CHAPTER – I

INTRODUCTION

1.1 Background of the Study

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

Any institution offering deposits subjects to withdrawal on demand and making loans of a commercial or business nature is a bank. Banks constitute an important segment of financial infrastructure of any country. Bank came into existence mainly with the objective of collecting the idle fund, and mobilizing them to productive sector resulting 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 not only the dealer of money but as the lender of the economic development. Banks are not just the storehouse of the country's wealth but also are to mobilize the resources necessary for the economic development. (Shrestha, 2004; P.2).

It cannot be denied that the issue of development rests upon the mobilization of resources and banks deals 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 that 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 free 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 (NPA/NPL). 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 time as the banks are forced to make provision on such assets.

Performing assets are those that repay principal 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 very risky assets, so bank should grant loans considering various aspects.

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 must for sustainable economic growth of a country. The regulatory agency should always act as a watchman for banking activities carried out by governmental and non-governmental banking and financial institution.

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 principal 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. NPAs 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 ovE. 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.

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. Then the Bank of Barcelona and the Bank of Geneva were established in 1401 and 1407 respectively. Subsequently Bank of Amsterdam was 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. 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. 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 increased the necessity of the institutional banker, which acted 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

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 A.D.

(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

1.2 Commercial Bank in Nepal

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.

According to Commercial Bank Act 1975 A.D. (2031 B.S.), "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."

The main function of commercial bank is the accumulation of temporarily idle money of general public for trade and commerce. Its main function is to accept deposits and grant loan to the public. 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.

List of Licensed Commercial Bank in Nepal

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. NABIL Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commerce Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Development Credit Bank Ltd.
25. NMB Bank Ltd.
26. KIST Bank Ltd.

1.2.1 Brief Profile of RBB

Rastriya Banijya Bank (RBB) is fully government owned, and the largest commercial bank in Nepal. RBB was established on January 23, 1966 (2022 Magh 10 BS) under the RBB Act. RBB provides various banking services to a wide range of customers including banks, insurance companies, industrial trading houses, airlines, hotels, and many other sectors.

RBB has Nepal's most extensive banking network with over 124 branches, through which it has been contributing to Nepal's economic development by providing banking services throughout the country.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and interbank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks.

In addition RBB runs various programmes i.e. Banking with the Poor, Micro Credit project for Women etc. to enhance the living standerd of people as per the govt. directives. As well, RBB actively delivers various government programs to people living in remote parts of the country; these programs are intended to raise living standards.

Products and Services

RBB's major commercial banking products and services include:

Deposits:

- Current deposit
- Saving deposit
- Fixed deposit
- Call deposit

Remittances:

- Fax Trasfer
- Draft
- SWIFT and Telegraphic Transfer
- Mail Transfer

Major Lending Products:

- Fixed/Working Capital
- Hire Purchase
- Overdraft
- Construction
- Consumer Loan
- Securities
- Consortium
- Trade Finance
- Trust Receipt
- Interbank Lending

Capital Structure & Shareholding of RBB

Capital Structure

Capital	Amount (in NRs)
Authorised Capital	Rs. 1.56 Billion
Issued Capital	Rs. 1.17 Billion
Paid-Up Capital	Rs. 1.17 Billion

Shareholding

Government	100%

1.2.2 Brief Profile of NABIL Bank Ltd.

NABIL Bank Ltd. commenced its operations on 12th July 1984 as the first joint venture bank in Nepal. Dubai Bank Ltd., Dubai was the first joint venture partner of NABIL. C urrently NB(International) Ltd.,Ireland is the foreign partnE. NABIL Bank Ltd. had the official name Nepal Arab Bank Ltd.till 31st December 2001.NABIL is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 19 branches across the kingdom and over 170 reputed correspondent banks across the globe .

Success of NABIL is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. NABIL has established itself as the bank of the first choice having following values-customer focused, result oriented ,innovative, synergistic and professional, NABIL a large clientele base and supportive stakeholders and it has succeeded in positioning itself robustly in the market.

Products and Services of NABIL Bank Ltd.

Deposits:

Current Deposit

Call Deposit

Fixed Deposit

Nabil Lok Bachat

Nabil Bal Bachat

Nabil Nari Bachat

Nabil Jestha Nagarik Bachat

Nabil Student Saving

Remittances:

Western Union

SWIFT Transfer

E-Remittance (Qatar ,Doha)

Traveler's Cheque

Bank Draft

Mail Transfer

Anywhere Branch Banking

Manager's Check

Major Lending Products:

Fixed/Working Capital

Hire Purchase

Mortgage Loan

Housing Finance

Auto Finance

Project Finance

Consortium/Syndication Loan

Capital Structure and Shareholding of NABIL Bank Ltd.

