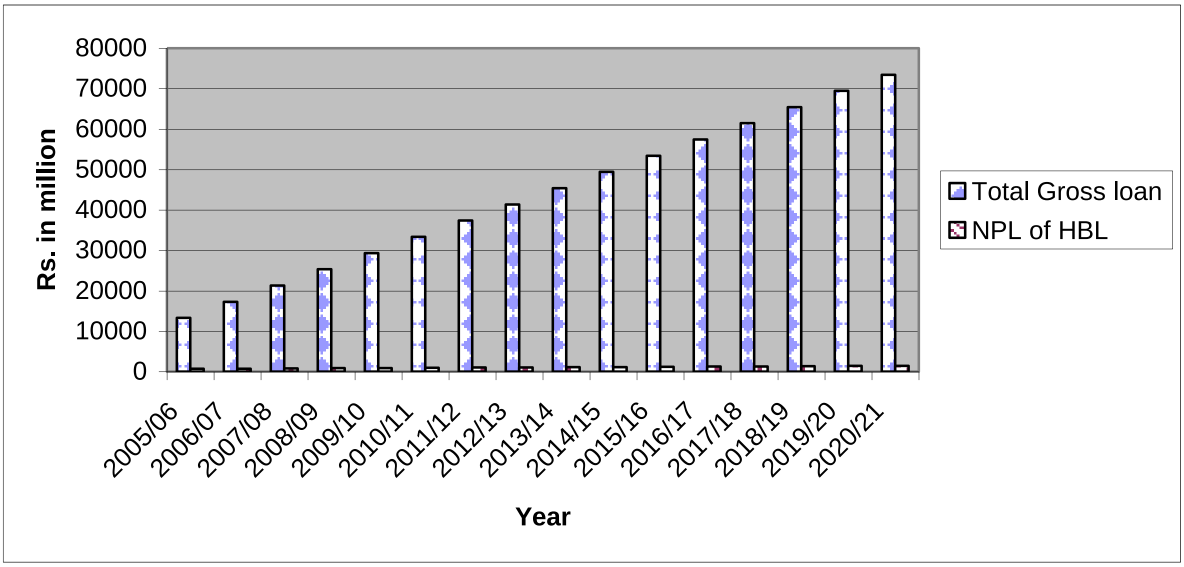
Source: Appendix-II.

Similarly, if we look at the trend of non-performing loans of HBL, it is in decreasing trend which is a positive sign. Lesser the NPL, sounder will be the health of financial institution. The average NPL of HBL is

NRs. 1128.36 million, which is decreasing at the rate of NRs. 324.88 per year. Non-performing loans are expected to decrease from NRs. 1778.12 million in 2007/08 to (1145.8) million in 2016/17. Following figure 4.9 represents the trend line of total gross loan of HBL for 10 consecutive years.

Figure 4.9

Total Gross Loan and NPL of HBL (Trend value)



Source: Table 4.9

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Non-performing assets here after called NPA, also called non-performing loans, are loans, made by a bank or financial institution, on which repayments of interest payments are not being made on due. Once a payment becomes really late (usually 90 days) the loan classified as non-performing. The study is based on secondary data. The main objective of the study is to evaluate the management of NPA of Himalayan Bank Ltd with various statistical measure. In detail the specific objective of the study are: a) to examine trend and growth patterns of NPA of HBL and b) to identify major challenges and problems associated with NPA.

As HBL is a joint venture bank of Nepal, the general public has a great belief in the bank. Income from loans and advances was in increasing trend in HBL during the last ten fiscal years but it declined in fiscal year 2011/12 even the NPA during the fiscal year was relatively lower than previous years. It shows that there is no effect on income from loans and advances and total loans of HBL. The ratio of non-performing credit to total credit is very high in HBL. It means that the total credit provided by HBL is not performing well due to various external or internal factors of the bank. The percentage of total NPA to total loans is lower in HBL. It is to be noted that the ratio is constantly decreasing in HBL but the current trend is increasing. It means that HBL has overcome the problems of NPA.

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

5.2 Conclusion

Non-performing loan is considered a major problem for any commercial banks. There are varieties of factors due to which a loan becomes NPA. Some of these factors include proper loan sanction procedure, regular loan monitoring process, external factors which affect the client's business, bad intention of the client etc. With introduction of new management team level of non-performing loan has been reduced substantially in selected bank.

The study concluded that the total gross loan of HBL is in increasing trend. The average total gross loan of HBL is NRs. 21860.94 million, which is increasing at the rate of NRs. 5221.95 per year. Total gross loans are expected to increase from NRs. 11417.04 million in 2007/08 to 58414.59 million in 2016/17. As HBL is suffering more from the problems of bad debt, they seem to be concentrated more on recovery rather than lending.

It is a noted fact that the privately owned banks have a low level of NPA than the public commercial banks. The publicly owned banks are obliged to give loans to all the sectors of the economy where as the private banks disburses loan to the willful sectors only.

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

Issues concerning NPA such as loan monitoring, government policies, proper and independent working environment, NRB regulations and so on are the factors that affect the level of NPA in an organization. Hence improvement in such factors leads to decrease in NPA resulting in better profit in the bank.

5.3 Recommendations

In order to improve the NPA level in banks of Nepal, the following suggestions and recommendations have portrayed here on the basis of analysis and conclusion of the entire research study.

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

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

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