CHAPTER – I

INTRODUCTION

1.1 Background of the study

Nepal is a small landlocked under developing country situated 26° 22” to 30° 27” northern latitude and 80°04" to 88°12” eastern longitude between two large country India and China. Total area of Nepal is 147181 km, which is 0.3 percent of Asia and 0.03 percent of the world. Average length of eastern Mechi to western Mahakali is 885 kms and average gap between Northern sides to southern side is 193 kms. It is an underdeveloped country with per capita income of US$ 290 according to World Bank and almost 32 percent of the population lives below the poverty line.

Financial institutions are the backbone of the economic development of any country. A small financial institution is a vital contributor to the financial health of the national economy. The financial institutions are often fragile and susceptible to failure because of poor management, particularly financial management. National development of any country depends upon the economic development of that country and economic and economic development is supported by financial infrastructure of that country. Financial infrastructure indicates the financial strength, position and environment of the institutions. The various branches of bank in towns and villages offering various types of services. In past, they just used to accept deposits from the savers of money (surplus units of the society) and give loan to the users of money (deficit units of the society). Savers of the money are those units whose earning exceeds expenditure on real assets and user of money are those units whose expenditure on real assets exceeds their earnings (Dahal and Dahal, 2002:1)

Any institution offering deposits subjects to withdrawal on demand and making loan of a commercial or business nature is a bank. Banks constitute an important segment of financial infrastructure of any country. Bank came into existence mainly with the objective of collecting the idle fund, and mobilizing them to productive sector causing overall economic development. A bank is the financial departmental store, which render various financial services besides taking deposits and lending loans. Bank is the financial institution, which deals with money by accepting various types of financial services. In the modern economy, banks are to be not as the dealer of money but as the lender of the economic development. Banks are not just the storehouse of the country's wealth but also are the mobilizer of the resources necessary for the economic development. (Shrestha, 2004:2)

It cannot be denied that the issue of development rests upon the mobilization of resources and banks deals in the process in the process of canalizing the available resources in the needed sector. Commercial banks collect deposits from the public and the largest portion of the deposited money is utilized in disbursing loans and advances. The balance sheets of the commercial banks reflect deposits constitute a major portion of the liabilities and loans and advances constitute a major portion of the assets. Similarly the profit of the bank depends upon the spread that it enjoys between the interest it receives from the borrowers and that to be paid to the borrowers. An average bank generates 60-70% of its revenues through its lending activities. The return that the bank enjoys of deposit mobilization through loans and advances is very attractive but they do not come freee of cost and free of risk. There is risk inherent in lending portfolio. Banking sector is exposed to number of risk like interest rate risk, liquidity risk, credit risk, borrower's risk etc. such risks in excessive form had led many banks to go bankrupt in a number of countries.

Amongst the many risk that the bank faces one of the most critical is the borrower's risk-the risk of non-payment of the disbursed loans and advances. It is called Non-Performing assets or non performing loan. Failure to collect money disbursed may sometimes results in the bank's inability to make repayment of the money to the depositors and return to the shareholders. The risk involved is so high that it can bring bank to a verge of bankruptcy. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. If a bank behaves irresponsibly, the cost born by the economy is enormous.

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

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

Banking system is volatile and sensitive sectors of national economy, which requires effective monitoring and efficient supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of baking activities carried out by governmental and non-governmental banking and financial institution." Gandhi pandit, "legal complication between deloitte and NRB" Business age vol.4, no8, Aug 2002.p.31

Now a day, the banks are taking different principles for granting loan (i.e. liquidity, profitability, safety & security, social responsibility etc.) but the NPA does not decline. An asset is classified as non-performing assets, if the borrower does not pay dues in the form of principle and interest. If any credit facilities or loan granted by bank to a borrower became non-performing. Then the bank will have to treat all the credit facilities or loan granted to that borrower as non-performing assets can be non-performing loan, non-banking assets, remaining non-performing loan, suspend interest, unutilized assets etc. The notion of non-performing loans or assets is often used as a proxy for asset quality of a particular bank or banking system. Although, there is no uniform definition of non performing assets, in many countries, including most G-10 countries, assets are considered to be non-performing when (a) principal or interest is due and unpaid for 90 days or more; (b) interest payment equal to 90 day or more have been capitalized, refinanced or rolled over. The bottom line in the international manuals concerning non-performing loan, seems to be that loans are good unless there is absolute certainty that a loan is not going to be repaid under existing arrangement. The SNA 1993 and other international statistics manuals are silent on defining non-performing loans, (Dahal and Dahal, 2004:17) .

"Loan and advances dominate the assets side of the balance sheet of any bank. Similarly, earning from such loans and advances occupy a major space in income statement of the bank. However, it is very important to be remained that most of the bank failures in the world due to shrinkage on the value of the loan and advance. Hence, loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while non-performing loan erodes even existing capital,(Dahal, 2002:114).

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

1.1.1 Origin of banking

The evolution of banking industry had started a long time back, during ancient times. There was reference to the activities of moneychangers in temple of Jerusalem in the New Testament. In ancient Greece, the famous temple of Delphi and Olympia served as the great depositories for people’s surplus funds and these were the centre of money lending transactions. However, as a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy. The Bank of Venice, founded in 1157 was supposed to be the most ancient bank. Following it were established the Bank of Barcelona and the bank of Geneva in 1401 and 1407 respectively. Subsequently Bank of Amsterdam set up in 1609, which was very popular then. The Bank of Venice and the Bank of Geneva continued to operate until the end of eighteenth century. With the expansion of commercial banking activities in Northern Europe, there sprang up a number of private banking houses in Europe and slowly it spread throughout the world.

However, the development of banking in Nepal is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient time. In the Nepalese chronicle, it was recorded that the new era known as Nepal sambat was introduced by shankhadhar, a sundra merchant of kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. The establishment of “Tejarath Adda”during the year 1877A.D. was the first step in institutional development of banking sectors in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently, the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy .Reviewing this situation, the “Udyog Parishad” was constituted in 1936 A.D. One year after its formulation , it formulated the “company Act” and “Nepal Bank Act” in 1937 A.D. Nepal bank limited was established under Nepal Bank Act in 1937 A.D. as a first commercial bank of bank of Nepal with 10 million authorized capital.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However, the stand of Nepal Bank Limited alone in total monetary and financial sector was sufficient and satisfactory. Thus Nepal Rastra Bank was set up on 1956 A.D. (2013.01.14) as a central bank under Nepal Rastra Bank Act 1956 A.D. (2012 B.S.) Similarly on 1966(2022.10.10) Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of Quality/competitive service because of excessive political and bureaucratic Interference. For industrial development, Industrial Development Centre was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal Industrial Development corporation (NIDC) in 1959 A.D. (2016 B.S.) Similarly Agricultural Development Bank (ADB) was established in 1976 A.D. (2024.10.07) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

In 1990 A.D. after the restoration of democracy in Nepal, the government took the liberal policy in banking sector. As an open policy of the HMG's to get permission to invest in banking sector from private and foreign investor under Commercial bank Act 1975 A.D. (2013 B.S.), different private banks are getting permission to establish with the joint venture of other countries. Nowadays, there are 26 commercial banks operating in Nepali financial market

1.1.2 Commercial Bank

Commercial bank deals with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets, which are not easily realizable. The depositors' confidence could be secured only if the bank is able to meet the demand for cash promptly and fully.

Commercial Bank Act 1975 A.D. (2031 B.S.) defined, "A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs. Commercial banking functions which are not a bank meant for co-operative, agriculture, industries or for such specific purpose, (Commercial Bank Act 2013 B.S,) .

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

1.2 Statement of Problem

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

Nepalese commercial banks have not formulated their investment policy in an organized manner. The implementation of policy is not effective. The credit extended by the commercial bank to agriculture and industrial sector is not satisfactory to meet the present growing need. Nepotism and political pressure also effects the investment decision of the commercial banks. Granting loan against insufficient deposit, overvaluation of goods pledged, land and building mortgaged, risk-averting decision regarding loan recovery and negligence in recovery of overdue loan is some of the basic loopholes and the result of unsound investment policy sighted in the banks.

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

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

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

1.3 Focus of the Study

Likewise, concerned matters are being presented as loan administration involves the creation of management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiations of term, documentation, disbursement, administration of outstanding loans and workouts, knowledge the process awareness of its strengths and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, instatement and mortgage profits, (Jonson and Jonson, 1940:158) .

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

1.4 Objectives of the Study

Each and every of the research study posses a certain objective. Research with out any specific objectives will be worthless. This research study entitled "NPA of commercial Bank" highlights to attempt the following objectives.

- 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 and the impact of non-performing assets in the performance 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 provide suggestions and recommendations for the further improvements.

1.5 Significance of the Study

The success and prosperity of the bank heavily depends upon the successful implementation and investment is collected resources, which develops the economy of the country. Good investment policy of the bank has positive impact on economic development of the country and vice versa. Increasing non-performing loan followed by increasing loans and loan loss provision is one of the challenges faced by commercial banks in the present context. Proper loan provision and loan loss provision helps to get financial strength of the bank. This research will be able to give the some of the present issues, latest information and data regarding non-performing loan and loan loss provision. Not only that, this study gives the real picture of the current non-performing assets to its stakeholders. The main focus of this study will be know about the non-performing assets of selected Nepalese commercial banks and make comparison study of non-performing assets of selected commercial banks.

The study mainly concerned with the analysis of level of NPAs in total assets, total deposits and total lending of different Nepalese commercial banks. Therefore, it has significant to find out the level of NPAs. It is also significant to find out whether the Nepalese commercial banks maintain loan lo0ss provision in accordance to NRB's directives or not. It also examines the return on loan and advances of the bank. Last but not list, it also provides literature to the researcher who wants to carry on further research in this field.

1.6 Limitations of the Study

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

- This study is concerned only with non-performing assets of Nepalese commercial banks. It does not consider other aspects of the banks.
- Only Nepalese commercial banks have been considered for the study and four banks have been selected as samples for the study. Hence, the findings may not be applicable to other banks (i.e. development banks, agriculture banks, finance companies and other companies of Nepal).
- The period of the study is limited from fiscal year 2003/4 to 2007/8.
- The study is basically based on secondary data, articles, publication, and journals of the respective banks, which may or may not provide exact vision of the field. Hence, the findings will be in accordance of the data personal judgment sampling is following to draw the sample.

1.7 Organization of the Study:

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

Chapter – I: Introduction

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

Chapter – II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. This chapter includes conceptual review, review of related study, different thesis, and review of journals, articles and research studies published by various authors.

Chapter – III: Research Methodology

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

Chapter – IV: Presentation and Analysis of Data

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

Chapter – V: Summary, Conclusions and Recommendations

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

CHAPTER - II

REVIEW OF LITERATURE

Review of literature is the chapter where a researcher reviews the books, journals, magazines, or any other type of studies, which are related to their field of the study. Research is a continuous process it never ends. The procedure and the findings may change but research continues. So for analyzing the data and to find something new a researcher must review and know if there are any studies ahead or not. The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contributions can be made, and to receive some ideas for developing a research design. Thus, the previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. In short there is a significant important of review of literature:

- To identify the problem.
- To determined the methodology for research work.
- To draw the scope of studies.
- To avoid unintentional replication of previous studies.
- To interpret the significance of researcher results in a precise manner.

This chapter is related to examine and review some related to books, articles, published and unpublished different economic journals, bulletins, magazines, newspapers, and web sites. This chapter has been divided into the following parts.

i. Conceptual framework

ii. Review of related studies

2.1 Conceptual Framework

This heading is devoted to the meaning and concept of the term used in the study

2.1.1 Loan and Advances

The main function of the commercial banks is to generate the resources or funds and make loan and advance. It is the most profitable assets of bank. Loan and advances dominate the assets side of balance sheet of any bank. Similarly, earning from such loan and advances occupy a major space in income statement of the bank. It is the assets that fetch income for the bank. The profitability of the banks depends upon the extent to which it grants loan and advances to customers. Loan granted in the form of overdraft, cash credit and direct loan. Loan is granted against adequate security. The banks should have to take in consideration safeties of loan and advances at the time of lending but not only on profitability. At the time of lending the loan, the banks carefully study the lending sectors and make a sound policy for rendering loan. The policy should contain the credit deposit ratio. (CDR), the bank wishes to maintain. CD ratio is very much influenced by the behaviors of bank's liabilities. The higher the volatile deposit's and volatile borrowing lower the volume of loan and vice versa.

2.1.2 Performing loan

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

2.1.3 Non-Performing Assets/Loan (NPAs/NPL)

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

NPAs have a different meaning that varies from country to country. In some countries, it means that the loan is impaired. In some countries, it means that the payment are due but there are significant different among countries how many days a payment should be in arrears before past due status is triggered (Shrestha, 2004:14). According to current banking Act, the banks have to make provision for bad and doubtful debts. After deducting the band and doubtful debts from the non-performing assets, net non-performing assets can be achieved.

Non-Performing loan (NPL) can be defined as the non-productive assets of the banks. In other words, it is the loan or bad and doubtful debts that doesn't repay timely. Generally the loan, which doesn't repay with in three months, is known as non-performing loan. The loan amount that doesn't covered by the collateral after selling is known as non-banking assets (NBA). Non – performing assets also includes the suspend interest. It is the interest, which become receivable unutilized assets and those investments which don't generate any cash or incomes to the bank are also non-performing assets (NPAS). The proper management of those assets to generate income is known as management of non-performing assets. Increasing NPAs is the emerging problem of the banks. We know that the some banks are closed sown due to the uncontrollable NPAs. In USA, 1016 commercial banks were declared as unsuccessful (bankruptcy) from 1985 to 1990 and 27 banks from 1995 to 2001. However, Nepalese commercial banks face this type of problem till now but they have to take step towards it. For this, appropriate amount of bad and doubtful debts is made provision from their incomes/profits. (Regmi, 2063:75)

a. Causes of occurring NPA

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

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

b. Effect of NPAs

NPAs has affected the profitability liquidity and competitive functioning of public and private sector banks and finally the psychology of the bankers in respect of their disposition towards, credit delivery and credit expansion. Increasing Non-Performing Assets (NPAs) has the direct effects to banks, investors and customers. It has also negative impact to the economic health and business of country. It has two types of effects (Batra and Dass 2003:6)

Internal Effect:

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

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

External Effect:

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

Impact on Profitability:

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

Impact on the Outlook of Banker towards Credit Delivery:

The psychology of the banks today is to insulate them selves with zero percent risk and turn lukewarm to fresh credit. This has affected adversely credit growth compared to growth of deposits, resulting a low C/D Ratio around 50% to 54% for the industry. It is evident that the existence of collateral security at best may convert the credit extended to productive sectors into an investment against real estate, but will not prevent the account turning into NPA. Further blocked assets and real estate represent the most illiquid security and NPA in such advances has the tendency to persist for a long duration. Nationalized banks have reached a dead-end of the tunnel and their future prosperity depends on an urgent solution of this hovering threat.

Excessive Focus on Credit Risk Management:

The most important business implication of the NPAs is that it leads to the credit risk management assuming priority over other aspects of bank's functioning. The bank's whole machinery would thus be pre-occupied with recovery procedures rather than concentrating on expanding business. A bank with high level of NPAs would be forced to incur carrying costs on a non-income yielding assets. Other consequences would be reduction in interest income, high level of provisioning, stress on profitability and capital adequacy, gradual decline in ability to meet steady increase in cost, increased pressure on net interest margin (NIM) thereby reducing competitiveness, steady erosion of capital resources and increased difficulty in augmenting capital resources. The lesser-appreciated implications are reputation risks arising out of greater disclosures on quantum and movement of NPAs, provisions etc. the non-quantifiable implications can be psychological like 'play safe" attitude and risk aversion, lower morale and disinclination to take decisions at all levels of staff in bank.

Two decades of regimented and directed baking to credit delivery has deprived bank managers of the instinct skill and knowledge. Nationalized banking did not produce a spring of talent resources. Directive inputs and course direction came externally from NRB and Finance Ministry, which were/are external to the day-to-day affairs and problems of the Nepalese banking industry. The system did not promote initiative and talent, but bred corruption and nepotism. This is the scene of Nepalese Banking struggling hard to transition from old primitive systems and values to modern professional business ethics and corporate good governance.

High Cost of Fund Due to NPAs:

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

Impact on Banks Scrip on Stock Exchange

In further of a report, the NRB has said informational asymmetries arising from less onsite/off site inspection, declining performance and shooting NPAs weighed heavily on bank stocks. The NRB has for the first time included stock market behavior of bank scrip in its annual review of the banking sector. As per a NRB Report, despite the various reforms being carried out in Nepalese Stock exchange, much bank scrip remains illiquid and thinly traded. The NRB report says, "Private sector bank stocks whose market performance was affected and attributed the battering the scrip got in the secondary market to their poor performance in general and the concern of the market over their NPAs."

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

i. Excess liquidity lending default

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

ii. Importance of credit rating in assessing the risk of default for lenders

Credit rating has been explained by Moody's, a credit rating agency, as forming an opinion of the future ability, legal obligation and willingness of a bond issuer or obligor to make full and timely payments on principal and interest due to the investors. Banks do rely on credit rating agencies to measure credit risk and assign a probability of default. It depends on the information available to the credit rating agency. Besides, there may be conflict of interest, which a credit rating agency may not be able to resolve in the interest of investors and lenders. Stock prices are an important (but not the sole) indicator of the credit risk involved. Stock prices are much more forward looking in assessing the creditworthiness of a business enterprise.

iii. NRB guidelines on NPAs and ICAI Accounting Standard 9 on revenue recognition

In view of the guidelines issued by the Nepal Rastra Bank (NRB), income on NPAs should be recognized only when it is actually realized. As such, a doubt may arise as to whether the aforesaid guidelines with respect to recognition of interest income on NPAs on realization basis are consistent with Accounting Standard 9, 'Revenue Recognition'.

For this purpose, the guidelines issued by the NRB for treating certain assets as NPAs seem to be based on an assumption that the collection of interest on such assets is uncertain. Therefore complying with AS 9, interest income is not recognized based on uncertainty involved but is recognized at a subsequent stage when actually realized thereby complying with NRB guidelines as well. In order to ensure proper appreciation of financial statement, banks should disclose the accounting policies adopted in respect of determination of NPAs and basis on which income is recognized with other significant accounting policies.

iv. Usage of financial statements in assessing the risk of default for lenders

For banks and financial institutions, both the balance sheet and income statement have a key role to play by providing valuable information on a borrower's viability. However, the approach of scrutinizing financial statements is a backward looking approach. This is because the focus of accounting is on past performance and current positions. The key accounting ratios generally used for the purpose of ascertaining the creditworthiness of a business entity is that of debt-equity ratio and interest coverage ratio. Highly rated companies generally have low advantage. This is because, high leverage is followed by high fixed interest charges, non-payment of which results into a default.