Capital Structure

Capital	Amount (in NRs)
Authorized Capital	1600 Million
Issued Capital	965.75 Million
Paid-up Capital	965.75 Million

Shareholding

N.B.(Internationals) Ltd.,Ireland	50.00%
Nepalese Public	30.00%
Nepal Industrial Development Corporation	10.00%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange Ltd.	0.33%
Total	**100%**

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. Awareness of its strengths and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, instatement and mortgage profits.

Increasing non-performing assets is one of the emerging problems of Nepalese commercial banks. This study is 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 findings and recommendation are stated.

1.4 Statement of the Problem

Financial institution assists in the economic development of the country. Commercial bank being the financial institution plays significant role by collecting scattered surplus funds and deploying 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 mannE. 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 scarce and out of these scarce resources, the objectives of the organizations are to be accomplished. Increase in revenue and control over expenditure significantly contributes to improve the profitability of the organization.The profitability as well as the overall financial performance of an organization highly depends upon the best utilization of resources. Commercial bank's investment has been found to have lower productivity 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 proper implementation. The rules and regulations are only the tools of NRB to supervise and monitor the financial institution. NRB need to monitor the concerned authorities in order to ensure that they are being followed.

Currently, the banking sector is facing various problems. One of them is the bank has become 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.

1.5 Objectives of the Study

Each and every of the research study posses a certain objective. Research without any specific objectives will be worthless. This research study entitled "Non-Performing Assets of Commercial Bank of Nepal with Reference to Rastriya Banijya Bank and NABIL Bank Limited" 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 on the performance of 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.

1.6 Research Questions

The success and prosperity of the bank heavily depends upon the successful implementation and investment of collected resources. 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 challenge faced by commercial banks in the present context. Proper loan provision and loan loss provision helps to improve financial strength of the bank. The major research question on the basis of which the researcher makes their efforts are;

- Try to find out and analyze the level of NPAs in total assets, total deposits and total lending of these selected banks.
- What are the present issues, latest information and data regarding non-performing loan and loan loss provision?

- Does Nepalese commercial banks maintain non-performing assets, loan and advances, loan loss provision in accordance to NRB's directives or not?
- What is the real picture of the current non-performing assets to its stakeholders?
- What about the non-performing assets of selected Nepalese commercial banks?
- What are the factor on which the profitable and performance of banks depends upon?

1.7 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 audited balance sheet and profit and loss account have been used.
- The researcher was handicapped by the time factor as well as economic factor. It means that the study report has been completed under allotted time and cost.
- Up-to-date data and information related to the study have not been available from the concerned source.
- Some approximate data have been used because of certain circumstances
- The ratio computation and selection process cannot be said to be perfect

- Only Nepalese commercial banks have been considered for the study and two banks have been selected as samples for the study. Hence, the findings may not be applicable to other banks (i.e. development banks, agriculture banks, finance companies and other companies of Nepal).
- The period of the study is limited from fiscal year mid July2004/5 to mid January 2008/9 (i.e. five years).
- 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 followed to draw the sample.

1.8 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, origin of bank in Nepal, introduction of commercial bank, brief introduction of sample bank (RBB and NABIL Bank Ltd), focus of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study. It is oriented for readers reporting giving them the perspective they need to understand the detailed information about coming chapters.

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 present the findings of the study. Data processing, data analysis and interpretation are given in this chapter.

Chapter – V: Summary, Conclusions and Recommendations

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

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Concept of Performing Loan

Performing loans are those loans that repay principal and interest timely to the bank from the cash flow it generates. In other words, performing loan are the productive assets that generate the some profits. Loans have certain time period to return its principal 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 in rapid growth of banking sector in this fast pace of competitive age. Better performing loan are the symbol of success of banks. But many banks are suffering from the non repayment of loan amount.

2.1.2 Concept of Non-Performing Assets/Loan (NPAs/NPL)

One of the most emerging problem of the commercial banks is the management of non-performing assets/loan. Due to the effects of non-performing assets/loan, many banks have already been closed down. In this fast pace of competitive age, the banks should have to operate taking in consideration this thing. Those loans, which don't repay principal 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 still exist certain advance/credit facilities having performing status.

NPAs have a different meaning that varies from country to country. In our country, banks usually classify non-performing assets as any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. In some countries, it means that the loan is impaired and the payment are due. But there are significant difference among countries, how many days a payment should be in arrears before past due status is triggered (Shrestha, 2004; P.14). According to current banking act, the banks have to make provision for good loan, sub-standard loan, doubtful and bad loan. After deducting the bad and doubtful debts from the non-performing assets, net non-performing assets can be achieved.

NPA= (NPL+NBA+RNPL+SI+UA)

Where;

NPA = Non-Performing Assets

NPL = Non-Performing Loan

NBA = Non- Banking Assets

RNPL= Remaining Non-Performing Loan

SI = Suspend Interest

UA= Unutilized Assets

(Regmi, 2063; P.75) Non-Performing loan (NPL) can be defined as the non-productive assets of the banks. In other words, it is the loan or bad and doubtful debts that doesn't repay timely. Generally the loan, which doesn't repay within three months, is known as non-performing loan. The loan amount that cannot be covered after selling the collateral is known as non-banking assets (NBA). Non–performing assets also includes the suspend interest. It is the interest, which become receivable of unutilized assets and those investments which don't generate any cash or incomes to the bank. 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 down 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 also face this type of problem for which they have to take step forward towards it.

2.1.3 Causes of Occurring NPA

There are various causes responsible for increase in the NPAs. They are as follows;

- Lack of transparent and clear policy to mobilize the assets productively.
- Lack of effective forecasting or deviation between expectation and actual outcomes of the business.
- Wrong choice 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 training and seminars to build the smart human resources.
- Loss from the operation of the business/project by the customer of the bank.
- Depression in the economy of the country due to insecurity and instability of the business environment.
- Lack of proper policy and act to return the expired loan.

2.1.4 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.

A. Internal Effect

In the one hand, the bank for increasing the profitability can't mobilize the non-performing assets. And on the other hand, the banks have to make provision for doubtful debts from their profits and other sources. That's why the profit of the banks decreases. As a result, share capital results into capital erosion and capital inadequacy. In the present context, capital adequacy ratio of Nepal, India, UAE, and Indonesia are 11%, 12.6%, 12.7% and 21.4% respectively. The central bank of the country can take action upon such banks and their banking activities which have lower capital or capital adequacy ratio. For example, Nepal Development Bank Ltd. is suffering the same problem (-48.31%) due to which it is restricted from taking deposit as per 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 amount earned is treated as profit. If the provision for doubtful debts crosses 5% of the total loan amount, the bank have to pay income tax out of 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 been affected.

B. 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 bank is unable to return the deposited amount the banks are loses public support and faith. 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 to dissolution and bankruptcy. It also affects the monetary system and economy of the country.

Apart from these effects there are various other effects which cannot be sub divided. They are;

i) 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. Not only it reduces the profitability of the banks, but also it may result in losing customer's faith and support.

ii) High Cost of Fund Due to NPAs

Quite often genuine borrowers face the difficulties in raising funds from banks due to mounting NPAs. Either the bank is reluctant in providing the requisite funds to the genuine borrowers or if the funds are provided, they 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.

2.1.5 Loan Loss Provision

There is associated risk in every loan. To minimize the risk from possible losses of loans, bank has to allocate some funds as loan loss provision. Loan loss provision is the accumulated fund that is provided as a safeguard to cover possible losses upon classification of risk inherited by individual loans. The level of provisioning in depends upon the level of NPAs and their quality. Increased portion of NPAs generate additional liability of resources to the financial institutions. In other words higher the NPA, higher the provision, as downgraded loans need more provision. 1% provision of total credit is minimum requirement as every pass/good loan has to provisioned by 1%.

However, the ratio of provision may differ from nation to nation. In Nepal, NRB has prescribed:

Pass 1%

Substandard 25%

Doubtful 50%

Loss loan 100%

(Loans Classification – NRB Directive No. 2)

2.2 Highlight on Performance of Nepalese Commercial Bank

During the last two and half decades the Nepalese Financial System has grown significantly. At the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector, liberalization paved the way for establishment of new banks and non-banking financial institutions into the country. Consequently, by the end of mid–January 2009, altogether 235 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 25 are “A” class commercial banks, 59 “B” class development banks, 78 “C” class finance companies, 12 “D” class micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs (Source: Nepal Rastra Bank, Banking and Financial Statistics, Volume 52, Table No. 6).

The number of commercial bank branches operating in the country increased to 617 in mid Jan 2009 from 555 in mid July 2008. Among the total bank branches, 48.95 % bank branches are concentrated in the central region alone. By the end of mid-Jan 2009, total 302 branches are being operating in this (central) region. However, in the western, eastern, mid-western and far-western region are 19.45% (120), 19.29% (119), 7.78% (48) and 4.54% (28) respectively

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

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

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

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

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

The total investment of commercial banks in mid-Jan 2009 increased by 15.65% and reached to Rs. 126002.1 million from Rs. 108954.8 million in mid-July 2008. Similarly liquid fund increased by 13.25% and amounted to Rs. 75735.9 million. In the mid-Jan 2009, total deposit of commercial bank increased by 12.62% compared to 26.25% growth in the mid-July 2008. As of mid Jan 2009, it reached to Rs. 479864.2 million from Rs 426080.3 in the mid-July 2008. Among the component of deposit, current deposit increased with rate of 8.71% compared to 24.56% in last year. Similarly, saving deposit and fixed deposit increased by 14.15% and 11.3% respectively .