2.1.4 Loan Loss Provision

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

Pass 1%

Substandard 25%

Doubtful 50%

Loss loan 100%

2.1.5 Principles of lending loan and advances

The precautions to be taken by a banker, and the principles to be taken care of, while granting advances. By way of introduction, an attempt is being made in the following paragraphs to discuss the general principle to be borne in mind by a banker while granting advances (Shekher and Shekher, 1999:551)

Liquidity:

The term 'Liquidity' implies the ability to produce cash on demand. A bank mainly utilize its deposits for the purpose of granting advances. These deposits are repayable on demand or on the expiry of a specified period. In either case, the banker must be ready to meet these liabilities whenever necessary. The advances granted by the banker are as liquid as possible.

Profitability

Banks are essentially commercial venture. It is true that excessive and unjustifiable profits can only be at the cost of the customer, in so far as higher lending rates push up production costs, and in the ultimate analysis, adversely affects society in general. At the same time, the facts remains that while strong operating profits allow for full prudential provisioning high net profits allow for allocation to capital and reserves, which is essential for any bank to maintain its competitive viability and expand its lending operations. Also, the shareholders of a bank are entitled to reasonable dividend. Al this indicated that it is that their lending operations are sufficiently profitable.

Safety and Security

The banker should ensure that the borrower has the ability and will to repay the advances as per agreement. The banker should carefully consider the margin of safety. If it is as unsecured advance, its repayment depends on the creditworthiness of the borrower, and that of guarantor. The banker should consider the Charter, Capacity, and Capital (popularly known as 3 Cs) or Reliability, Responsibility, and Resources (popularly known as 3 Rs) of the borrower and the guarantor.

Purposes

The bankers has to carefully examine the purpose for which the advance has been applied. Of course the exact purpose for which the advance is actually utilized. There is always the possibility that the advance, once granted, may be diverted for purposes other than that indicated by the borrower at the time of application. Thus, there should be proper analysis of purpose.

Social Responsibility:

While admitting that banker are essentially commercial ventures, a bank should not forget the fact that it is not enough that only people of means are given bank finance. The identification of priority sectors for the purpose of extending bank credit should be considered as a positive development in the banking system, aimed at effectively discharging its responsibility should not deter the banks from paying adequate attention to the qualitative aspects of lending. Social responsibility is, no doubt, highly exacting.

2.1.6 Highlight On Performance Of Nepalese Commercial Bank.

The number of commercial bank branches operating in the country in mid-july 2006 totaled 437, of which 390 belonged to 17 commercial banks and the remaining 47 belonged to ADB/N, performing commercial banking activities. The regional distribution of these bank branches seemed to be much skewed. Of the total bank branches, 177 branches are being operated in the central development region, followed by eastern development region (84) and western development region (80). Only 29 and 20 branches are being operated in the mid-western and far-western development region respectively. The size of total assets of commercial banks increased continuously over the last few years. The total asset which was Rs.209471.5 million in mid-July 2000 expanded to Rs.411033.7 million in mid-July 2005 and to Rs.428706.2 million in mid-July 2006. it expanded on an average 14.43 % per annum during 2000-05 and increased by 4.29% in mid-July 2006 as compared to the figure of mid-July 2005.

- Loans and advances remained major component in total assets of the commercial banks during 2000-06. However, the share of loans and advances in total declined in the recent years. The loans and advances as percent of total assets was 46.0% in mid-July 2000. it reached to 39.83% in mid-July 2005 and 41.254% in mid-July 2006. Similarly, the share of liquid funds in total assets declined in the period 2000-06. It dropped to 9.3% in mid-July 2005 and from 23.0% in mid-July 2000. It slightly increased 9.06% in mid-July 2006. Unlike the loans and advances and liquid funds, the share of investments in total assets increased in the same period. It increased to 14.64% in mid-July 2005 from 8.6% in mid-July 2000 and increased to 19.16% in mid-July 2006.

- Deposit liabilities held almost two third of total liabilities over the period 2000-06. Deposit reached to Rs.291245.5 million in mid-July 2006 from Rs.252409.8 million in mid-July 2005, with an increased of 15.38 percent. However, deposits as a percent of total liabilities declined in recent years. It came down to 67.93 percent in mid-July 2006 whereas this figure stood at 80.61% in mid-July 205 and 74.0% in mid-July 2000.

Analysis of the components of deposits revealed that saving deposits, with increasing trend, held major share in total deposits. In mid-July 2006, saving deposits gripped 52.06% on total deposits followed by current deposits 12.83%, fixed deposits 26.29%, call deposits 8% and other deposits 1%.

- All components of deposits experienced healthy growth rate during 2000-05. Call deposits grew with the highest average rate of 36.6% followed by saving deposits 14.62%, current deposits 11.26% and fixed deposits 1.6% during last 5 years. As compared to the figures of mid-July 2005, current deposits increased by 7.90%, saving deposits by 16.65%, fixed deposits increased by 13.74% and call deposits by 28.50% in mid-July 2006. Borrowings accounted only 2.2% of total liabilities in mid-July 2006. With an increase of 39.11%, it reached to Rs.9519.6 million in mid-July 2006 from Rs.6842.9 million in mid-July 2005. It expanded with a annual growth rate of 16.9% over the past five years. This growth rate is lower than the average growth rates of deposit and total liabilities of the same periods.

- Liquid funds increased by 1.23% and reached to Rs.38842 million in mid-July 2006 from Rs.38369.4 million in mid-July 2005. Liquid fund was Rs.48240.0 million in mid-

July 2000. On an average it declined at the rate of 4.48% per annum during 2000-05. On the other hand, investments increased by 36.54% and reached to Rs.82173.5 million in mid-July 2006 from Rs.60181 million in mid-July 2005.

- Growth of total loans and advances remained moderate in the last five and half years. Total loans and advances registered an average growth rate of 11.19% per annum during 2000-05 and reached to Rs.163718.8 million in mid-July 2005 from Rs.96324.9 million in mid-July 2000. With an increase of 8% the outstanding amount of loan and advances in mid-July 2006 reached to Rs.176820 million. Loans to private sector always dominated on the overall outstanding figure of loans and advances. Of the total outstanding loans and advances of Rs.176820.2 million, 95.23% was allocated to private sector, 2.12% to Government enterprises, 1.19% to bills purchased and discount, and 0.02% to against bills collection in mid-July 2006.

Major portion of the loan portfolio of the banking system was distributed to productive sector, and wholesale and retail business sector. Credit to productive sector alone stood at Rs.56432.2 million (31.95% of total loans and advances) and credit to wholesale and retail business was Rs.35073.6 million (19.83%) in mid-July 2006. Agriculture sector was able to tap only 2.58% of total credit in this period. Other major credit distributed sectors included service industries 7.95%), construction (7.57%), and transportation, communication and public services (6.61%). With 25.15% decrease, priority sector credit reached to Rs.10104.1 million in mid-July 2006 from Rs.13499.24 million in mid-July 2005. Priority sector credit as percent of total credit stood at 5.7% in mid-July 2006 and 8.25 % in mid-July 2005. Similarly, deprived sector credit increased by 20.31% and reached to Rs.5255.13 million in mid-July 2006 as compared to Rs.4367.91 million in mid-July 2005. Deprived sector credit amounted to 2.97% of total credit in mid-July 2006. Credit-deposit ratio of the commercial banking system did not undergo a noteworthy change during 2000-06. It was 62.17% in 2000 and remained consistent around 60% during 2001-04. However, it increased to 64.86% in mid-July 2005 but, it decline to 60.7% in mid-July 2006.

The successful restructuring of two big banks resulted in better performance of completely commercial banking system. The banking system was experiencing a continuous losses trend during 2000-03 but it turned to post a net profit of Rs.3707 million in mid-July 2004. The net profit of the banking system further improved and reached to Rs.5205 million in mid-July 2005h. The figure of the net pr4ofit of the whole banking system is Rs.7983.5 n mid-July 2006.

Despite some improvement, the aggregate capital funds to total risk weighted assets ratio of the banking system remained negative even in mid-July 2006. The huge negative capital funds of two big banks namely RBB and NBL converted the total capital base of the banking system to be negative. The capital adequacy ratio stood at -6.33% in mid-July 2005 and -5.30% in mid-July 2006.

With marginal improvement, the level of non-performing loans and advances still remained at a significantly high level. The aggregate non-performing loan, which was Rs.32226.66 in mid-July 2003, reached to 27877.84 in mid-July 2005 and Rs.26770.42 in mid-July. The aggregate non-performing loan as percent of total loan was 29.3% in mid-July 2001 and decreased to 14.22 in mid-July 2006.

2.1.7 Non-Performing Assets in Nepalese Banking Sector:

The NRB report shows the NPL to total gross loan 22.77% in 2004, 18.94% in 2005 and 14.22% in 2006. The following are the non-performing loan to total gross loan status of individual commercial banks:

Dr. Tilak Rawal, former governor of Nepal Rastra Bank (NRB), has expressed his concerns over the outstanding level of non-performing assets in the banking sector that currently stands at 30%.

"The total NPA in the banking system is about 35 billion, while it is even worse in case of the two largest commercial banks – Rastriya Banijya Bank and Nepal Bank ltd.", said Dr. Rawal, during the inauguration of a workshop on 'managing non-performing assets' organized by NRB in collaboration with the bank of Korea and Bank Negare Malaysia.

The NPA levels at the state run RBB stands at 52%, while the figure at the NBL reads 62%, which together accounts for 37% of the total deposits of some Rs.200 billion of the banking system.

In order to address this deplorable situation and to make domestic financial players competent enough to utilize the opportunities of the globalization, various financial reform measure are underway, he added.

"The financial sector reform measures undertaken can be broadly grouped under three heads- re-engineering of NRB, restructuring of RBB and NBL, and capacity building of the financial sector. Management of the two ailing banks has been handed over to two teams, consisting of exports from within and outside Nepal.

"NRB as Central Bank will now concentrate only on care functions and initiate different measure to improve corporate governance in the financial sector. Willful defaulters will not be let off at any cost and NRB will initiate stringent measures to stop depletion of common man's deposits and erosion of common stockholder's capital," Dr. Rawal warned. (www.thehimalayantimes.com)

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

Three years have passed since the financial crisis hit Asian economics in July 1997. As a result, East Asian countries in 1998 recorded negative growth ranging from 5 to 12 %. In 1999, however, economics improved in several countries: South Korea in particular recorded a "V" type of recovery. Although the growth process has slowed somewhat in 2000, progress continues and on the basis of the recent rapid recovery, there is optimism that the East Asian financial crisis has ended. On the other hand, there is also the opinion that the situation does not (NPLs) problems in the financial and corporate sectors have not progressed sufficiently. This paper looks into the issues that beset East Asian economics, based on the assessment of the status of NPL restructuring in Malaysia, South Korea, Thailand and Indonesia.

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

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

The economic growth rate in each of these countries is projected to a register downward trend in 2000, compared to the previous year, and the current account surplus is diminishing. Since East Asian economics depend heavily upon the US economy, its current slowdown will be a damper to these countries recovery. It is therefore necessary to analyze the current status of NPL problem, financial restructuring and corporate governance to make sure they can cope with adversely changing economic environment.

2.2 Review of Related Studies

2.2.1 Review of Related Articles and Journals

Rejda (1998) said in his articles "Bankers' Insights and Issues- what should done about lost interest from troubled loans?" that non-performing loans and interest brings the very bad and crucial situations in the banks and it leads to the bank in the liquidation.

"The market- value accounting controversy is not the only contentious issue surrounding how bankers keep their books. Another controversy has centered on how banks, until recently, dealt with the interest income they were losing when customers stopped paying on their loans. Realizing that the industry was for the most part ignoring this issue, the US Financial Accounting Standard Board recently issued yet another important bank accounting rule, known as FASB 144.

Under this new rule banks and other financial institutions must account for the expected loss of interest income on non-performing loans when calculating their loan-loss provisions. Many banks still base their loan-loss reserve only upon their projected loss of principal from a troubled loan, not including the expected loss or delay in receiving interest payments. A similar problem arises when the term of the loan must be renegotiated to a longer payout schedule or the bank agrees to reduce or delay interest payments because the borrower can't successfully handle the originally negotiated term of the loan. Currently, many banks don't report lost interest of they expect eventual repayment of the entire principal of a troubled loan. Statement 144 requires banks to reduce the value of a loan on their books in order to reflect any reduction in expected interest payment as well as any loss of principal. While both secured and unsecured loans are covered, certain loans (such as credit cards and home mortgages) are exempt.

When the adjustment for loss of interest is made, the result is likely to be an increase in loan-loss provisions at those banks not already recognizing interest losses on their non-performing loans. In figuring the value of impaired loans, banks are required by the new FASB rules to measure the value of the bank loans by the present value of their expected future cash flows discounted at the loans' effective interest rate (which is the contractual loan rate adjusted fee any deferred loan fee, costs, premiums, or discounts that prevailed when the loan was extended or acquired). Each quarter bankers must estimate when their troubled loans are likely to be repaid, if ever."(Rejda, 1998:215)

Chhetri (2057) stated in his article titled "Non-Performing Assets: A 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."

As per Mr. Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system, credit program sponsored by Government, slowdown in economy/recession, diversion of fund are some of the lending to accumulation of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution dose 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.

Pyakuryal (2001) has stated in his 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 adds, "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, 2001:3).

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

Neupane (2058) said in his article titled 'NPAs at 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 that enough to formulate and implement strategies for identifying and canalizing the ever accumulating NPAs at Nepalese financial institutions (FIs). However, the Nepal Rastra Bank (NRB) seems to have realized the panic only a year ago. As a result , the NRB came up with a nineteen-point strategy, primarily pertaining to ways to tackle NPAs. Some of the measures the NRB has envisaged are formation of an assets reconstruction company, credit rating agencies, legal reforms, strengthening administrative/monitoring/supervising mechanisms etc, and above all, the recent NRB directive (number 1to7). Although the NRB, the FIs would have been much better off had it come up with all these philosophies some five years ago, better late than never." (Neupane, 2058:1)

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 bnaks 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 sectoral concentrations constitute a source of risk. Bank managements shall have adequate internal policies and systems in place to monitor the bank's sectral 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 sis likely to diversify the risk of the total investment evenly and thereby minimize the risk of NPA. NRB shall continue to be more stringent in formulating firm policies in the days ahead too to protect shareholder interests.

At last, even if the banks endeavor to recoup NPAs through the auction of mortgaged property, the legal system and the regulations are so shabby and defaulter friendly that they have to struggle for many years to realize the auction process. Just imagine this process; a borrower, initially, default payment, the bank calls back the loan, six months thereon the concerned authority blacklists the borrower, a 35 days notice goes to the papers for auction and after that a 7 days ultimatum and so on and so forth. Hundreds of cases have been lingering in the courts for many years. Inefficient legal provisions, from the point of view of the bankers, have encouraged borrowers to default and contributed more towards enhancing the quantum of NPA in Nepalese FIs.

“Problem in Nepalese Financial Sector and NPLs:”

Nepal remained fortunate enough not to facing any major financial crisis, especially, from the influence of the Asian crisis. However, at the beginning of the Asian crisis in 1997, Nepalese currency depreciated by 11.2% against US dollar within a short span of time. Though, this was not so big deal as compared to problems encountered by the East Asian Nations. Manandhar K.B. (2055) opines that the prime reasons behind the less effects are (i) not opening up capital account and portfolio investment; and (ii) enough foreign currency reserve in the economy. Nevertheless, some sort of financial problems especially, in the banking sector have been noticed for the last few years. In this regard,

Basyal (2059), in a broader term, states that the large intermediation cost and inefficiencies in the financial system have remained major drawbacks of the Nepalese financial structure. 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
- Higher proportion of non-performing assets.

Paudel (2059) adds 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 percentage of total loans in the banking sector was 14.3% in 2000 while it increased by over cent percentage point to 29.3% in 2001 and to 30.1% in 2002. However in the mid of Jan, 2003, 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. The basic reasons as reported by Pradhan, S.M (2058) for deteriorating assets quality are:

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

Besides these, the reasons behind the rise in NPLs could be outlined as the inferior mortgages against the loans, lack of financial information of the loaners, extension of bank branches in the least feasible geographical areas, over staffing in the banks and so on.

Dungana (2058) in his article titled "Why Assets Management Co. 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 the 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 says that both traditional approach and AMC are available to deal with NPL problem. Under traditional approach, bank handles the NPLs in its own way especially through recovery unit who focus on continuing negotiation with the borrower and give top priority to the loan recovery. As opined by the writer, this approach is useful in dealing with small business loans where personal touch is adopted but for big loan this approach does not work. "AMCs seem as the only realistic option when the financial sector recovery is the underlying objective in financial system where the institution fails to resolve the NPL problem through their own efforts." (Dungana, 2058:125). He 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 (2004) has written as article titled "portion of NPA in commercial Banks – High in Public, Low in Private" which was published in Rahdhani on 19th May2004. 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.

Rawal (2003), in "Measures adopted to overcome the problem of financial sector and the NPLs" addressed that financial sector reform measures can be broadly grouped under three heads: (1) restructuring of large two state-owned banks (ii) reengineering of the central banks and (iii) capacity building in the financial sector. In this connection, management of two state-owned bank has been handed over to the expert groups comprising the people within and outside of Nepal, the reengineering and restructuring process of the central bank (Nepal Rastra Bank) is in progress. Side by side, the capacity building in the financial sector is smoothly approaching ahead. Enactment of new NRB Act 2002 which, gives greater autonomy in its operation, enforcement of inspection and supervision directives based on international standard, withdrawal of government/ NRB involvement from the financial institutions, adoption of accommodative monetary measures are the efforts made to build up sound financial environment. Moreover, with a view to strengthening legal arrangement s, Debt Recovery Act has been approved and the

Debt consolidate financial sector through an umbrella act Banks and Financial Institutions Act has recently been approved and for the purpose to resolve the problem of non-performing assets- Asset Management Company Act is in the process of being approved. In addition, establishment of Credit Rating Company, strengthening of Credit Bureau and Bankers' Training Center are some of the tasks progressing ahead. With the arrangement of such a legislative, regulatory, supervisory and institutional framework, the financial sector would, hopefully, take a pace for reviving which, in turn, would help NPLs to be reduced. Moreover,

Kshetri (2057) and **Pradhan (2056)** have cited the following suggestions in order to improve the impaired assets in the system.