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

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

2.2.1 Non-Performing Assets in Nepalese Banking Sector

With marginal improvement, the level of non-performing loans and advances still remained at a significantly higher level. The aggregate non-performing loan, which was Rs.27877.84 in mid-July 2005, in mid-July 2006 it reached to Rs.25580.50, so on Rs.24215.85,Rs.18548.20, in mid-July 2007,2008 and Rs.18548.20 million in mid-January 2009. The aggregate non-performing loan as % of total loan was 18.79%, 13.16%, 10.56%, 6.08%, and 5.38% in mid-July 2005, 2006, 2007, 2008 and in mid-January 2009(going on decreasing trend). (Source: Nepal Rastra Bank, Banking and Financial Statistics, Volume 52, Table No. 6).

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

The NPA levels at the state run RBB stands at 52%, while the figure at the NBL reads 62%, which together accounts for 37% of the total deposits of some Rs.200 billion of the banking system. "In order to address this deplorable situation and to make domestic financial players competent enough to utilize the opportunities of the globalization, various financial reform measure are underway," he added. "The financial sector reform measures undertaken can be broadly grouped under three heads- re-engineering of NRB, restructuring of RBB and NBL, and capacity building of the financial sector. Management of both the banks have 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)

2.2.2 Problem in Nepalese Financial Sector and NPLs

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

Nevertheless, some sort of financial problems especially, in the banking sector have been noticed for the last few years.

In broader terms, the large intermediation cost and inefficiencies in the financial system have remained major drawbacks of the Nepalese financial structure. The challenges and complexities faced by the Nepalese financial system are as follows;

- 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.

In this regard,

Paudel (2005) 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 above analysis, 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 to 29.3% in 2001 and 30.1% in 2002. However in the mid-Jan 2003, NPLs declined marginally to 29.9% of total loans. Similarly, both the state-owned banks comprised over 50.00% of non-performing loans at mid-Jan 2003, which seems to be alarming. The basic reasons for deteriorating assets quality are:

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

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

Dungana (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 specialized 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 or 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 in borrower's repayment capacity, economic slowdown, borrower's misconduct, improper credit appraisal system, lack of risk 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 which 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; P.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 it 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 experienced 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 Rajdhani on 19th May, 2004. In this article, Mr. Sapkota has stated that thOe problem of NPL is seen less in private banks in comparison to public banks. The NPA of two big nationalized banks being about 60% of the total loans, which shows they are in 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 consequence, the management of two big banks was handed to foreign company on a contract but the ratio of NPL was not reduced.

Even most of the privately owned banks has NPA within international standard, some privately owned bank's NPA is higher than international standard. As per international standard 5% NPA is acceptable. He also states that, Nepal's total NPA of banking sector is 30%, which is very high. (Sapkota, 2004; P.5).

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

In the article by Yogendra Regmi, (2063) 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 for failure of the banks.

He said, NPAs are caused by investment of assets in non-productive sectors, lack of future prediction, lack of proper supervision, monitor and 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 punish the bad loan takers. 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. (Regmi, 2063; P.75).

He concludes that it is like a cancer for banks. Thus, it is necessary to control this cancer on time; otherwise, it becomes a big issue for bankruptcy. NPA 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) “Non-Performing Loan and its Management” states in his article, one of the main function of commercial bank is to management of non-performing loan. Main function of commercial bank and financial institution is accepting deposit and providing loan. In underdeveloped country like Nepal, providing loan and generating interest income through loan is the main source of bank and financial institution. If provided loan, they become non-performing loan the bank and financial institution suffer from big financial scarcity. One side unrecovered 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 for any bank and financial institution.

The two commercial banks hold by government, Nepal Bank Ltd. and Rastriya Banijya Bank are accounting for the highest number and amount of non-performing assets (NPA) among the other commercial banks.

The main causes of loan becoming non-performing loan are as follows;

- Lack of proper analysis
- Lack of specific loan policy
- Lack of supervision
- Slump on aggregate economy
- Monopoly on corporate loan

- Weak in consortium loan
- Less responsibility of borrower
- Inadequate internal control and audit
- Inadequate supervision of Central bank

In this way, every banking system generates some level of non-performing loan. So it should be managed differently. Bank manages their loan and credit if non-performing loan are in acceptable level. But if bank's NPL are more than acceptable levels then it has adverse impact on aggregate financial position of bank. In this case bank should manage and treat its NPL differently. A single unit with expert should be assigned for proper and appropriate management of huge amount of non-performing loan. For better management of non-performing loan, Asset Management Company or Corporation (AMC) is required. Proper management of non-performing loan and recapitalization are the two important improvements required for every bank for banking system. (Adhikari, 2062; pp.39-43).

2.3 Case of Non-Performing Assets/Loans Abroad (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 of NPLs 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 mannE. 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. (Maximizing Value of Non-Performing Assets Proceedings from the Third Forum for Asian Insolvency Reform – November 2003).

2.4 Review of Related Studies

2.4.1 Review of Related Articles and Journals

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 Region. He has also given possible measure to control NPA. "Loan and advances of financial institution are mean to be serviced either part of principal 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." (Chhetri, 2057; P.17).

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 loan. The more time it has elapsed, the worst condition of assets is being perceived and such assets are treated accordingly.

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

Pyakuryal (2001) has stated in his articles entitled 'Our Economy is in a Volatile Stage' that the banks have not been 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; P.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 atleast 20 years to double our per capita income. It has been proved that macroeconomic stability alone can't ensure economic development in country like Nepal. At the same time, at present, the low-level inflation may not reflect future prospects for Nepalese economy.

Neupane (2058) said in his article titled “NPAs in Nepalese Financial Institutions” that thinking rationally no one shall be surprised to note two of the giant commercial banks of this country such as Nepal Bank Ltd. and Rastriya Banijya Bank accounting for the highest number and amount of non-performing assets (NPA) among players in the industry. In general and more specifically, in least developed countries like ours, the larger the size of the credit portfolio, the larger the amount of NPAs.

As per his view, "the concept and realization of NPAs in the Nepalese financial sector evolved round about a decade ago along with the notion of prudential accounting norms. I reckon that ten years time frame should have been more than enough to formulate and implement strategies for identifying and canalizing the ever accumulating NPAs at Nepalese financial institutions (FIs).

However, Nepal Rastra Bank (NRB) seems to have realized the panic only a year ago. As a result, NRB came up with a nineteen-point strategy, primarily pertaining to ways to tackle NPAs. Some of the measures 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 NRB, the FIs would have been much better off had it come up with all these philosophies some five years ago, better late than nevE. (Neupane, 2058; P.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, the size of the total pie has not changed much. Every player in the market has its primary motto in "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 deny 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 sizeable NPA, can manage to fool the general public in terms of the accounting profit it registers.

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

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

2.4.2 Review of Related Thesis

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 has impact on the bank and the results are as follows;

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

All the aforesaid results lead to one direction: the bank will be financially healthy and stronger in the future. HBL will be able to withstand tougher economic situation in the future with adequate capital and provision for losses. The tough time through which the bank is undergoing at present will prevail only for a couple of years but in the long run, it will be strong enough to attract more deposits and expose itself to more risk with capital cushion behind it. The quality of the assets of the banks will become better as banks will be careful creating credit. Ultimately, the changes in the directives will bring prosperity not only to the shareholders but also to the depositors, the employees and economy of the country as a whole." (Pandey, 2002; P.101).

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 that NBL is comparatively less successful 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. (Khadka, 2002; P.88).

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 need to work out a suitable mechanism through which the overdue loan can be realized.

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 made an attempt to analyze the various aspects of non-performing loan in the commercial banks. Her main objectives of the study is to find out the proportion of non-performing loan, factors lending to accumulation of non-performing loan, relationship between loan and loan loss provision and impact of loan loss provision on profitability of the commercial bank.

She concludes, "Increasing non-performing loan is the serious problem of the banking sector in Nepal. Non-performing assets directly affects the income flow of the bank. It has been found that NBL has very high portion of non-performing loan resulting to higher portion. Hence, even the bank has the highest investment in the most income generating assets i.e. loan and advances, it is in loss. Even the private sector bank like NABIL has higher non-performing loan and according higher provision. NABIL's average proportion on non-performing loan during the study period is higher than the acceptable. However, in recent two year NABIL's non-performing loan has shown significant decrement and accordingly 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."(Shrestha, 2004; P.99).

She also said that ineffective credit policy, political pressure to lend uncredit worthy borrowers, overvaluation of collateral are the major cause of mounting non-performing assets in government owed banks like NBL. Other factors 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 cautious and realistic while granting loans and advances. After advancing loans there should be regular supervision and follow up for proper utilization of loan. It is 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 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 the banks to monitor the quality of their loan and advances and 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 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). (Khadka, 2004; pp.79-82).

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

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 affect 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 principal and interest amount.