- The credit agency may be encouraged to reduce the level of NPLs by waiving the interest to be paid notionally.

- Refunding the enterprises that are facing short of capital.

- Mergers and takeovers of ailing credit agencies.

Giving absolute autonomy, accountability to the corporate management in tackling the NPLs problem.

Besides these, writing-off NPLs permitting tax deductions for writ-off, securitization of loan obligation, debt-equity swap would also be important in solving the problem of non-performing loans.

In the article by Yogendra Regmi, (2062) titled '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 of failure of 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 concludes 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.

Adhikari (2062) “Nonperforming 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 accept 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 nonperforming 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 gvt. Nepal Bank Ltd. and Rastriya Banijya Bank accounting for the highest number and amount of non-performing assets (NPA) among the other commercial banks. Some commercial banks have found 1 to 13 percent of NPL. Some banks are reducing their NPL. In 2059/60, NPL of Gvt. hold banks NBL and RBB was 60.28% and other private commercial banks has 7.63. Its reduces in 2060/061 to 56.01% and 5.74%. Its indicate that bank are managing their NPL.

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 loanee
- 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 are Some level of Non performing loan. So its should be manage differently. Bank manages their loan and credit if nonperforming loan are acceptable level. But if bank's NPL is more than acceptable level 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 nonperforming 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.

2.2.2 Review of Previous Research:

Pandey, (2002) 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, which 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.
- Increase demand for shareholders' contribution in the banks by forgoing dividends for loan loss provisions and various other reserves to increase the core capital.

All the aforesaid results lead to one direction: the bank will be financially healthy and stronger in the future. HBL will be able to withstand tougher economic situation in the future with adequate capital and provision for losses. The tough time through which the bank is undergoing at present will prevail only for a couple of years but in the long run, it will be strong enough to attract more deposits and expose itself to more risk with capital cushion behind it. The quality of the asses 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.

Ojha, (2002) has stated on his study "Lending Practise: A Study on Nabil Bank Limited, Standard Chartered Bank Nepal Ltd. and Himalayan Bank Ltd.," over liquidity caused due to lack of good lending opportunities, risk arising due to the mismanagement of lending of portfolio, increasing non-performing assets etc are some of the problem that is facing by Nepalese banking sector. His main objective is to analyze the various aspects of banks lending quantity and quality.

He concludes "the highest growth rate, proportionately high volume of loans and advances, the best contribution in priority and agriculture sector and the high level of deposits mobilization of HBL has put this back in the top position in the lending function, however the better activity ratio of SCBNL has proved this bank the best in managing the lending portfolio according to the demand of profit oriented business. The high volume of lending activities and high volume of productive sector loan of Nabil has put the bank in the top position in absolute term. The increasing provision on loan loss and high volume of non-performing assets in Nabil and HBL certainly attracts the high attention of any person interested with these banks. The high volume of NPA of HBL may have caused due to failure o f industrial and agricultural sector. Nabil's increased NPA may have caused due to the accumulated bad debts that is kept behind the certain to show the high efficiency of management.

Khadka, (2002) has stated in her study "A Comparative Study on Investment Policy of Commercial Bank" with an objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with Nabil, SCBNL and NIBL.
She expresses "NBL is comparatively less successful in on balance sheet as well as off-balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the comparative market if banking-profitability positions of NBL is comparatively of shareholders, depositors and its all customers if it can't increase its volume even in future.

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

Shilpakar, (2003) in her study "A Study on Lending Practices of Finance Companies of Nepal" aimed to analyze performance of finance company regarding lending quality and quantity and its contribution in profitability. As per her view, loan and advances is one of the main sources of income of finance companies. "Loan loss provision is like a by product of loans and advances, thus, with loans and advances, loan loss provision does increase in synchronize.

She recommended that loan and advances of finance companies are increasing and the non-performing loans and loan loss provision. Hence extra efforts should be enforced to control over NPL.

Shrestha, (2004) in her study "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 mace 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.

She concludes, "Increasing non-performing loan is the serious problem of the baking sector in Nepal. Non-performing assets directly affects the income flow of the bank. It has been found that NBL has very high portion of non-performing loan resulting to higher portion. Hence, even the bank has the highest investment in the most income generating assets i.e. loan and advances, it is in loss. Even the private sector bank like NABIL has higher non-performing loan and according higher provision. NABIL's average proportion on non-performing loan during the study period is higher than the acceptable. However in recent two year NABIL's non-performing loan has shown significant decrement and according provision has also decreased. Among the three banks, SCBNL has the least non-performing loan and thus the least loan provision. From these indicators it can be said that SCBNL is the best among the three banks. However, SCBNL seems less oriented towards lending. Hence, the lower percentage 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.

She also said that ineffective credit policy, political pressure to lend uncredit worthy borrowers, overvaluation of collateral are the major caused of mounting non-performing assets in government owed banks like NBL. 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.

She recommended that the factor which leads to non-performing loan are improper credit appraisal system, ineffective credit monitoring and supervision system etc. Besides that negligence in taking information from credit information bureau may also lead to bad debts. Hence all the three banks are recommended to be more cautions and realistic while granting loans and advances. After advancing loans there should be regular supervision and follow up for proper utilization of loan. It also recommended that the banks to initiate training and development program for the employees to make them efficient and professional in credit appraisal, monitoring and proper risk management. The regulation regarding loan classification and provisioning is stringent and tighter than the previous. Hence, NRB should not only impose directives but also create supportive environment for the commercial banks. NRB is recommended to strength credit information bureau (CIB) so that banks can get required credit information about the borrowers on time. This help in reducing NPL.

Bhattarai, (2004) has stated in her research "Implementation of Directives Issued by Nepal Rastra Bank: A Comparative Study of Nepal SBI Bank ltd. and Nepal Bangladesh

Ltd." to analyze the various aspects of NRB directives such as capital adequacy and loan classification and loan provisioning. In her view, the loan classification helps to the banks to monitor the quality of their loan and advances and to take step towards the remedial action in the credit quality of their loan and advances.

She concludes that the new provision of the banks will have its provision amount increasing in coming years and subsequently profitability of the banks will also come down. However, the true picture of the quality of the assets will be painted in the coming year.

She recommends, "The banks should be very careful while analyzing the paying capacity of its credit clients. With longer period of past due, the bank will end up increasing its provisions which will keep the bottom line low if the bank is not careful."

Khadka, (2004) in his thesis "Non-Performing Assets of Nepalese Commercial Banks" with an objective to examine the level of NPAs in total assets, total deposit and total landing of Nepalese commercial banks. He also showed that the effects of non-performing assets on Return on Assets and Return on Equity of Nepalese commercial banks.

He said 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. (NBL).

Finally, he concludes 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 (BOKL) seems very unsatisfactory. If the situation is not handing right now, it will be unmanageable and difficult to handle.

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

He recommends that the banks should have to take enough collateral while lending loan, appropriate financial analysis, supervision, monitoring and control should be done. Lastly, those banks having high level of NPA should take immediate action towards recovering their bad loan as possible as soon. In case of default to repay the loan by borrower, the bank should dispose off the collateral taken from the borrower and recover principle and interest amount.

Pradhan has conducted a research on "A study on Non-Performing Assets of commercial bank with references to SCBNL, RBB, Everest bank, NB bank and NBBL. Main objective of his study are to find out the proportion of non-performing loan and the level of NPA in total assets, total deposit and total lending in the selected commercial bank relationship between loan loss provisions in the commercial bank impact of non-performing assets in the performance of commercial bank.

He has concluded improper credit policy, political pressure to lend, lack of supervision and monitoring, economic slow down, overvaluation of collateral are the major cause of occurring NPA. In recent year, not only the private sector's bank (like NBBL, EBL and SCBNL) but also public sector's banks (RBB and NBL) are trying to maintain their loan and advances to control over becoming the non-performing assets. To overcome the NPA from public banks, they should try to recover their loan and interest amount on time and make a suitable loan loss policy.

He has concluded "high level of non-performing assets not only decrease the profitability of the banks but also affect the entire financial as well as operational health of the organization. If the NPA does not control immediately, it will be main causes for shutdown of the banks in future.

He suggest that reduce the NPA problem immediate remedial action for taking enough collateral, so that the bank at least can able to recover its principle and interest amount in case of being unable to repay by the borrower, proper financial analysis should be done before lending to the borrowers bank should provide appropriate training regarding loan management, risk management, credit appraisal etc to the employee. Bank should apply precautions before granting any loan and advances to decrease the bad loans.

Shrestha, (2007) in her thesis "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 of 18 commercial bank, four private banks were taken as sample using judgment sampling method, 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 bank 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 has the highest proportion of loan and advances to total assets of bank but the SCBNL has the lowest proportion of loan and advances during the study period. It indicates the risk averse attitude of the management of SCBNL, NBBL and NCC have moderate ratio. Same thing can be known on the basis of loan and advances to total deposit ratio. The Lumbini has the highest proportion among where as SCBNL show the lowest ratio. From this ratio Lumbini, NCC, NBBL are the higher loan provider. They are rendering an average of 89.156, 81.738, and 77.78 of their total deposit funds

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

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

Shrestha (2008) on her research "A study on the credit risk management of Nepalese Commercial Banks" aims following objective taking Kumari Bank and Machhapuchre Bank.

- To examine the credit risk position of the selected commercial banks in Nepal
- To analyze the credit risk management system and practices of KBL and MBL
- To evaluate the organizational structure of KBL and MBL to manage the credit risk.

From the analyses of credit risks, following major findings have been obtained:

1. From the analysis of primary data, it is found that the majority of the respondents of both banks have favored with the bank's single sector, which is up to 10 % of total loan. However, the sector wise lending analysis portrays that KBL and MBL have extended up to 19.88 % and 30.12% of loan in a single sector respectively in FY 2005/06. Similarly, the exposure on the single sector of KBL and MBL exceeds 10 % of total loan in 3 and 5 sectors respectively. The single sector loan to core capital shows that the ratio crossed 100% in 2 sectors of both KBL and MBL. In regard to concentration risk, KBL has more risk in manufacturing and others sector where as MBL has more risk on manufacturing and Whole seller and sectors as the single sector credit to core capital ratio in these sectors is more than 100 %. MBL has very high loan concentration on manufacturing sector of 199.35% of the core capital. From the personal interview of the key respondents it was found that both banks have been extending credit in those highly concentrated sectors after getting approval from the board of director. This clarifies that concentration risk is the main source of credit risk for KBL and MBL.
2. Similarly, lack of systematic and thorough credit processing is also the major source of credit risk in these banks. The problems in credit processing include lack of thorough credit assessment, absence of testing and validation of new lending techniques, subjective decision-making by senior management**,** lack of effective credit review process, failure to monitor borrowers or collateral values, and failure of banks to take sufficient account of business cycle effects etc. Likewise the market-sensitive and Liquidity-sensitive exposures also increase the credit risk of these banks. Similarly, it

is found that both banks have their own rating system of the credit client and the sectors. Both banks have ranked 1st to the manufacturing sector where as the Agriculture sector has been ranked the last on the basis of priority. KBL has chosen others sector and real estate business in 2nd and 3rd position respectively, where as the MBL has just opposite preference in these sectors.

3. Likewise, KBL has ranked Character, Collateral and Capacity of borrower first, second and third criterion for granting credit where as MBL ranked Character, Capacity and Capital first, second and third priority respectively. The hypothesis test on the preference of the bank's staff also proves that there is no significant difference between observed and expected frequency of ranking.
4. Lending analysis against various collaterals: it has been found that both the banks have lent highest amount of loan against the movable/ immovable property. The average lending over 5 years period of KBL and MBL against movable/ immovable property is Rs. 2,987 million and 2,673 million respectively. Similarly, the lending against others securities (i.e. other than prescribed by NRB) is second position for both banks, whereas the lending against guarantee of local banks and finance companies is in third position. However, MBL has also granted loan without any collateral. The average amount of loan without collateral is Rs. 3 million annually, which is in the 6th place on ranking. On the contrary, KBL has not granted any loan without backing any collateral.

In conclusion, the major banking risks include credit risk, market risk (i.e. liquidity risk, interest risk, operation risk etc). Among these risks, credit risk has the major impact on banking (i.e. more than 60 %). Because of the credit risk, the Non Performing Loan (NPL) of bank will increase. With the increase in NPL, the loan loss provisioning will also increase simultaneously leading to decrease in profit. The decrease in profit results in low dividend to shareholder and bonus to employees.

To remain alert and prepare plans and policies to tackle unpredictable factors such as violence riots, natural disaster, technology and employees, fault and fraud of customers and outsiders are the challenges for these commercial banks.

For proper management of the credit risk, both banks have their own set of policies and practices, which is in consistence with NRB guidelines. For credit risk management, both banks have Credit Policies Guidelines (CPG). Similarly, NPL is regularly monitored by both the banks on regular basis and provisioning is done on quarterly basis by categorizing the loan as per NRB guidelines. Similarly, sector wise and security wise lending is being analyzed by these banks on monthly basis. Organizational structure of these banks is frequently restructured for proper credit risk management as per requirement.

For minimizing the loss arising due to occurrence of the credit risks, capital adequacy have been maintained by these banks within the standard prescribed by NRB. However, the trend of Capital Adequacy ratio of these banks suggests that both the banks need to increase their capital fund, which is possible mainly by issuing shares, debentures or preference share.

Though both the banks have their own set of procedures for assessing various risks and their management, problems are still prevalent in these banks. In credit risk, single sector loan concentration is the main problem in both the banks. In MBL, the major problem is a high amount of lending in manufacturing sector, lending without collateral, non-performing loan & organizational structure for handing credit risk. In KBL, with the increase in total loan, NPL is also increasing. So, proper adjustment is needed for managing the NPL.

Limbu, (2008) in his previous research "Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The main objective of the research study are to evaluate various financial ration of the Nabil Bank, To analyze the portfolio of lending of selected sector of banks, To determine the impact of deposit in liquidity and its effect on lending practices and To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analyses for Total asset is calculate to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on investment policy, Mon-performing loan, credit policy, financial performance etc in various topic. The past researches in measuring investment policy of bank have focused on the limit ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized.. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study of Non-performing assets of commercial bank of Nepal with reference to Nabil and Machhapuchre bank ltd. is measuring by various asset ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Thesis of Khadka (2004) "Non-Performing Assets of Nepalese Commercial Banks Credit management of Commerical bank with reference to Nepal Bangaladesh Bank and Bank of Kathmandu Limited" and Bhattarai, (2004) "Implementation of Directives Issued by Nepal Rastra Bank" has not use correlation, probable error and trend analysis. Limbu and Shrestha have done using all tools and technique in their research. This study tries to define Non-performing Assets of commercial Bank by applying and analyzing various financial tools as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the Non-performing Assets of commercial Bank and financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

Research is a systematic inquiry of any particular topic and methodology is the method of doing research in well manner and Human nature's get satisfied with the same thing that regularly takes place for a long time. They are always curious to learn, understand or investigate when some particular things happens or happened. Why did the things happen or do they happen? How did they happen or how do they happen? They are not satisfied till they solve the question and develop the form of their beliefs or judgment about those particular phenomena. For this, they gather the information and analyze them to achieve their goal. The method that applies during this knowledge gaining research is known as research methodology means the analysis of specific topic by using a proper method. In other words, research methodology is a systematic study of the research problem that solves them with some logical evidence.

3.1 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and control variance. The plan mean now researcher investigator collect the data structure in term controlling the data in term of money and time." The plan mean now researcher investigators collect the data structure in term controlling the data in term of money and time.

We can say that the research design is specifi8cation of methods and procedures for acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control; variances. It is the overall operational pattern of framework of the projects that stipulates what information is to be collected from which sources by what purpose. A good design will ensure that the information obtained is relevant to the research question and that it was collected by objective and economically procedure.

The main objective of research design is to make analysis in non-performing assets of commercial banks in Nepal and provide valuable recommendation. In other words, this research is aimed at studying the non-performing assets of commercial banks. This will follow analytical and descriptive research design. And it also analyzes the composition of trend of non-performing assets, loan recovery and profitability condition of commercial banks. The design for this research is made by collection of information from different sources by using various financial statistical tools.

3.2 Sources of Data:

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

3.3 Population and Sample:

The term 'population' for research means all the member of any well defined class of people, event or object. It means that the entire group of people, events or things of interest that a researcher wished to investigate. A representative part of population selected from it with the objection of investigation its propertied is called sample. For purpose of study, the random sampling had been used to analysis about total member number and inters group number.

The table below clearly describes about total population, target population and sampled drawn. total number of 26 commercial banks were taken as population.

Sample Bank

Nabil Bank Limited

Machhapucre Bank Limited.

3.4 Data Processing Procedures & Analysis:

Data collected from various sources were in raw form. They were classified and tabulated as per the nature of the study and in accordance of the data. Applying different financial and statistical tool made data analysis. Further to represent the data in simple form bar diagrams and graphs have also been used.

3.4.1 Financial Tools

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

3.4.1.1 Ratio Analysis

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

i. Loan & Advances to Total Assets Ratio

The loan and advances to total assets ratio measures the amount of loan and advances in total assets. It means that it shows the proportion of loan and advances to total assets. High degree of loan and advances indicates the good position of the organization that of good mobilization of deposits of funds. In inverse, low degree of loan and indicates that not use of fund properly. Loan is the risky assets. Thus, higher loan and advances to total assets ratio shows high risk and inversely low loan and advances to total assets ratio shows low risk. Risk consists the uncertainty and future is uncertain. Thus, the loan and advances may or may not be recovered with its interest. This ratio can be calculated as follows:

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

ii. Loan and Advances to Total Deposit Ratio (CD ratio)

The main objective of commercial banks is to make deposits and lend it in the secure field. The loan and advances to total deposit ratio shows the relationship between the loan and advances and total deposit. It shows how much fund of deposit is provided as loan and advances. This ratio is used to find out how successfully the banks are utilizing their deposited fund on credit or loan for profit generating purpose as loans and advances yield high rate of return. Higher CD Ratio implies the better utilization of total deposits and better earnings. Hence 70% to 80% CD Ratio is considered a more appropriate. This ratio can be calculated as follows:

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

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

This ratio determines the non-performing assets in the total loan and advances portfolio. Greater ratio implies the bad quality of loan of the bank. Hence lower non-performing assets to loans and advances ratio are preferable. As per international standard only 5% NPA is allowed but in the context of Nepal 10% NPA is acceptable. It is calculated as under:

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

iv. Provision Held to Non-Performing Assets Ratio:

This ratio describes the proportion of provision held to non-performing assets of the bank. This ratio measures up to what extent of risk inherent in NPA is covered by the total loan provision. Higher ratio signifies that the banks are safe guarded against future contingencies that may create due to non-performing assets. So, higher the ratio better is the financial strength of the bank. This ratio is calculated as follows:

$$\text{Provision held to NPA } X \frac{\text{Total Provision}}{\text{Non performing Assets}}$$

v. Non-Performing Assets to Total Assets

This ratio indicates the ratio between the non-performing assets and total assets. Higher NPA to assets ratio implies the bad effects in banks performance and it decrease the profit ability of the banks and lower ratio implies the better performance of the bank and it increase the profitability of banks. This ratio can be calculated as follows:

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

vi. Return on loan and Advances

This ratio indicates the proportion of the return over total loan and advances. It describes how efficiently the bank has employed its resources in the form of loans and advances of the bank. Higher the ratio is the performance of the bank and vice-versa. It is calculated as followed:

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

Vii. Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor’s judgments or expectation about the firm’s performance. This ratio widely used by the security analysis to value the firm’s performance. This ratio widely used by the security analysis to value the firm’s performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

$$\text{Price Earning Ratio} = \frac{\text{Market Price per Share}}{\text{Earning per share}}$$

3.4.2 Statistical Tools

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

i. Arithmetic Means (average):

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

$$\bar{X} = \frac{1}{n}\sum_{i=1}^{n} X_i$$

Where:

$\bar{X}$ = mean value or arithmetic mean

$\sum_{i=1}^{n} X_i$ = sum of the observation

N = number of observation

ii. Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawback present in other measure of dispersion as it satisfied most of the requisites of a good measure of dispersion. (Bajaracharya, 1996:177). Standard deviation is defined as the positive square root of the mean of square of the deviation take from the arithmetic mean. It indicates the ranger and size of deviance from the middle or mean. It measure the absolute dispersion. Higher the standard deviation higher will be the variability and vice versa.

Dispersion measures the variation of the data from the central value. In other words, it helps to analyze the quality of data regarding its variability. It can be :

iii. Correlation Coefficient (r)

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

Formula

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

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

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

The karl pearson coefficient of correlation, always falls between -1 to +1. The value of correlation of coefficient in -1 signifies the negative correlation and in +1 signifies the positive correlation coefficient.

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

If r < 0 there is negative relationship between the variable

If r > 0 there is positive relationship between the variable

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

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

iv. Coefficient of variation (c.v.)

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

$$\text{c.v.} = \frac{\exists}{\bar{x}} \times 100$$

σ = Standard deviation

x = sum of the observation

v. Probable Error

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

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

Here,

r = Correlation coefficient

N = Number of pairs of observations

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

vi. Times series Analysis (Trend Analysis)

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

$Y = a + bx$

Here,

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

Where,

Y = Trend value

A = y intercept

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

X = Time variable

vii. Diagrammatic and Graphical Representation

Picture speak itself, no need to explain. It is also one of the tools that helps to interpretation of the data and present the findings of the study. The various bars, charts, and graphs are also used to present the data and data analysis in this study.

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

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

4.1 Ratio Analysis

4.1.1 Loan and Advances to Total Assets Ratio

A commercial bank’s working fund plays very active role in profit generation through fund mobilization. The ratio of loan and advances to total assets measures the volume of loan and advances in the capital structure of total assets. The high degree of ratio indicates the good performance of the banks in mobilizing its fund by way of lending functions. In the opposite side, the low degree of ratio is the representative of the low degree of liquidity ratio. Granting loan and advances always carries a certain degree of risk. Thus, this assets of banking business is regarded as risky assets. Hence, this ratio measured the management attitude toward risky assets. The low ratio is indicative of low productivity and high degree in liquidity and vice-versa. The size of total assets of commercial banks increased continuously over the last few yrs. The following table shows loan & advances to total assets of NABIL and MBL as follows.

Table no. 4.1.1

Loan and Advances to Total Assets Ratio

(In Million)

Year	NABIL			MBL		
	Loan and advance	Total Asset	Ratio	Loan and advance	Total Asset	Ratio
2003/4	8190	16745.49	0.4891	2493.11	3458.52	0.7209
2004/5	10586	17186.33	0.616	5061.43	6478.63	0.7813
2005/6	12923	22329.97	0.5787	6146.63	9069.83	0.6777
2006/7	15546	27253.39	0.5704	7129.89	10807.62	0.6597
2007/8	21365	37132.76	0.5754	8642.32	12498.55	0.6915
Total	68610	120647.9	2.8295	29473.4	42313.15	3.531
Mean	13722	24129.59	0.5659	5894.68	8462.63	0.7062
S.D			0.0466			0.0475
C.V			0.08232			0.06731

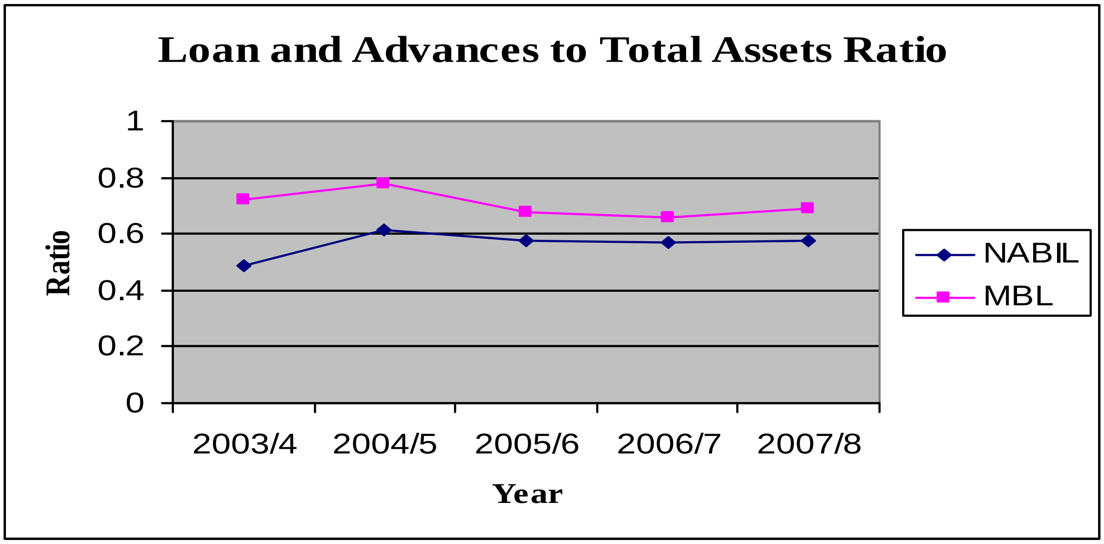
Source: Annual Report of concerned Banks

The table No 4.1.1 shows the loan and advances to total assets ratio of NABIL and MBL banks for last five consecutive years. The loan & advances to total assets ratio of NABIL and MBL are in fluctuating trend during the study period. While observing their ratios MBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year in comparison of NABIL.

The ratios of NABIL are 48.91%, 61.6%, 57.78%, 57.04% and 57.54% in their respective year. The highest ratio is 61.6% in the year 2005/06 and the lowest ratio is 48.91 % year 2003/04. The ratios of MBL are 72.09%, 78.13%, 67.77%, 65.97% and 69.15% in their respective year. The highest ratio is 78.13% in the year 2005/06 and the lowest ratio is 65.97 % year 2006/07. The mean of NABIL and MBL are 56.59% and 70.62% respectively. So MBL has higher ratio than that of NABIL. It reveals that in total assets, MBL has high proportion of loan and advances. MBL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of NABIL states that it has less uniformity in these ratios throughout the study period than that of MBL. S.D. and C.V. of NABIL and MBL have 4.66, 4.75, 0.082, and 0.067 respectively.

The above loan and advances to Total asset ratio can be presented in bar diagram also which is as follows

Figure No. 4.1.1



4.1.2 Loan and Advance to Total Deposit Ratio:

The loan and advances to total deposit ratio is also known as credit deposit ratio (CD ratio). This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. It is the proportion between the total loan lunching and the total deposit in the banks. It can be calculated by dividing the total loan and advances by the total deposit amount. This ratio shows how successfully the banks are utilizing their deposited funds as credit or loan for profit generating purpose as loans and advances yield high rate of return. Greater CD ratio implies that better utilization of total deposit of banks and higher earning from that loan and advances with the higher risk. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks Thus, 70%-80% CD ratio is assumed as more suitable for the banks.

Table No. 4.1.2

Loan and Advance to Total Deposit Ratio

(In Million)

Year	NABIL			MBL		
	Loan and advance	Total Deposit	Ratio	Loan and advance	Total Deposit	Ratio
2003/4	8190	14119	0.5801	2493.11	2754.63	0.9051
2004/5	10586	14587	0.7257	5061.43	5586.8	0.906
2005/6	12923	19347	0.6679	6146.63	7893.3	0.7787
2006/7	15546	23342	0.666	7129.89	9475.5	0.7525
2007/8	21365	31915	0.6694	8642.32	11102.22	0.7784
Total	68610	103310	3.3092	29473.4	36812.45	4.1206
Mean	13722	20662	0.6618	5894.68	7362.49	0.8241
S.D			0.052154			0.075058
C.V			0.078802			0.091076

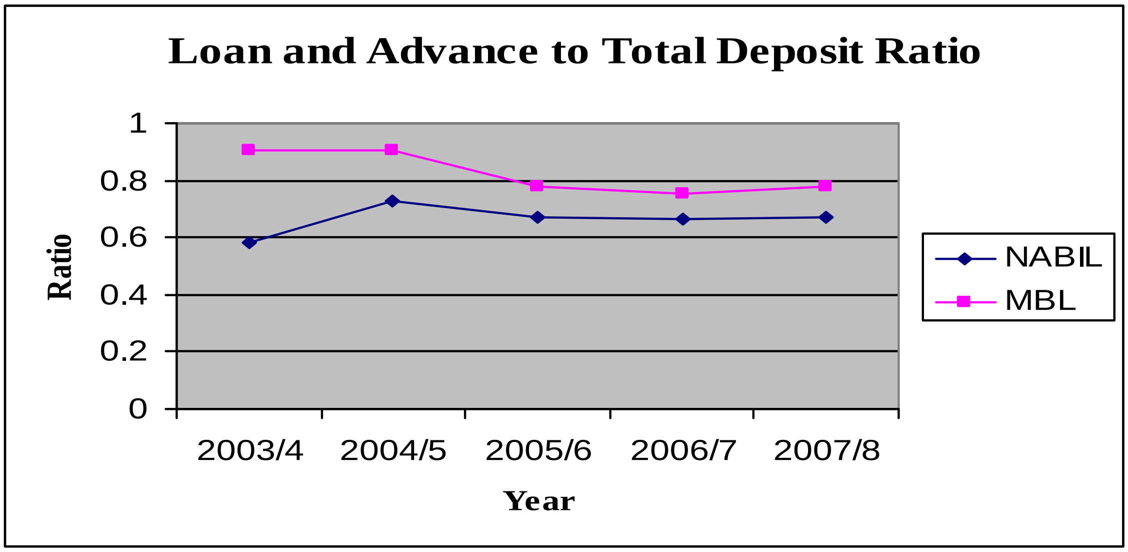
Source: Annual Report of Concerned Banks

The above table shows that the loan & advances to total deposit ratio of NABIL and MBL is fluctuating trends. MBL has higher ratio than that of NABIL in each year and mean too. It indicates the better mobilization of deposit by MBL. The mean of NABIL and MBL are 66.18% and 82.41% respectively. The highest ratio of NABIL is 72.57% in Fiscal year 2004/05 and lowest ratio is 58.01 % in 2003/04. Similarly highest ratio of MBL is 90.6% in 2004/05 and lowest ratio is 75.25 in Fiscal year 2006/07. So MBL has higher ratio than that of NABIL. It reveals that the deposit of MBL is quickly converted in to loan and advances to earn income. . MBL has the greater mean ratio, which signifies that the MBL lend higher amt in the form of loan and advances to earn better returns. The NABIL has the lower mean ratio among them. It provides lower amount in the form of loan. Thus, it can be said that the management of NABIL is risk averse as compare to MBL. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loan and advances to total deposit according to NRB. So in all of the year the MBL has met the NRB requirement or it has utilized its deposit to provide loan. But

NABIL has not met the NRB requirement or it has not utilized its deposit to provide loan properly.

The S.D. and C.V of NABIL is 5.137, 0.075 similarly MBL has 7.506, 0.091. Thus, it signifies that MBL has higher deviation. the higher C.V. of MBL shows the more inconsistency in the ratios with compare to NABIL. The above loan and advances to total Deposit ratio can be presented in bar diagram also which is as follows

Figure No. 4.1.2



4.1.3 Non- Performing Assets to Total Loan and Advance

This ratio determines the proportion of non-performing assets in the total loan and advances portfolio. As per NRB directives, the loan falling under category of substandard, doubtful and loss are regarded as non-performing assets or loan. The higher ratio implies the bad quality of loan or assets of banks in the form of loan and advances where as lower ratio implies the better quality of assets of banks in the form of loan and advances. Hence, lower ratio is preferable as per international standard only 5% NPAs is allowed but in the case of Nepal, maximum 10% NPAs is acceptable. The aggregate NPL as % of total loan was 29.30% in mid-July 2001 and decrease to 14.22 in mid-July 2006 in overall commercial bank in Nepal where as NABIL and MBL.

The table (table no 4.1.3) presented below, exhibits the ratio of non-performing assets to loan and advances of NABIL and MBL from five consecutive years. The table shows that the MBL has the highest ratio through out the study period and also shows the fluctuating trend of NPA. The NABIL shows the least ratio during period.

Table no. 4.1.3

Non- Performing Assets to Total Loan and Advance

(In Million)

Year	NABIL			MBL		
	Nonperforming Asset	Loan and advance	Ratio in %	Nonperforming Asset	Loan and advance	Ratio in %
2003/4	28.67	8189.99	0.3501	25	2493.11	1.0028
2004/5	14.45	10586.17	0.1365	19.9	5061.43	0.3932
2005/6	18.26	12922.54	0.1413	16.9	6146.63	0.2749
2006/7	17.83	15545.78	0.1147	85.1	7129.89	1.1936
2007/8	16.17	21365.05	0.0757	92.9	8642.32	1.0749
Total	95.38	68609.53	0.8182	239.8	29473.38	3.9394
Mean	19.076	13721.91	0.1636	47.96	5894.676	0.7879
S.D			0.107			0.422
C.V			0.656			0.535

Source: Annual Report of NRB and Websites of Concerned Banks

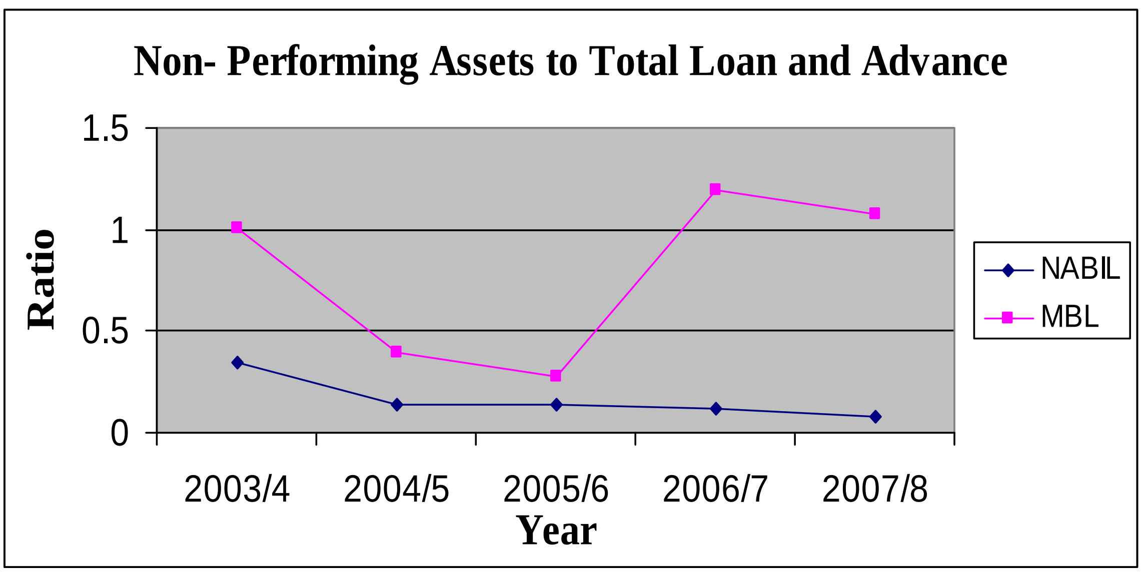
The above table presents the ratio of non-performing assets to total loan and advance of NABIL and MBL. The ratios of NABIL are 0.35, 0.137, 0.141, 0.115, and 0.0757 in year 2003/4, 2004/5, 2005/6, 2006/7 and 2007/8 respectively. The highest ratio is 0.35 in year 2003/4 and lowest ratio is 0.0757 in year 2007/8. The average mean ratio of NABIL is 0.164. The S.D is 0.107 and C.V. is 0.656 of NABIL.

Similarly, MBL has high ratio of non-performing assets to total loan and advance. Mean ratio of MBL is 0.788, which is much higher than NABIL. The highest ratio is 1.19 in 2006/7 and lowest ratio is 0.275 in 2005/6 respectively. The ratios of MBL are 1.003, 0.393, 0.275, 01.194, and 1.075 in year 2003/4, 2004/5, 2005/6, 2006/7 and 2007/8 respectively. The S.D of MBL is 0.422 and C.V. is 0.535 respectively.

The NABIL has the lower ratio, which indicates better quality of assets of banks in the form of loan and advances. It can be said that they are performing well or maintaining their NPAs perfectly. But he MBL has the high degree of NPL. The higher ratio implies the bad quality of loan or assets of banks in the form of loan and advances. The mean ratio of MBL is significantly high in comparisons to NABIL and it has critical condition. it is higher than the acceptable standard of 10%. The S.D of MBL is high it signify the high variation in ratio. Among all NPA is the one of the main cause, which decreases the profit and fund would allocate for provision and it cause to become bank failure. Thus, they have to pay attention towards these matters.