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

Lumbini bank has the highest proportion of loan and advances to total assets of bank but the SCBNL has the lowest proportion of loan and advances during the study period. It indicates the risk averse attitude of the management of SCBNL, NBBL and NCC have moderate ratio. Same thing can be known on the basis of loan and advances to total deposit ratio. Lumbini bank has the highest proportion among where as SCBNL show the lowest ratio. From this ratio Lumbini, NCC, NBBL are the higher loan providE. 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 and secondly Lumbini has higher 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 year, 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:

a. 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 wholeseller 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 directors. This clarifies that concentration risk is the main source of credit risk for KBL and MBL.

b. 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.

c. 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.

d. 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 6^{th} 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.

2.5 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 researches conducted on investment policy, non-performing loan, credit policy, financial performance etc. The past researches in measuring investment policy of bank have focused on limited ratios, which are incapable of solving the problems. The ratios are not categorized according to nature. In this research, various ratios are systematically analyzed and generalized. All the ratios are categorized according to their area and nature.

In this study of “Non-Performing Assets of Commercial Bank of Nepal with reference to Rastriya Banijya Bank and NABIL Bank Ltd.” 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 used correlation, probable error and trend analysis. This study tries to define non-performing assets of commercial Bank by applying and analyzing various financial tools as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the non-performing assets of commercial bank and financial institutions.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is divided into following five parts;

3.2 Research Design

This research is aimed at studying the non-performing assets of commercial banks. This study follows analytical and descriptive research design. And it also analyzes the composition and trend of non-performing assets, loans recovery and profitability condition of commercial banks. This study also follows the historical research design because research must be based on past phenomenon. Past knowledge and data cannot be avoided.

3.3 Population and Sample

For purpose of study, the judgment sampling had been used to analyse about total member number.

Total numbers of 26 commercial banks were taken as population.

One public and one private bank were taken as sample bank. They are

Rastriya Banijya Bank (Public)

Nabil Bank Limited (Private)

3.4 Nature and Sources of Data

The main task of the researcher is to collect information and data from different sources. To achieve the desired objectives of the research study, it is necessary to identify the sources of data. Making study more reliable and justifiable, secondary data has been used in this study. Published articles, books, newspaper, websites and annual reports of concerned banks are the secondary sources of data. In this study, secondary data were taken from annual reports of related banks, annual reports of Nepal Rastra Bank Samachar, Bank Supervision Report, news papers and magazines, different websites, libraries, unpublished thesis and journals.

3.5 Data Processing Procedures

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

3.6 Financial and Statistical Tools and Techniques

3.6.1 Financial Tools

To assess the company's financial position and performance, ratio analysis as the financial tool has been used.

3.6.1.1 Ratio Analysis

Ratio shows the financial growth of the organization and financial performance of the organization.To make analysis, we can use various ratios. But only those ratios have been calculated which are related to the subject matter.

i. Loans & Advances to Total Assets Ratio

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

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

ii. Loans and Advances to Total Deposit Ratio

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

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

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

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

$$\text{NPA to Total Loans and Advances Ratio} = \frac{\text{Total Non - Performing Loans}}{\text{Total Loans \& Advances}}$$

iv. Provision Held to Non-Performing Assets Ratio

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

$$\Pr ovisionheldtoNPA \ \mathrm{X} \frac{Total \ \Pr ovision}{Nonperfor \min g \quad Assets}$$

v. Non-Performing Assets to Total Assets Ratio

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

$$\text{NPA to Total Assets} = \frac{\text{Total Non - Performing Assets}}{\text{Total Assets}}$$

vi. Return on Loans and Advances

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

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

3.6.2 Statistical Tools

It is the mathematical technique used to facilitate the analysis and interpretation of the performances of the organization. It helps to compare the performance, analyse strength and 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:

3.6.2.1 Arithmetic Mean (Average)

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

3.6.2.2 Standard Deviation

The standard deviation is the absolute measure of dispersion. 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. Higher the standard deviation higher will be the variability and vice versa.

3.6.2.3 Correlation Coefficient (r)

Correlation is 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 into three types namely, 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.

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.

3.6.2.4 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.

$$\text{c. v.} \quad = \quad \frac{\pm}{x} * 100$$

σ = Standard deviation

x = Sum of the observation

3.6.2.5 Probable Error (P.E.)

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. 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.

3.6.2.6 Times Series Analysis (Trend Analysis)

Time series is used to measure the change in 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,

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

3.6.2.7 Diagrammatic and Graphical Representation

Picture speaks 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

4.1 Introduction

After acquiring the relevant data from different sources, they have to be processed and analyzed in order to achieve the objectives of the study. In other words, once the data are collected from the different sources, they are classified according to some criteria. The main objectives of data presentation and analysis are to keep them in understandable form or change it from an unprocessed form to an understandable presentation. Therefore, data presentation and analysis is an important aspect of the study report.

Classification of data converts mass data into manageable form. Then they are presented in tabular form. After data collection is completed, the collected data will be in the raw form. Therefore, here it is researcher's responsibility to process them into manageable form so that it can later be presented to the readers of the study report. Different types of data need different types of method and techniques, which can be used to present the data. Of the various methods and techniques, charts, graphs, and tables are commonly used in the presentation of data. Therefore, applying various statistical tools and techniques makes the analysis of data. Such analysis arrange simple one like percentage, average, variation to complicate one like demanding, sophisticated techniques. On the other hand, if the researcher has formulated hypothesis then based on analysis, the hypothesis will be tested. Then hypothesis compared with our conclusion and this hypothesis is either accepted or rejected. Hypothesis helps us to formulate a theory, to understand relationship between variables or to reach meaningful conclusion. If researcher has no hypothesis to test then the research finding will be interpreted.

In conclusion, it can be said that data presentation and analysis is the backbone of the thesis. Presentation of data generally consists of tabulating, placing, and keeping them in presentable form by using figures and tables. Similarly, the analysis of data consists of organizing, tabulating, and performing statistical analysis.

4.2 Ratio Analysis

4.2.1 Loans and Advances to Total Assets Ratio

The loans and advances to total assets ratio measure the amount of loans and advances in total assets. It means that it shows the proportion of loans and advances to total assets. High degree of loans and advances indicates the good position of the organization that of good mobilization of deposits of funds. In inverse, low degree of loan and indicates that funds are not used properly. Loan is the risky assets. Thus, higher loans and advances to total assets ratio shows high risk and inversely low loans and advances to total assets ratio shows low risk.

The following table shows loan & advances to total assets of RBB and NABIL;

Table: 4.2.1

Ratio of Loans and Advances to Total Assets

(Rs. in Millions)

Year	RBB			NABIL		
	Loans and Advances	Total Assets	Ratio	Loans and Advances	Total Assets	Ratio
2004/05	28919.8	77594.1	37.27061722	11222.7	18614.9	60.28880091
2005/06	27164.7	81087.1	33.50064314	13239.4	24134.6	54.85651306
2006/07	25422.3	72041.3	35.28850812	15878.3	29660.4	53.53366779
2007/08	27491.2	84686.2	32.46243190	21769.7	38478.6	56.57612283
2008/09	28209.9	86517.7	32.60592919	25440.4	42464.1	59.91037135
Total	137207.9	401926.4	171.1281296	87550.5	153352.6	285.1654759
Mean	27441.58	80385.28	34.22562591	17510.1	30670.52	57.03309519
S.D			2.040806294			3.002942869
C.V			0.05962802			0.052652637

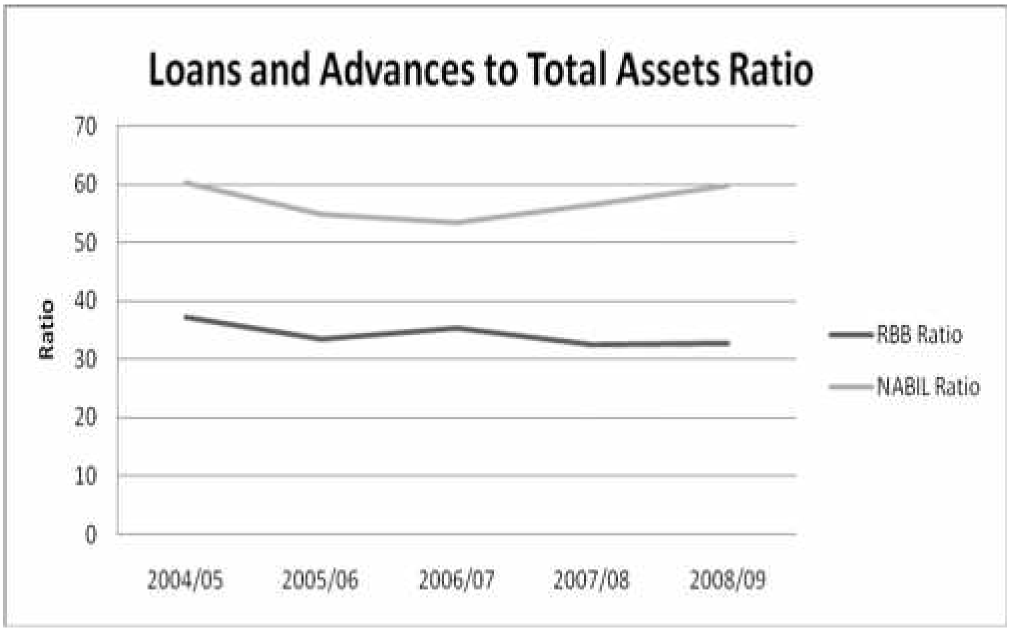
(Source: Nepal Rastra Bank, Banking and Financial Statistics, 2009, Volume 52)

Table 4.2.1 shows the loans and advances to total assets ratio of RBB and NABIL banks for last five consecutive years. The loan & advances to total assets ratio of RBB and NABIL are in fluctuating trend during the study period. While observing their ratios NABIL is better mobilizing fund as loans and advances and it seems quite successful in generating higher ratio in each year in comparison of RBB.