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

Figure No. 4.1.3



4.1.4 Total Provision to Non-Performing Assets Ratio

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

Table 4.1.4

Provision Held to Non-Performing Assets Ratio

(In Million)

Year	NABIL			MBL		
	Total provision	Nonperforming Asset	Ratio	Total Provision	Nonperforming Asset	Ratio
2003/4	35.87	28.67	1.2511	47.7	25	1.908
2004/5	36.06	14.45	2.4955	68.8	19.9	3.4573
2005/6	35.62	18.26	1.9507	78.1	16.9	4.6213
2006/7	35.72	17.83	2.0034	190	85.1	2.2327
2007/8	39.44	16.17	2.4391	321.7	92.9	3.4629
Total	182.71	95.38	10.14	706.3	239.8	15.682
Mean	36.542	19.076	2.028	141.26	47.96	3.1364
S.D			0.0522			0.0751
C.V			0.246			0.347

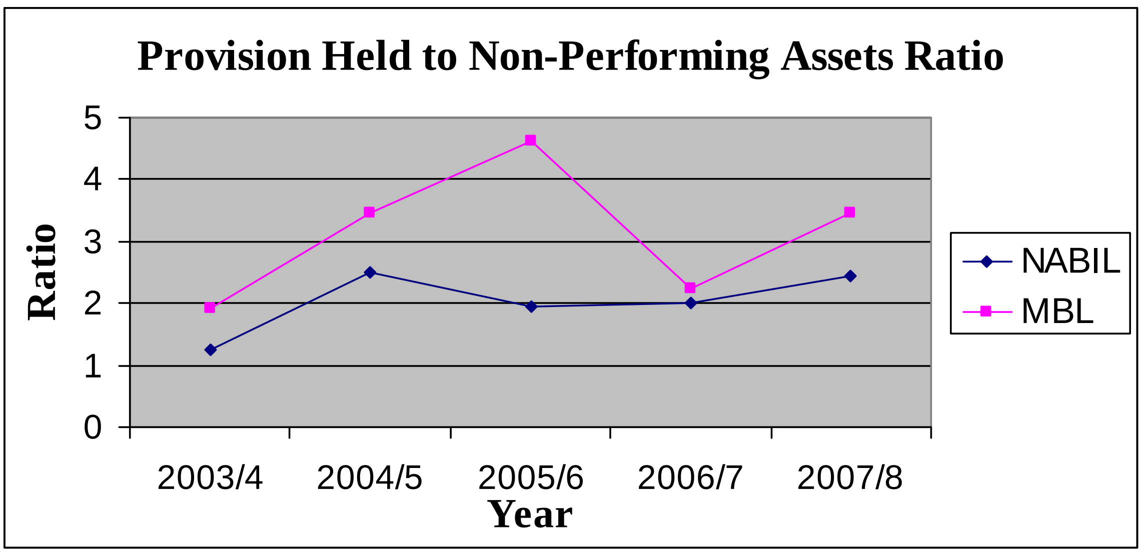
Source: Annual Report of Concerned Banks

The above table presents the ratio of provision held to total non-performing assets of NABIL and MBL for 5 consecutive years. Through out the study period, the MBL has the highest ratio than the NABIL. The ratios of NABIL are 1.2511, 2.495, 1.951, 2.0034 and 2.439 in yr 2003/4, 2004/5, 2005/6, 2006/7 and 2007/8 respectively. The highest ratio is 2.4955 in 2004/5 and lowest ratio is 1.28511 in year 2003/4. The average mean ratio of

NABIL is 2.028. The standard deviation is 0.0522 and C.V. is 0.246. It indicates NABIL Bank has appropriate provision for nonperforming asset.

Similarly, the mean ratio of MBL is 3.14 respectively. The ratio are 1.91, 3.457, 4.621, 2.233 and 3.463 respectively in 2003/4, 2004/5, 2005/6, 2006/7 and 2007/8 consecutive year. The highest provision i.e. ratio is 4.621 in 2005/6 and lowest ratio is 1.908 in 2003/4. The S.D of MBL 0.0751 and coefficient of variation is 0.347 respectively. The ratio of MBL has significantly high in comparison with NABIL banks and it's portraying that the bank has adequate provision against non-performing loan. MBL has high ratio of NPL as so bank has make high provision as well. It means that both banks try to maintain the higher ratio for the safeguard of loan loss. The above provision held to non-performing assets ratio can be presented in bar diagram also, which is as follows.

Figure No. 4.1.4



4.1.5 Non-Performing Assets to Total Assets Ratio

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

Table 4.1.5

Non-Performing Assets to Total Assets Ratio

(In Million)

Year	NABIL			MBL		
	Nonperforming Asset	Total Asset	Ratio in %	Nonperforming Asset	Total Asset	Ratio in %
2003/4	28.67	16745.49	0.1712	25	3458.52	0.7229
2004/5	14.45	17186.33	0.0841	19.9	6478.63	0.3072
2005/6	18.26	22329.97	0.0818	16.9	9069.83	0.1863
2006/7	17.83	27253.39	0.0654	85.1	10807.62	0.7874
2007/8	16.17	37132.76	0.0435	92.9	12498.55	0.7433
Total	95.38	120647.9	0.446	239.8	42313.15	2.747
Mean	19.076	24129.59	0.0892	47.96	8462.63	0.5494
S.D			0.0486			0.281
C.V			0.515			0.511

Source: Annual Report of Concerned Banks

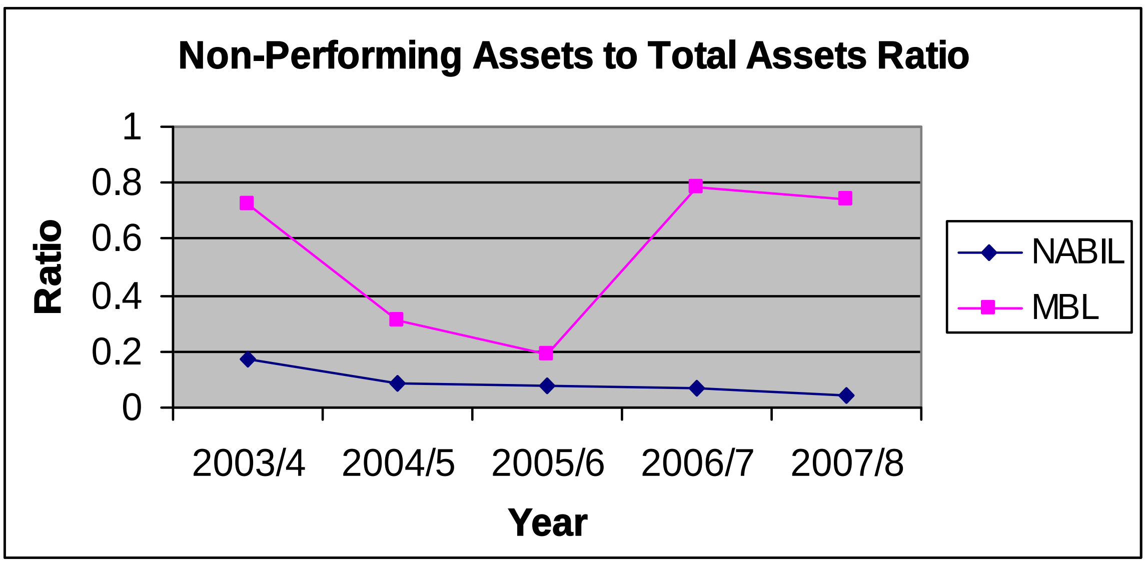
The table (4.1.5), presented above, exhibits the non-performing assets to total assets ratio of NABIL and MBL for five consecutive periods. The MBL has the approximately highest ratio than the NABIL. The ratio of Nonperforming asset to total asset are 0.171, 0.084, 0.082, 0.065, 0.044 and 0.045 respectively in 2003/4, 2004/5, 2005/6, 2006/7 and 2007/8 consecutive year. The ratio of NABIL continuously decreasing it indicates that bank has proper utilized and invests the assets. The S.D of NABIL 0.0486 and coefficient of variation is 0.515 respectively. NABIL has the lowest ratio with decreasing. The NABIL has the lowest and decreasing ratio all over the period that indicates the greater profitability and the better performance to recover the loan and its interest during the study period.

The average mean ratio of MBL is 0.549. The highest ratio is 0.787 in 2006/7 and lowest ratio is 0.186 in year 2005/6. The ratio of Nonperforming asset to total asset are 0.723, 0.307, 0.186, 0.787 and 0.7433 respectively in 2003/4, 2004/5, 2005/6, 2006/7 and

2007/8 consecutive year. The S.D of MBL 0.281 and coefficient of variation is 0.511 respectively. MBL has the highest ratio, which shows the bad performances and lower profitability on its assets.

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

Figure No. 4.1.5



4.1.6 Return on Total Loan and Advances.

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

Table.4.1.6

Return on Total Loan and Advances

(In Million)

Year	NABIL			MBL		
	Net Profit	Loan and advance	Ratio	Net profit	Loan and advance	Ratio
2003/4	455.23	8189.99	0.0556	46.69	2493.11	0.0187
2004/5	519.32	10586.17	0.0491	84.87	5061.43	0.0168
2005/6	635.26	12922.54	0.0492	134	6146.63	0.0218
2006/7	673.96	15545.78	0.0434	76.8	7129.89	0.0108
2007/8	746.47	21365.05	0.0349	85.02	8642.32	0.0098
Total	3030.2	68609.53	0.2321	427.38	29473.38	0.0779
Mean	606.05	13721.91	0.0464	85.476	5894.676	0.0156
S.D			0.052154			0.075058
C.V			0.331			0.167

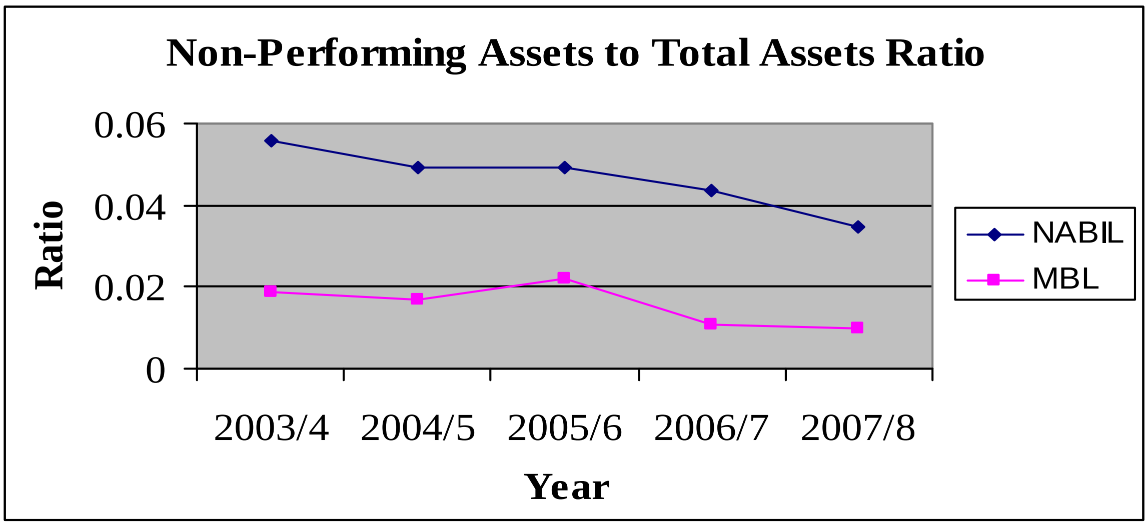
Source: Annual Report of Concerned Banks

Above table shows the ratio of returns on loans & advances of NABIL and Machhapucre Bank for 5 consecutive years. The table represents that the NABIL has the highest ratio through the study period. The highest ratio is 0.0556 and lowest ratio is 0.035 in study period. The ratio is continuously decreasing. The average mean ratio of NABIL is 0.0464. The S.D of NABIL is 0.052 and coefficient of variation is 0.331 respectively. Lowe S.D. and higher C.V. indicate not variability in ratio of NABIL.

Similarly, MBL shows the fluctuating trend in whole study period. The mean ratio of MBL is 0.0156 respectively. The highest ratio is 0.0218 in 2005/6 and lowest ratio is 0.0098 in 2007/8 respectively. The S.D of MBL is 0.075 and C.V is 0.167 respectively. Thus, it signifies that along with the lower return and high degree of variation in this ratio.

The NABIL has the high ratio all over the period that indicates the greater profitability and the better performance to recover the loan and its interest during the study period. MBL has the low ratio, which shows the bad performances and lower profitability on its assets. MBL has the highest deviation it signifies that the greater variability in this ratio. it can be concluded that NABIL is better than MBL to generating profit through loan and advance. The above return on total loan and advances ratio can be presented in bar diagram as under,

Figure No. 4.1.6



Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table No. 4.1.7

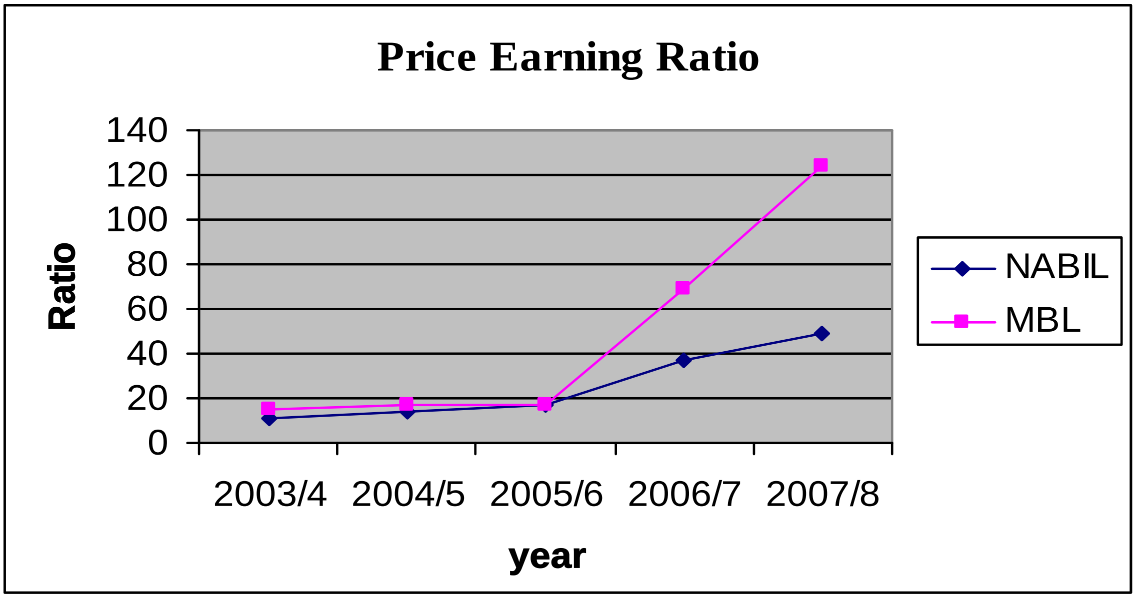
Price Earning Ratio

Year	NABIL			MBL		
	MPS	EPS	Ratio	MPS	EPS	Ratio
2003/4	1000	93	10.753	125	8.49	14.7232
2004/5	1505	105	14.333	256	15.43	16.59106
2005/6	2240	129	17.364	320	18.74	17.07577
2006/7	5050	137	36.861	620	9.02	68.73614
2007/8	5275	108	48.843	1265	10.35	122.2222
Total	15070	572	128.15	125	8.49	239.35
Mean	3014	114.4	25.631	256	15.43	47.87
S.D			0.0522			47.40
C.V			0.331			0.99

Above table shows that price-earning ratio earning of NABIL and MBL are in increasing trend. From the mean point of view, mean ratio of the NABIL and MBL are 25.59 and 48.26 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 48.26 in MBL. Looking the mean ratio we conclude that in short run, investor of MBL are getting better profitability because they are selling their shares in high price although EPS of MBL is lower in comparison than that of NABIL. But from the long term view and sustainable fair price, investor of NABIL will get better profitability and they will be in safe side in comparison with MBL as low ratio is preferable for fair and sustainable market price.

The S.D and C.V of MBL is high than the MBL it indicate its risk to invest in MBL rather than in the NABIL. The above price-earning ratio can be presented in bar diagram

Figure No. 4.1.7



4.2 Correlation Analysis

4.2.1 Correlation Coefficient between Total Deposit & Loan & Advances

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

Table No. 4.2.8

Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criterions			
	r	R^2	$P.E_r.$	$6\ P.E_r.$
NABIL	0.989	0.978	0.00662	0.0397
MBL	0.993	0.986	0.00422	0.0253

Source: BY SPSS Data Editor

From the above table, it is found that coefficient of correlation between deposits and loan & advances of NABIL and MBL is 0.989 and 0.993. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan & advances of NABIL and MBL move together very closely. Moreover, the coefficient of determination of NABIL is 0.978. It means 97.80 percent of variation in loan & advances has been explained by deposit. Similarly, value of coefficient of determination of MBL is 0.986. It refers that 98.6 percent variance in loan & advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.E_r. In other words, there is significant relationship between deposits and loan & advances.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table No. 4.30 shows the coefficient correlation between deposits and total investments i.e. r, P. E_r., 6 P. E_r. and coefficient of determination (R^2) of NABIL and MBL during the study period.

Table No. 4.2.9

Correlation between Deposit and Total Investment

Name of Banks	**Evaluation Criterions**			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.926	0.857	0.0429	0.257
MBL	0.965	0.931	0.0208	0.125

Source: BY SPSS Data Editor

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of NABIL is 0.926 It shows the high degree positive correlation. In addition, coefficient of determination of NABIL is 0.857 It means only

85.7 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 $P.E_r$. It refers that there is significant relationship between total deposit and total investment of NABIL.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of MBL, which is indicator by correlation coefficient of 0.965. The value of coefficient of determination is found 0.931 this refers that 93.1 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 $P.E_r$. It refers that there is significant relationship between total deposit and total investment of MBL.

From the above analysis, the conclusion can be drawn in the case of NABIL and MBL that both have high degree positive correlation. It indicates that both are successful to mobilize its deposit to provide investment.

.

C) Co-efficient of Correlation between Loan and advance and Net Profit

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

Table No. 4.2.10

Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.955	0.912	0.0265	0.1589
MBL	0.457	0.209	0.2382	1.4291

Source: Through SPSS Data Editor

Above table shows correlation coefficient between, Loan and advance and net profit. The correlation coefficient between, Loan and advance and net profit is 0.955 of NABIL. It refers that there is positive correlation between these two variables. Here, 91.2 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.912 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise MBL also low degree positive correlation i.e. 0.457 between Loan and advance and net profit. The coefficient of determination R^2 is 0.209 which indicates that 20.9 percent variability in net profit is explained by Loan and advance. Moreover, less correlation coefficient than 6P.Er. Shows that the relationship between Loan and advance and net profit is insignificant for MBL. In conclusion, NABIL has more significant relationship between Loan and advance and net profit than that of MBL

D) Correlation between loan loss provision and loan & advances

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

Table No. 4.2.11

Correlation between Loan loss Provision and Loan and advance

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.806	0.6496	0.1057	0.634
MBL	0.863	0.7448	0.077	0.426

Source: Through SPSS Data Editor

Above table shows correlation coefficient between, Loan loss Provision and Loan and advance. The correlation coefficient between, Loan loss Provision and Loan and advance are 0.806 of NABIL. It refers that there is positive correlation between these two variables. Here, 64.96 percent of provision is contributed by as loan and advance its coefficient of determination of 0.6496 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise MBL also positive correlation i.e. 0.863 between Loan loss Provision and Loan and advance. The coefficient of determination R^2 is 0.7448, which indicates that 74.48 percent variability in Provision is explained by Loan and advance. Both bank has more correlation coefficient than 6P.Er. Shows that the relationship between Loan loss Provision and Loan and advance is significant. As a whole, there are significant correlation coefficient of bank between LLP and loan and advances during the study period

E) Correlation between loan loss provision and NPA

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

Table No. 4.2.12

Correlation between Loan loss Provision and Non-performing Asset

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	-0.299	0.0894	0.275	1.648
MBL	0.927	0.859	0.0424	0.255

Source: *Through SPSS Data Editor*

The above table 4.2.12 shows the relationship between LLP & NPA of NABIL and MBL. The correlation between LLP & NPA of NABIL is -0.299. It refers that there is Negative correlation between these two variables. The coefficient of determination of NABIL is 0.0894. The relationship between LLP & NPA is insignificant because the coefficient of correlation is less than 6 P.Er i.e. -0.299 < 1.684. Likewise MBL has positive correlation i.e. 0.927 between Loan loss Provision and Non-performing Asset. The coefficient of determination R^2 is 0.859 which indicates that 85.9 percent variability in Provision is explained by Non-performing asset. The coefficient of correlation is more than 6P.Er. so the relationship between Loan loss Provision and Loan and advance is significant. MBL has the higher degree of NPA in comparison to NABIL.

F) Correlation between Non-Performing assets and loan and advances

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

Table No. 4.2.13

Correlation between Non-performing Asset and Loan and advance

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	-0.552	0.305	0.2097	1.258
MBL	0.754	0.568	0.1302	0.781

Source: Through SPSS Data Editor

The above table shows Correlation between Non-performing Asset and Loan and advance. The correlation coefficient between, Non-performing Asset and Loan and advance of NABIL is -0.552. It refers that there is negative correlation between these two variables. Here, coefficient of determination is 0.305, which indicate 30.5 percent of Non-performing asset is contributed by as loan and advance. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P. Er. In the case of MBL there is positive correlation i.e. 0.754 between Non-performing Asset and Loan and advance. The coefficient of determination R^2 is 0.568, which indicates that 756.8 percent variability in Nonperforming asset is explained by Loan and advance. The relationship is insignificant because the coefficient of correlation is little less than 6 P.Er .i.e. 0.754 < 0.781. As a whole there are insignificant correlation coefficient of bank between Non-performing Asset and Loan and advance during the study.

G) Correlation between NPA and Total Assets

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

Table No. 4.2.14

Correlation between Non-performing Asset and Total Asset

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	-0.420	0.1764	0.248	1.491
MBL	0.780	0.6084	0.118	0.7088

Source: Through SPSS Data Editor

The above table shows the relationship between the Nonperforming asset and Total Assets of NABIL and MBL for five consecutive. The correlation between NPA and total Asset of NABIL is -0.420. It refers that there is Negative correlation between these two variables. The coefficient of determination of NABIL is 0.1764, which indicate Total Asset contributes 17.64 percent of Non-performing asset. The relationship between LLP & Total Asset of NABIL is insignificant because the coefficient of correlation is less than 6 $P.E_r$ i.e. -0.420 < 1.491. Likewise, MBL has positive correlation i.e. 0.927 between the Nonperforming asset and Total Assets. The coefficient of determination R^2 is 0.6084, which indicates that 60.84 percent of Nonperforming asset is explained by Total asset. The coefficient of correlation is more than 6P.Er. So the relationship between Nonperforming asset and Total Assets is significant.

The NABIL has 17.64 percent of Non-performing asset contribute by Total Asset but MBL has 60.84 percent of Nonperforming asset is contribute by Total asset. MBL has the higher degree of NPA to total asset in comparison to NABIL.

4.3 Trend Analysis

Trend analysis the statistical tools for the analyzing the data of selected banks in suitable manners. It helps to forecast the future value of bank of future expectation of different variables. It shows the behavior of different variables. It shows the behavior of the variables. It is based on the assumption that past tendencies continues in the future. In this study, its data are presented for further eight years. For 2003 /4 - 2007/8 and forecast is done on the basis of these trend lines.

A) Trend Analysis of Total Deposit:

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

Y= a + bx

Where,

Y= dependent variable

a=Y-intercept

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NABIL	MBL
a =20662	a = 7362.49
b = 4434.7	b = 2058.388

Where as

Yc = 20662 + 4434.7 X of NABIL

Yc = 7362.49 + 2058.388 X of MBL

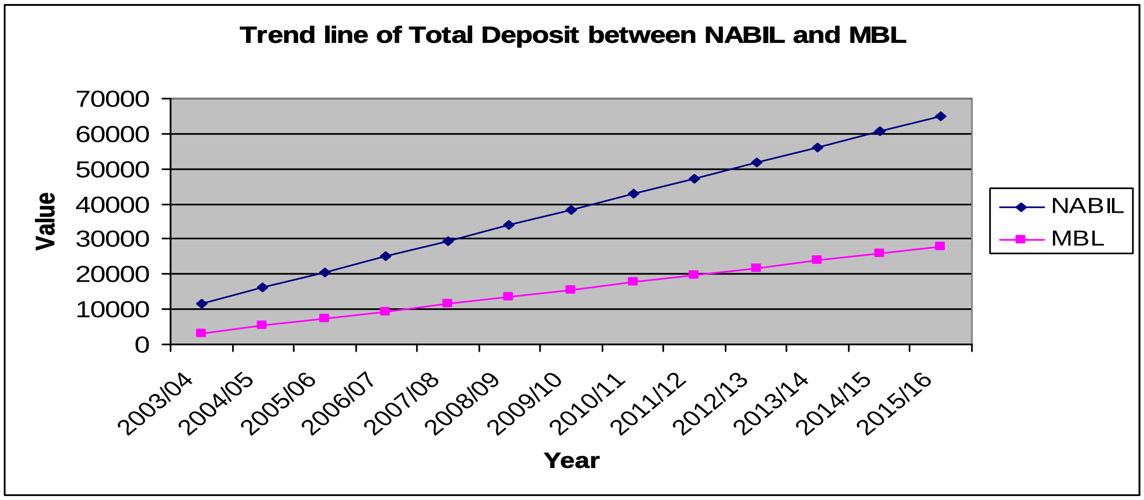
Table No. 4.3.15

Trend analysis of Total Deposit of NABIL and MBL		
Year(x)	NABIL	MBL
2003/04	11792.6	3245.71
2004/05	16227.3	5304.1
2005/06	20662	7362.49
2006/07	25096.7	9420.88
2007/08	29531.4	11479.3
2008/09	33966.1	13537.7
2009/10	38400.8	15596
2010/11	42835.5	17654.4
2011/12	47270.2	19712.8
2012/13	51704.9	21771.2
2013/14	56139.6	23829.6
2014/15	60574.3	25888
2015/16	65009	27946.4

Source: Annul Report of Concern Bank

Appendix

Figure No 4.3.8



Above table and figure shows that total deposit of NABIL and MBL. Both Banks is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of MBL. The increasing trend of total deposit of NABIL is more aggressive and high rather than MBL. It indicates NABIL has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2015/16. From the above trend analysis it is clear that NABIL has higher position in collecting deposit than MBL.

B) Trend Analysis of Loan & advances

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

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $\quad$ $b = \frac{SXY}{SX^2}$

NABIL	MBL
a = 13721.91	a = 5894.676
b = 3130.973	b = 1436.688

Yc = 13721.91 + 3130.973 X of NABIL

Yc= 5894.676 + 1436.688 X of MBL

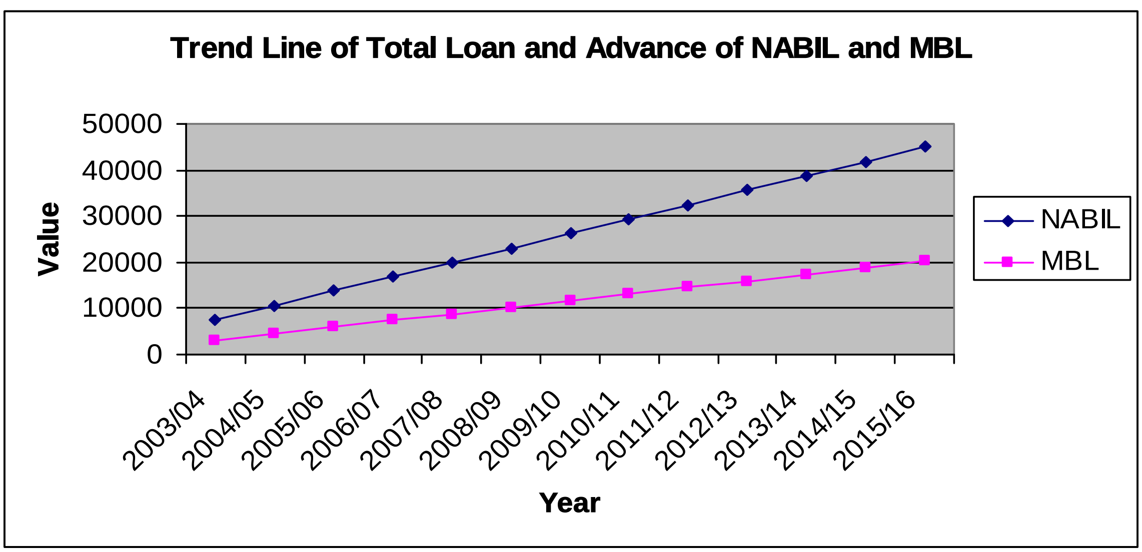
Table No. 4.3.16

Trend line of Total Loan and Advance of NABIL and MBL		
Year(x)	NABIL	MBL
2003/04	7459.96	3021.3
2004/05	10590.9	4457.99
2005/06	13721.9	5894.68
2006/07	16852.9	7331.36
2007/08	19983.9	8768.05
2008/09	23114.8	10204.7
2009/10	26245.8	11641.4
2010/11	29376.8	13078.1
2011/12	32507.7	14514.8
2012/13	35638.7	15951.5
2013/14	38769.7	17388.2
2014/15	41900.7	18824.9
2015/16	45031.6	20261.6

Source: Annul Report of Concern Bank

Appendix

Figure No 4.3.9



Above table depicts that loan & advances of NABIL and MBL. Both Banks has in increasing trend. The increasing trend of NABIL is higher than MBL . The actual value of loan & advances for MBL is quite fluctuating in relation to NABIL. The trend projected for father eight year FY 2007/08 to FY 2015/16 From the above analysis, it is clear that both NABIL and MBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the NABIL has highly mobilizing loan & advances than the MBL.

C) Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of NABIL and MBL for further eight years

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NABIL MBL

a = 7033.358 a = 931.174

b = 1288.572 b = 314.814

Yc = 7033.358 + 1288.572 X of NABIL

Yc = 931.174 + 314.814 X of MBL

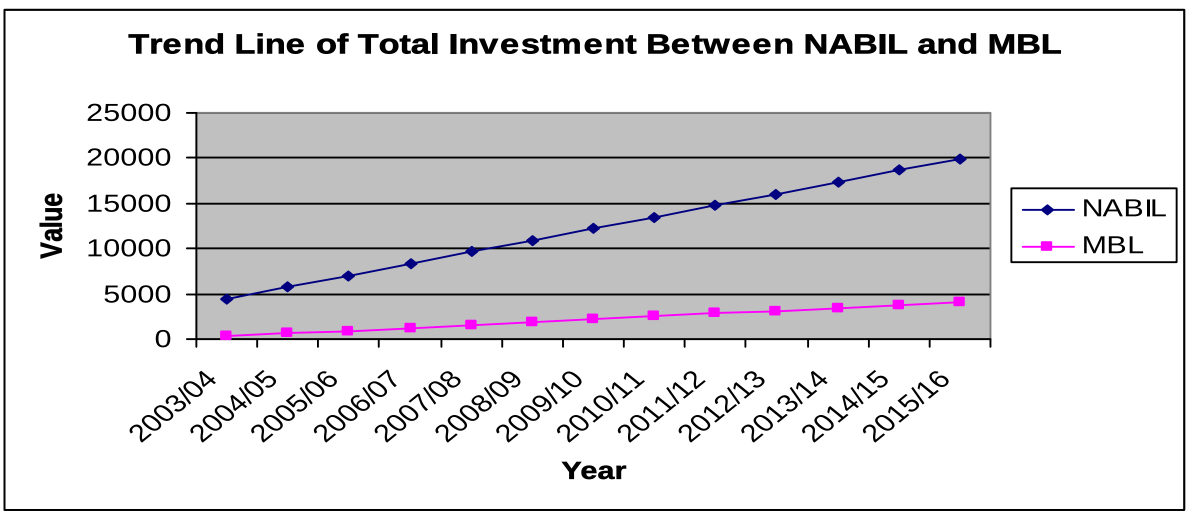
Table No. 4.3.17

Trend Line of Total Investment Between NABIL and MBL		
Year(x)	NABIL	MBL
2003/04	4456.21	301.546
2004/05	5744.79	616.36
2005/06	7033.36	931.174
2006/07	8321.93	1245.99
2007/08	9610.5	1560.8
2008/09	10899.1	1875.62
2009/10	12187.6	2190.43
2010/11	13476.2	2505.24
2011/12	14764.8	2820.06
2012/13	16053.4	3134.87
2013/14	17341.9	3449.69
2014/15	18630.5	3764.5
2015/16	19919.1	4079.31

Source: Annul Report of Concern Bank

Appendix

Figure No 4.3.10



Above table shows the Trend of Total Investment between NABIL and MBL. Both Bank NABIL and MBL have increasing trend in making investment. NABIL has little high and upward trend of increasing, but MBL has moderately increasing trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the NABIL has greater increment rate in total investment than the increment rate of MBL. The figure indicates NABIL has highly mobilized the total investment rather than MBL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of NABIL and MBL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 20015/16.

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NABIL	MBL
a = 606.048	a = 85.476
b = 73.712	b = 6.859

Yc = 606.048 + 73.712 X NABIL

Yc = 85.476 + 6.859 X MBL

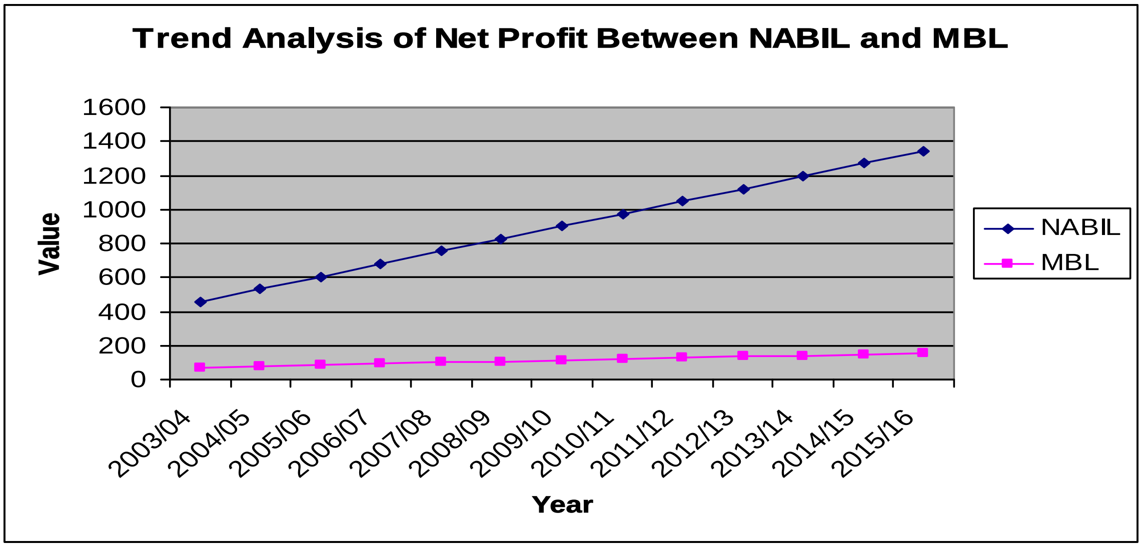
Table No. 4.3.18

Trend Analysis of Net Profit Between NABIL and MBL		
Year(x)	NABIL	MBL
2003/04	458.624	71.758
2004/05	532.336	78.617
2005/06	606.048	85.476
2006/07	679.76	92.335
2007/08	753.472	99.194
2008/09	827.184	106.053
2009/10	900.896	112.912
2010/11	974.608	119.771
2011/12	1048.32	126.63
2012/13	1122.03	133.489
2013/14	1195.74	140.348
2014/15	1269.46	147.207
2015/16	1343.17	154.066

Source: Annul Report of Concern Bank

Appendix

Figure No 4.3.11



The above table reveals the trend of Net profit of NABIL and MBL. Net profit both bank NABIL and MBL forecasted in increasing trend. The trend of increasing value of net profit of NABIL is higher and aggressive than MBL. The net profit of NABIL and MBL has been increasing every year by Rs.73.712 million and Rs. 6.852 million respectively. The trend of Net profit projected to FY 2015/16 i.e. further Eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, NABIL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of NABIL is high than the MBL.

E) Trend Analysis of Non- performing Asset

Here, the trend values of Non-Performing Asset of NABIL and MBL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 20015/16.

Where,

Y= dependent variable

a=Y-intercept

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

x = X - Middle year

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NABIL	MBL
a = 19.076	a = 47.96
b = -2.162	b = 20.1

Yc = 19.076 - 2.162 X NABIL

Yc = 47.96 + 20.1 X MBL

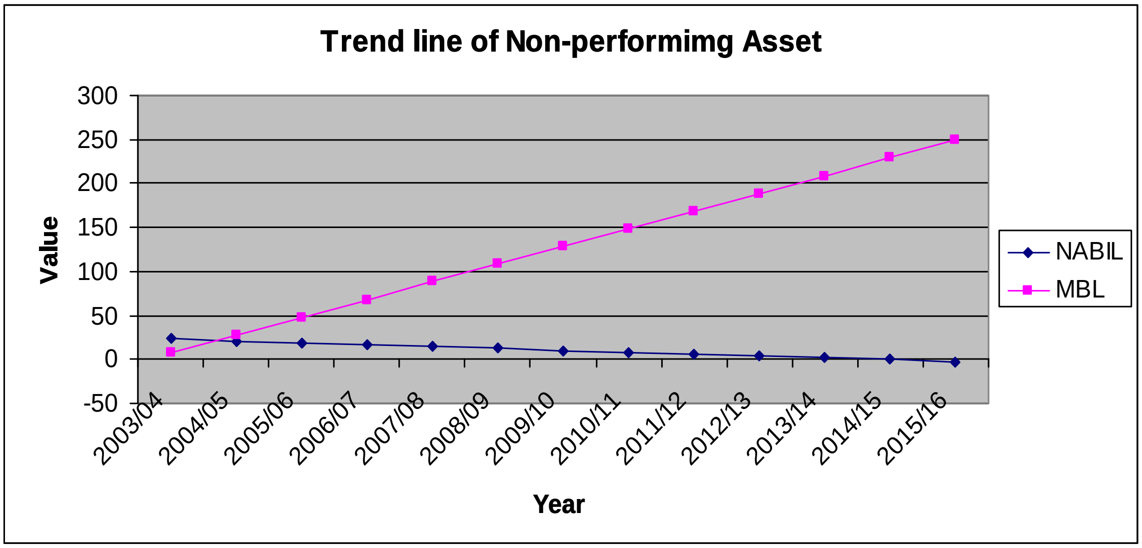
Table No. 4.3.19

Trend Analysis of Non-Performing Asset Between NABIL and MBL		
Year(x)	NABIL	MBL
2003/04	23.4	7.76
2004/05	21.238	27.86
2005/06	19.076	47.96
2006/07	16.914	68.06
2007/08	14.752	88.16
2008/09	12.59	108.26
2009/10	10.428	128.36
2010/11	8.266	148.46
2011/12	6.104	168.56
2012/13	3.942	188.66
2013/14	1.78	208.76
2014/15	-0.382	228.86
2015/16	-2.544	248.96

Source: Annul Report of Concern Bank

Appendix

Figure No 4.3.12



The above table reveals the trend of Non-Performing Asset of NABIL and MBL. Non-Performing Asset of NABIL is forecasted in decreasing trend. The trend of Non-Performing Asset of MBL is estimated in increasing trend. The trend of Non-Performing Asset of NABIL is decreasing which indicate Non-Performing Asset is regularly decreasing during the study period. The Non-Performing Asset of MBL has been increasing every year by Rs.20.1 million and NABIL decreasing Rs 2.162 million respectively. The trend of Non-Performing Asset projected to FY 2015/16 i.e. further Eight year. Above statistics, shows that, NABIL is doing better by decreasing Non-Performing Asset. However, MBL increasing Non-Performing during the projected study.

F) Trend Analysis of Loan loss Provision

Here, the trend values of loss loan provision of NABIL and MBL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 20015/16.

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where

x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

a = 36.542 a = 141.36

b = 0.68 b = 66.92

Yc = 36.542 + 0.68 X NABIL

Yc= 141.26 + 66.92 X MBL

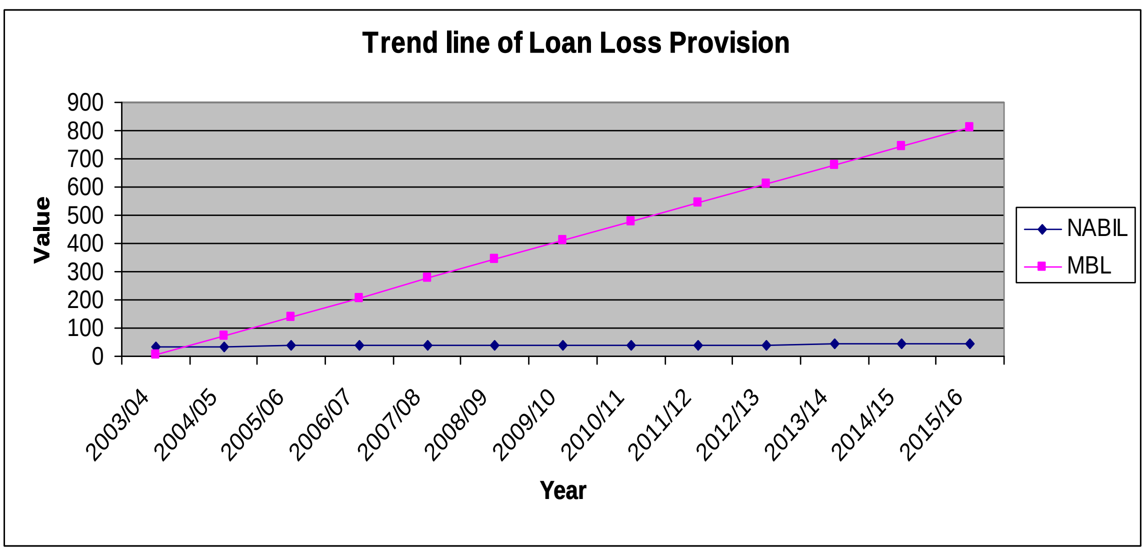
Table No. 4.3.20

Trend Analysis of loss loan provision Between NABIL and MBL		
Year(x)	NABIL	MBL
2003/04	35.182	7.42
2004/05	35.862	74.34
2005/06	36.542	141.26
2006/07	37.222	208.18
2007/08	37.902	275.1
2008/09	38.582	342.02
2009/10	39.262	408.94
2010/11	39.942	475.86
2011/12	40.622	542.78
2012/13	41.302	609.7
2013/14	41.982	676.62
2014/15	42.662	743.54
2015/16	43.342	810.46

Source: Annul Report of Concern Bank

Appendix

Figure No 4.3.13



The above table reveals the trend of loss loan provision of NABIL and MBL. Loss loan provision of NABIL is forecasted constant and MBL forecasted in increasing trend. The trend of increasing value of loss loan provision of MBL is higher and aggressive than NABIL. The loss loan provision of NABIL increasing every year only by Rs.0.86 and MBL has been increasing every year by Rs. 66.92 million respectively. The trend of loss loan provision projected to FY 2015/16 i.e. further Eight year. In conclusion, NABIL is doing better because constant in loss loan provision but MBL has increasing loss loan provision, which indicate increasing NPL. In conclusion, it is suggest MBL decrease the NPL to minimize loan loss provision.

4.4 Major Finding of the Study:

The study is fully based on the secondary data of related banks. From the data analysis of concerned banks, the major things, which have been finding are as follows,

- The loan & advances to total assets ratio of NABIL and MBL are in fluctuating trend during the study period. The mean of NABIL and MBL are 56.59% and 70.62% respectively. While observing their ratios MBL is better mobilizing of fund as loan and advances in total assets and it seems quite successful in generating higher ratio in each year in comparison of NABIL.

- The loan & advances to total deposit ratio of NABIL and MBL is fluctuating trends... The mean of NABIL and MBL are 66.18% and 82.41% respectively. So MBL has higher ratio than that of NABIL. It indicates the better mobilization of deposit or converted in to loan and advances to earn income by MBL. The S.D. and C.V of NABIL is 5.137, 0.075 similarly MBL has 7.506, 0.091. Thus, it signifies that MBL has higher deviation. The higher C.V. of MBL shows the more inconsistency in the ratios with compare to NABIL.

- The average mean ratio of non-performing assets to total loan and advance of NABIL is 0.164. The S.D is 0.107 and C.V. is 0.656 of NABIL. Similarly, MBL has high mean ratio of non-performing assets to total loan and advance is 0.788, which is much higher than NABIL. The S.D of MBL is 0.422 and C.V is 0.535

respectively. It can be said that NABIL performing well or maintaining their NPAs perfectly. But he MBL has the high degree of NPL. The higher ratio implies the bad quality of loan or assets of banks in the form of loan and advances. It is higher than the acceptable standard of 10%. The S.D of MBL is high it signify the high variation in ratio.

- The ratio of provision held to total non-performing assets for the MBL has the highest ratio than the NABIL. The average mean ratio of NABIL is 2.028. The standard deviation is 0.0522 and C.V. is 0.246. It indicates NABIL Bank has appropriate provision for nonperforming asset. The mean ratio of MBL is 3.14 respectively. The S.D of MBL 0.0751 and coefficient of variation is 0.347 respectively. MBL has high ratio of NPL as so bank has make high provision as well.

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

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

- The price-earning ratio earning of NABIL and MBL are in increasing trend. From the mean point of view, mean ratio of the NABIL and MBL are 25.59 and 48.26

times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 48.26 in MBL. The S.D and C.V of MBL is high than the MBL it indicate its risk to invest in MBL rather than in the NABIL.

- The coefficient of correlation between deposits and loan & advances of NABIL and MBL is 0.989 and 0.993. It is shows that both have the positive relationship between these two variables. The coefficient of determination of NABIL is 0.978. Similarly, value of coefficient of determination of MBL is 0.986. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 $P.E_r$. In other words, there is significant relationship between deposits and loan & advances

- The coefficient of correlation between total deposit and total investment of NABIL and MBL is 0.926 and of 0.965. It shows the high degree positive correlation. The coefficient of determination of NABIL is 0.857 It means only 85.7 percent of total investment is explained by total deposit. Similarly, the value of coefficient of determination of MBL is found 0.931 this refers that 93.1 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 $P.E_r$. It refers that there is significant relationship between total deposit and total investment

- The correlation coefficient between, Loan and advance and net profit is 0.955 of NABIL. It refers that there is positive correlation between these two variables. Here, 91.2 percent of net profit is contributed by Loan and advance. The relationship is significant because the coefficient of correlation is more than 6 $P.E_r$. Likewise MBL also low degree positive correlation i.e. 0.457. There is only 20.9 percent variability in net profit is explained by Loan and advance. The relationship between Loan and advance and net profit is insignificant due to less correlation coefficient than 6P.Er. In conclusion, NABIL has more significant relationship between Loan and advance and net profit than that of MBL

- The correlation coefficient between, Loan loss Provision and Loan and advance is 0.806 and 0.863 of NABIL and MBL.. It refers that there is positive correlation between these two variables. Here, 64.96 percent of provision of NABIL is contributed by as loan and advance and 74.48 percent variability in Provision of MBL is explained by Loan and advance. Both Banks has more correlation coefficient than 6P.Er. Shows that the relationship between Loan loss Provision and Loan and advance are significant.

- The relationship between LLP & NPA of NABIL and MBL are reverse direction. The correlation between LLP & NPA of NABIL is -0.299. It refers that there is Negative correlation between these two variables. The coefficient of determination of NABIL is 0.0894. The relationship between LLP & NPA is insignificant. MBL has positive correlation i.e. 0.927. The coefficient of determination is 0.859. The coefficient of correlation is more than 6P.Er. So the relationship between Loan loss Provision and Loan and advance is significant.

- The correlation coefficient between, Non-performing Asset and Loan and advance of NABIL is -0.552. It refers that there is negative correlation between these two variables. Here, 30.5 percent of Non-performing asset is contributed by as loan and advance. MBL has positive correlation i.e. 0.754 between Non-performing Asset and Loan and advance. Here 756.8 percent variability in Nonperforming asset is explained by Loan and advance. The relationships of both banks are insignificant because the coefficient of correlation is little less than 6 $P.E_r$. the relationship between the Nonperforming asset and Total Assets of NABIL and MBL is not similar.
- The correlation between NPA and total Asset of NABIL is -0.420. It refers that there is Negative correlation between these two variables. Where 17.64 percent of Non-performing asset is contributed by Total Asset. The relationship between LLP & Total Asset of NABIL is insignificant. Likewise, MBL has positive correlation i.e. 0.927 between the Nonperforming asset and Total Assets. There is 60.84 percent of Nonperforming asset is explained by Total asset. The coefficient of correlation is more than 6 $P.E_r$. So the relationship between Nonperforming asset and Total Assets is significant.

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

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

- The Trend of Total Investment between NABIL and MBL have increasing trend in making investment. NABIL has little high and upward trend of increasing, but MBL has moderately increasing trend of total investment. The figure indicates NABIL has little highly mobilized the total investment rather than MBL.

- The trend of Net profit both bank NABIL and MBL forecasted in increasing trend. The trend of increasing value of net profit of NABIL is higher and aggressive than MBL. The net profit of NABIL and MBL has been increasing every year by Rs.73.712 million and Rs. 6.852 million respectively. In conclusion, NABIL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of NABIL is high than the MBL.

- The trend of Non-Performing Asset of NABIL and MBL are opposite direction. Non-Performing Asset of NABIL is forecasted in decreasing trend. Which indicate Non-Performing Asset is regularly decreasing during the study period. The trend of Non-Performing Asset of MBL is estimated in increasing trend. The Non-Performing Asset of MBL has been increasing every year by Rs.20.1 million and NABIL decreasing Rs 2.162 million respectively. NABIL is doing better by decreasing Non-Performing Asset. However, MBL increasing Non-Performing asset.

- The trend of Loss loan provision of NABIL is forecasted constant and MBL forecasted in increasing trend. The trend of increasing value of loss loan provision of MBL is higher and aggressive than NABIL. The loss loan provision of NABIL increasing every year only by Rs.0.86 and MBL has been increasing every year by Rs. 66.92 million respectively. In conclusion, NABIL is doing better because constant in loss loan provision but MBL has increasing loss loan provision, which indicate increasing NPL. In conclusion, it is suggest MBL decrease the NPL to minimize loan loss provision.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

A commercial bank means the bank, which deals with exchanging currency, accepting deposit, giving loan and doing other commercial transaction. There for one of the function of commercial banks is to provide loan. Now there are 26 commercial bank have been extending their services in different part of the country.

The assets of commercial bank indicate the manner in which the fund entrusted to the bank is employed. The successful working of the bank depends on ability of the management to distribute the fund among the various kinds of investments known as loan and advances. Loan and advances are the most profitable assets of a bank. These assets constitute primary sources of income to the bank. As being a business institution, a bank aims at making huge profit. Since loan and advance are more profitable than any other assets of the banks, it sis willing to lend as well as his fund as possible. However, bank has to be careful about the safety of such loan and advances. It means the bank has to be careful about the repayment of loan and interest before giving loan. If a bank is too timid it may fail to obtain the adequate return on the fund, which is confided to him or use. Similarly, if the bank is too liberal, it may easily impair his profit by bad debts. Therefore, banks should not forget the reality that most of he ban failures in the world due to shrinkage in the value of the loan and advances

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

This research 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 of 26 commercial bank, four private banks were taken as sample using judgment sampling method, they are Nabil Bank and Machhapucre Bank Limited. In this study mostly secondary data are used. Besides this, newspaper, relevant thesis, journals, articles, related website etc. are also taken for this research. The data collected from various sources are recorded systematically and presented in appropriate forms of table and charts and appropriate mathematical, statistical, financial and graphical tools have been applied to analyze the collected data in suitable manner. The data of five consecutive years of the bank have been analyzed to meet the objective of the study.

The study is fully based on the secondary data of related banks. From the data analysis of concerned banks, the major things, which have been finding are as follows

The loan & advances to total assets ratio of NABIL and MBL are in fluctuating. MBL is better mobilizing of fund as loan and advances in total assets and it seems quite successful in generating higher ratio in each year in comparison of NABIL. The mean of NABIL and MBL are 66.18% and 82.41%. Therefore, MBL has higher ratio than that of NABIL. It indicates the better mobilization of deposit or converted in to loan and advances to earn more income by MBL. but MBL has higher deviation and more inconsistency in the ratios with compare to NABIL.

The average mean ratio of non-performing assets to total loan and advance of MBL is higher than NABIL. But the MBL has the high degree of NPL. The higher ratio implies the bad quality of loan or assets of banks in the form of loan and advances. It is higher than the acceptable standard of 10%. The S.D of MBL is high it signify the high variation in ratio. It can be said that NABIL performing well or maintaining their NPAs perfectly. but MBL should improve to their lending strategy. Similarly, the non-performing assets to total assets ratio of MBL has the approximately highest ratio than the NABIL. The average ratio of Nonperforming asset to total asset of NABIL is only 0.0892 but MBL has 0.549. The ratios of NABIL continuously decreasing it indicate that bank has proper utilized and invest the assets. MBL has the highest ratio, which shows the bad performances and lower profitability on its assets. Nabil has the lowest ratio with decreasing and MBL has high ratio and fluctuating. The ratio of provision held to total non-performing assets for the MBL has the highest ratio than the NABIL. It indicates Nabil Bank has appropriate provision for nonperforming asset. MBL has high ratio of NPL as so bank has make high provision as well. This high provision cause to bank to move bad condition.

The ratio of returns on loans & advances show how much bank making earning through providing loan and advances. The NABIL has the highest ratio through the study period. The average mean ratio of NABIL is 0.0464 and MBL is 0.0156. NABIL has high return and not variability in ratio but in the case of MBL lower return and high degree of variation in this ratio. The price-earning ratio earning of NABIL and MBL are in increasing. From the mean point of view, mean ratio of the NABIL and MBL are 25.59 and 48.26 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 48.26 in MBL. The S.D and C.V of MBL is high than the MBL it indicate its risk to invest in MBL rather than in the NABIL

The correlation between deposits and loan & advances of NABIL and MBL is 0.989 and 0.993. It is shows that both have the positive relationship between these two variables. The correlation coefficient of both banks is significant. Similarly, the coefficient of correlation between total deposit and total investment of NABIL and MBL is high degree positive correlation. The coefficient of determination of NABIL is 0.857 It means only 85.7 percent of total investment is explained by total deposit. Similarly, The value of coefficient of determination of MBL is found 0.931 this refers that 93.1 percent of the variation in total investment is explained by total deposit. There is significant relationship between total deposit and total investment.

The correlation coefficient between, Loan and advance and net profit is high degree of positive correlation i.e. 0.955 but MBL low degree positive correlation i.e. 0.457. The relationship of two variable of NABIL is significant and MBL has insignificant due to less correlation coefficient than 6P.Er. The correlation coefficient between, Loan loss Provision and Loan and advance is 0.806 and 0.863 of NABIL and MBL. It refers that there is positive correlation between these two variables. Both Banks has more correlation coefficient than $6P.E_r$. Shows that the relationship between Loan loss Provision and Loan and advance is significant.

The relationship between LLP & NPA of NABIL and MBL are reverse direction. The correlation between LLP & NPA of NABIL is -0.299. It refers that there is Negative correlation between these two variables. The relationship between LLP & NPA is insignificant. MBL has positive correlation i.e. 0.927. The relationship between Loan loss Provision and Loan and advance is significant. Similarly, The correlation coefficient between, Non-performing Asset and Loan and advance of NABIL is -0.552. It refers that there is negative correlation between these two variables. MBL has positive correlation i.e. 0.754 between Non-performing Asset and Loan and advance. The relationships of both banks are insignificant. In the same way the correlation between NPA and total Asset of NABIL is -0.420. It refers that there is Negative correlation between these two variables. The relationship between LLP & Total Asset of NABIL is insignificant. Likewise, MBL has positive correlation i.e. 0.927. The coefficient of correlation is more than 6P.Er. Therefore, the relationship between Nonperforming asset and Total Assets is significant.

The trend line of total deposit and loan & advances of NABIL and MBL is in increasing trend. The rate of increment of total deposit and loan and advance for NABIL seems to be higher than that of MBL. The increasing trend of NABIL is more aggressive and high rather than MBL. It indicates NABIL has more prospect of collecting Total deposit providing loan and advances.

The Trend of Total Investment between NABIL and MBL have increasing trend in making investment. NABIL has little high and upward trend of increasing, but MBL has moderately increasing trend of total investment. Similarly, the trend of Net profit both bank NABIL and MBL also increasing trend. The increasing value of net profit of NABIL is higher and aggressive than MBL. In conclusion, NABIL is doing better in order to generate net profit during the projected study period.

The trend of Non-Performing Asset of NABIL and MBL are opposite direction. Non-Performing Asset of NABIL is forecasted in decreasing trend. Which indicate Non-Performing Asset is regularly decreasing during the study period. The trend of Non-Performing Asset of MBL is estimated in increasing trend NABIL is doing better by decreasing Non-Performing Asset. However, MBL increasing Non-Performing asset. Likewise, the trend of Loss loan provision of NABIL is constant and MBL is in increasing trend. The trend of increasing value of loss loan provision of MBL is higher and aggressive than NABIL. In conclusion, NABIL is doing better because constant in loss loan provision but MBL has increasing loss loan provision, which indicate increasing NPL. In conclusion, it is suggest MBL decrease the NPL to minimize loan loss provision. In aggregate NABIL seems to be higher position in various factors the compare to MBL.

5.2 Conclusions

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

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

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

In conclusion, improper credit policy political pressure to lend, lack of supervision and monitoring, economic (slow down, overvaluation of collateral is 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.

5.3 Recommendations

High levels of non-performing assets not only decrease the profitability of the banks but also affect the entire financial as well as operational health of the organization. If he NPA does not control immediately, it will be main causes for shutdown of eh banks in future. Therefore following are some of the recommendation, which will help to reduce the level of NPA of Nepalese Commercial Banks.

- It is recommended to MBL to make serious action to recovering the bad loan (NPA). And also should make remedial action for new loans. Hiring assets management company (AMC) is recommended to reduce the current non-performing assets.

- NABIL is providing low amount of loan comparing to MBL. That is the main cause to be lower non-performing assets. However, MBL provide high amount of loan form their Total deposit or resources. Thus, MBL have higher NPA. Even though investing their resources in the most income generating sources but they have negative returns due to enough bad loans.

- NABIL should have to increase their lending in terms of loan and advances according to returns, safety, liquidity and risk.

- The loan loss provision of MBL has high due to high amount of NPA so it is recommended to reduce their NPA. It is recommended that the bank should have to increase the provision amount to recover the bad loan.

- Government must applied regulator body to take timely action against willful defaulter.
- One of the main causes of default loan and increasing the NPAs is that the banks aren’t taking much collateral or over valuation of collateral. Therefore, bank should take enough collateral, so the bank at least can able to recover its principle and invest amount in case of being unable to repay by the borrower.
- Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. Thus proper financial analysis should be done before lending to the borrowers.
- The accounting policies should be transparent and must be best auditing practices.
- Inefficient management may be the cause to increase the non-performing assets in Nepalese commercial banks. Therefore, all banks should provide appropriate training regarding loan management, risk management credit appraisal etc to the employee.
- The other factors which lead to non-performing assets are lack of proper supervision and monitoring, ineffectiveness of credit policy, political scenarios, and economic conditions. Besides that negligence in taking information from credit. Information Bureau may be also leading factor to NPAs. It is recommended that bank should apply precaution before granting loan and advances to decrease the bad loan.
- Here is lack of credit rating agency. So it's recommended to establish the credit rating agency and AMC to proper analysis.
- Last but not the list every person means the bank staff must know their responsibility of their work rather than their selfishness. They must have strong commitment and support the rule and regulations.

Appendix

Net Profit

Calculation of NABIL Bank Limited

Year(X)	**Net profit (Y)**	**X=x-2005/06**	**X^2**	**XY**
2003/04	455.23	-2	4	-910.46
2004/05	519.32	-1	1	-519.32
2005/06	635.26	0	0	0
2006/07	673.96	1	1	673.96
2007/08	746.47	2	4	1492.94
Total n=5	$\sum Y=3030.24$	$\sum X=0$	$\sum X^2=10$	$\sum XY=737.12$

Source: Annual Report of NABIL Bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

For NABIL,

a=606.048

b=73.712

Where,

YC=606.048+73.712X NABIL

Calculation of Machhapucre Bank limited

Year(X)	**Net Profit (Y)**	**X=x-2005/06**	**X^2**	**XY**
2003/04	46.69	-2	4	-93.38
2004/05	84.87	-1	1	-84.87
2005/06	134	0	0	0
2006/07	76.8	1	1	76.8
2007/08	85.02	2	4	170.04
Total n=5	∑Y=427.38	∑X=0	$\sum X^2=10$	∑XY=68.59

Source: Annual Report of Machhapucre Bank

Let trend line be

Y=a+bx……………….(I)

Where x=X-Middle Year

Here,

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

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

MBL

a=85.476

b=6.859

Where,

YC=85.476+6.859 XMBL

Nonperforming Assets

Calculation of NABIL Bank Limited

Year(X)	**Nonperforming Assets (Y)**	**X=x-2005/06**	**X^2**	**XY**
2003/04	28.67	-2	4	-57.34
2004/05	14.45	-1	1	-14.45
2005/06	18.26	0	0	0
2006/07	17.83	1	1	17.83
2007/08	16.17	2	4	32.34
Total n=5	∑Y=95.38	∑X=0	$\sum X^2=10$	∑XY=-21.62

Source: Annual Report of NABIL bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=19.076

b=-2.162

Where,

YC=19.076-2.162X NABIL

Net Profit Calculation of NABIL Bank Limited

Year(X)	Net Profit (Y)	X=x-2005/06	X^2	XY
2003/04	455.23	-2	4	-910.46
2004/05	519.32	-1	1	-519.32
2005/06	635.26	0	0	0
2006/07	673.96	1	1	673.96
2007/08	746.47	2	4	1492.94
Total n=5	∑Y=3030.24	∑X=0	$\sum X^2=10$	∑XY=737.12

Source: Annual Report of NABIL bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=606.048

b=73.712

Where,

YC=606.048+73.712X NABIL

Calculation of NABIL Bank Limited

Year(X)	Nonperforming Assets (Y)	X=x-2005/06	X^2	XY
2003/04	28.67	-2	4	-57.34
2004/05	14.45	-1	1	-14.45
2005/06	18.26	0	0	0
2006/07	17.83	1	1	17.83
2007/08	16.17	2	4	32.34
Total n=5	$\sum Y=95.38$	$\sum X=0$	$\sum X^2=10$	$\sum XY=-21.62$

Source: Annual Report of NABIL Bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=19.076

b=-2.162

Where,

YC=19.076-2.162X NABIL

Calculation of Machhapucre Bank Limited

Year(X)	Nonperforming Assets (Y)	X=x-2005/06	X^2	XY
2003/04	25	-2	4	-50
2004/05	19.9	-1	1	-19.9
2005/06	16.9	0	0	0
2006/07	85.1	1	1	85.1
2007/08	92.9	2	4	185.8
Total n=5	$\sum Y=239.8$	$\sum X=0$	$\sum X^2=10$	$\sum XY=201$

Source: Annual Report of Machhapucre Bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

MBL

a=47.96

b=20.1

Where,

YC=47.96+20.1 XMBL

Loan Loss Provision Calculation of NABIL Bank Limited

Year(X)	Total Provision (Y)	X=x-2005/06	X^2	XY
2003/04	35.87	-2	4	-71.74
2004/05	36.06	-1	1	-36.06
2005/06	35.62	0	0	0
2006/07	35.72	1	1	35.72
2007/08	39.44	2	4	78.88
Total n=5	∑Y=182.71	∑X=0	∑ X^2=10	∑XY=6.8

Source: Annual Report of NABIL Bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=36.542

b=0.68

Where,

YC=36.542+0.68 XNABIL

Calculation of Machhapucre Bank Limited

Year(X)	Total Provision (Y)	X=x-2005/06	X^2	XY
2003/04	47.7	-2	4	-95.4
2004/05	68.6	-1	1	-68.8
2005/06	78.1	0	0	0
2006/07	190	1	1	190
2007/08	321.7	2	4	643.4
Total n=5	∑Y=706.3	∑X=0	$\sum X^2=10$	∑XY=669.2

Source: Annual Report of Machhapucre Bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=141.36

b=66.92

Where,

YC=141.26+66.92XMBL

Total Deposit

A) Calculation of NABIL Bank Limited

Year(X)	Total Deposit(Y)	X=x-2005/06	X^2	XY
2003/04	14119	-2	4	-28238
2004/05	14587	-1	1	-14587
2005/06	19347	0	0	0
2006/07	23342	1	1	23342
2007/08	31915	2	4	63830
Total n=5	$\sum Y=103310$	$\sum X=0$	$\sum X^2=10$	$\sum XY=44347$

Source: Annual report of NABIL bank

Let trend line be

Y=a+bx……………….(I)

Where x=X-Middle Year

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

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

NABIL

$a = 2066$

$b = 4434.7$

Where,

$YC = 2066 + 4434.7$ of NABIL

Calculation of Machhapucre Bank Limited

Year(X)	**Total Deposit(Y)**	**X=x-2005/06**	**X^2**	**XY**
2003/04	2754.6	-2	4	-5509.26
2004/05	5586.8	-1	1	-5586.8
2005/06	7893.3	0	0	0
2006/07	9475.5	1	1	9475.5
2007/08	11102.2	2	4	22204.44
Total n=5	∑Y=36812.45	∑X=0	∑ X^2=10	∑XY=20583.88

Source: Annual Report of Machhapucre Bank

Let trend line be

Y=a+bx……………….(I)

Where x=X-Middle Year

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

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

MBL

$a = 7362.49$

$b = 2058.388$

Where,

YC =7362.49+2058.388 X of MBL

Loan& AdvanceCalculation of NABIL Bank Limited

Year(X)	**Loan and advances(Y)**	**X=x-2005/06**	**X²**	**XY**
2003/04	8189.99	-2	4	-16380
2004/05	10586.17	-1	1	-10586.2
2005/06	12922.54	0	0	0
2006/07	15545.78	1	1	15545.78
2007/08	21365.05	2	4	42730.1
Total n=5	∑Y=68609.53	∑X=0	∑ X²=10	∑XY=31309.73

Source: Annual Report of NABIL bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=13721.91

b=3130.973

Where,

YC=13721.91+3130.973X of NABIL

Calculation of Machhapure Bank Limited

Year(X)	**Loan and advances(Y)**	**X=x-2005/06**	**X^2**	**XY**
2003/04	2493.1	-2	4	-4986.22
2004/05	5061.4	-1	1	-5061.43
2005/06	6146.6	0	0	0
2006/07	7129.9	1	1	7129.89
2007/08	8642.32	2	4	17284.64
Total n=5	∑Y=29473.38	∑X=0	$\sum X^2=10$	∑XY=14366.86

Source: Annual report of Machhapucre Bank

Let trend line be

Y=a+bx……………….(i)

Where,

x=X-Middle Year

Here,

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

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

MBL

a=5894.676

b=1436.688

Where,

YC=5894.676+1436.688X of MBL

Total Investment

Calculation of NABIL Bank Limited

Year(X)	Total investment (Y)	X=x-2005/06	X^2	XY
2003/04	5835.95	-2	4	-11671.9
2004/05	4267.23	-1	1	-4267.23
2005/06	6178.53	0	0	0
2006/07	8945.31	1	1	8945.31
2007/08	9939.77	2	4	19879.54
Total n=5	$\sum Y=35166.79$	$\sum X=0$	$\sum X^2=10$	$\sum XY=12885$

Source: Annual Report of NABIL bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=7033.358

b=1288.572

Where,

YC=7033.358+1288.572X of NABIL

Calculation of Machhapucre Bank Limited

Year(X)	Total Investment (Y)	X=x-2005/06	X^2	XY
2003/04	274.41	-2	4	-548.82
2004/05	468.61	-1	1	-468.61
2005/06	1190.8	0	0	0
2006/07	1278.5	1	1	1278.47
2007/08	1443.55	2	4	2887.1
Total n=5	∑Y=4655.87	∑X=0	$\sum X^2=10$	∑XY=3148.14

Source: Annual Report of Machhapucre Bank

Let trend line be

Y=a+bx……………….(I)

Where,

x=X-Middle Year

Here,

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

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

NABIL

a=931.174

b=314.814

Where,

YC=931.174+314.814X of MBL

BIBLIOGRAPHY

Book

Adhikari, M.P. (2062). Nonperforming Loan and its Management. Kathmandu: *Nepal Rastra Bank, Samachar*

Chhetri, D. B. (2057). *Non-Performing Assets: A Need for Rationalization.* Kathmandu: *Nepal Rastra Bank Samachar*.

Dahal, Bhuvan and Sarita (2002). *A Hand Book to Banking.* Kathmandu: Asmita Books & Stationery.

Dahal. S. (2060). Problems in Nepalese financial sector & NPLs. Kathmandu: *NRB Samachar*.

Dungana, Bhisma Raj (2058). Why Assets Management is considered the best option o resolve the Non-Performing Loan Problem. *Banking Prabardhan.*

Gupta, S C. (1992). *Fundamental of Statistics.* Bombay: Himalyan Publishing House.

Gupta, S.P. (1997). *Statistical Method.* New Delhi: Sultan Chand & Publishers.

Johnson and Johnson (1940). *Commercial Bank Management.* New York: The Drxden Press.

Joshi, P.R. (2001). *Research Methodology*. Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd.

Kothari. C.R. (1984). *Quantitative Techniques*. New Delhi: Vikas Publishing I-louse Pvt. Ltd.

Neupane. Bishwambhar (2058). NPA in Nepalese Institutions. Kathmandu: *The Kathmandu Post.*

Pandey. I.M. (1999). *Financial Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Pyakuryal. Bishwambher (2001). Our Economy is in a Volatile Stage. Kathmandu: *Nepal News.com*

Ragmi. Yogendra (2062). Non-Performing Assets Management. Kathmandu: *Nepal Rastra Bank Samachar*.

Rashawami, M. & Vasudevan, S.V. (1984). *A Text Book of Banking (Lae. Practice & Theroy of Banking)*. New Delhi: S. Chand and Co. Pvt. Ltd.

Sapkota, Narayan (2004). Portion of NPA in Commercial Banks- High in public, Low in Private, *Rajdhani.*

Shekher. K. C. and Shekher Lekshmy (1998). *Banking Theory and Practice.* New Delhi: Vikas Publishing House Pvt. Ltd.

Shrestha Sunity & Silwal. Dhruba P. (2002). *Statistical Methods in Management*. Kathmandu: Taleju Prakashan.

Sthapit. Dr. A. B., H. Gautarn. Joshi. P. R. & Dangol. P. M. (2003). *Statistical Methods*. Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd.

Timilsina, Yogendra (1997). *Banking Business in Nepal*. Kathmadu: Ratna Pustak Bhandar.

Vaidya, Shakespeare (1998). *Project Failures and Sickness in Nepal, Challenges to investors for investment Risk Management.* Kathmandu: Monitor Nepal.

Weston, J. Fred & Copeland. Thomas E. (1990). *Managerial Finance*. New York: The Dryden Press.

Wild, John J, Subramanyam, K. R. & Haskey, Robert F. (2003). *Financial statement Analysis.* USA: Mc Graw Hill International.

Wolff, Howard & Pant, Prem R. (2002). *A Hand Book for Social Science Research and Thesis Writing.* Kathmandu: Buddha Academic Publisher and Distributor Pvt. Ltd.

Previous Research

Khadka. Anju (2002). *A Comparative Study on Investment Policy of Commercial Banks.* Kathmandu: An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Bhattrai, Shama (2004). *Implementation of Directives Issued by Nepal Rastra Bank: A Comparative Study of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited.* Kathmandu: An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Limbu Ram (2008). *Credit Management of NABIL Bank Limited.* Kathmandu: An Unpublished MBS Thesis, submitted to Shanker Dev Campus.

Khadka, Denesh Kumar (2004). *Non-Performing Assets of Nepalese Commercial Banks.* Kathmandu: An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Ojha. Lila P. (2002). *Lending Practices: A Study on Nabil Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited.* Kathmandu: An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Pandev, Santosh (2002). *NRB Directives. Their Implementation and Impact on Commercial Banks: A Case Study of Himalayan Bank Limited*. Kathmandu: An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Pant P.R. (1998). *Fieldwork Assignment and Report Writing*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Pradhan, Kumar (2006). *A study on non-performing Assets of Commercial Bank in Nepal.* Kathmandu:An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Shilpakar, Anjana (2003). *A Study on Lending Practices of Finance Companies of Nepal.* Kathmandu: An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Shrestha, Niva (2004). *A Study on Non-Performing loan and Loan Loss Provisioning of Commercial Banks*. Kathmandu: An Unpublished Master Degree Thesis submitted to Faculty of Management, T.U.

Shrestha, S. (2008) *"A study on the credit risk management of Nepalese Commercial Banks With Reference to Kumari Bank and Machhapuchre Bank*. Kathmandu: Unpublished MBS Thesis, submitted to Shanker Dev Campus.

<u>Annual Reports</u>

Annual Reports, (2003/04 — 2007/08). Nabil Bank Limited.

Annual Reports, (2003/04 — 2007/08). Machhapucre Bank Limited.

NRB (2062). *Annual Samachar*.

NRB (Mid- July 2006). *Banking and Financial Statistics.*

NRB (Mid-July 2005). *Banking and Financial Statistics.*

<u>Websites</u>

www.nrb.org.np

www.nepalstock.com

www.nabilbank.com

www.machbank.com