The highest ratio of RBB is 37.27% in the year 2004/05 and the lowest ratio is 32.46% year 2007/08, whereas the highest ratio is 68.29% in the year 2004/05 and the lowest ratio is 53.53% year 2006/07 for NABIL. The mean of RBB and NABIL are 34.22% and 57.03% respectively. So NABIL has higher ratio than that of RBB. It reveals that in total assets, NABIL has high proportion of loans and advances. NABIL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of RBB states that it has less uniformity in these ratios throughout the study period than that of NABIL. S.D. and C.V. of RBB and NABIL are 2.04, 3.00, 0.0596, and 0.0526 respectively.

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

Figure: 4.2.1



4.2.2 Loans and Advances to Total Deposit Ratio

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

Table: 4.2.2

Ratio of Loans and Advances to Total Deposit

(Rs in Millions)

Year	RBB			NABIL		
	Loans and Advances	Total Deposit	Ratio	Loans and Advances	Total Deposit	Ratio
2004/05	28919.8	43489.2	66.4988089	11222.7	14586.8	76.93736803
2005/06	27164.7	45700.7	59.44044621	13239.4	19348.4	68.42632983
2006/07	25422.3	50192.6	50.64949813	15878.3	23342.4	68.02342518
2007/08	27491.2	57990.8	47.40614028	21769.7	31915	68.2114993
2008/09	28209.9	61944.3	45.54075193	25440.4	33848.5	75.15960825
Total	137207.9	259317.6	269.5356455	87550.5	123041.1	356.7582306
Mean	27441.58	51863.52	53.90712909	17510.1	24608.22	71.35164612
S.D			8.832316802			4.335778967
			0.163843205			0.060766348

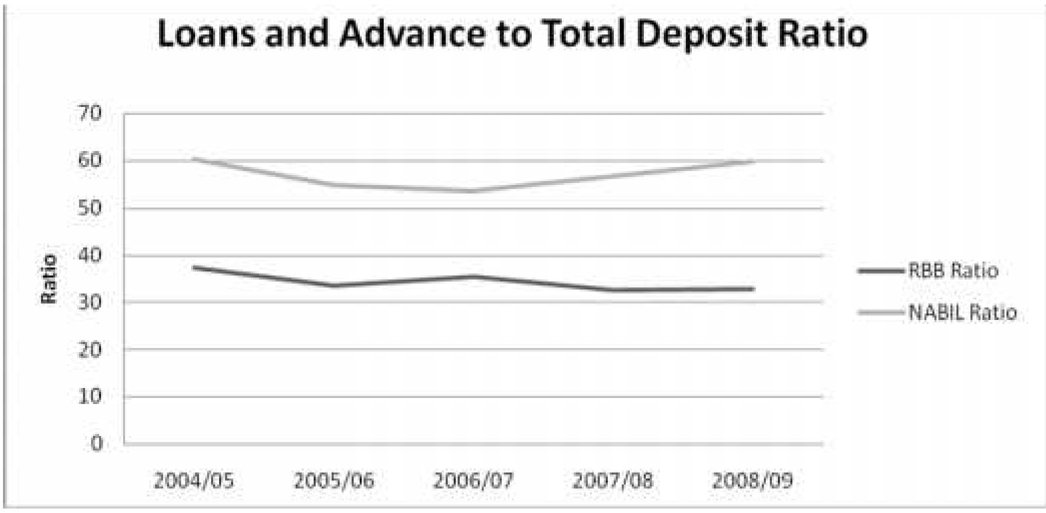
(Source: Nepal Rastra Bank, Banking and Financial Statistics, 2009, Volume 52)

Table 4.2.2 shows that the loan & advances to total deposit ratio of RBB and NABIL in fluctuating trends. NABIL has higher ratio than that of RBB in each year and mean too. It indicates the better mobilization of deposit by NABIL. The mean of RBB and NABIL are 53.91% and 71.35% respectively. The highest ratio of RBB is 66.50% in fiscal year 2004/05 and lowest ratio is 45.54% in 2008/09. Similarly highest ratio of NABIL is 76.94% in 2004/05 and lowest ratio is 68.023% in fiscal year 2006/07. So NABIL has higher ratio than that of RBB. It reveals that the deposit of NABIL is quickly converted in to loans and advances to earn income. . NABIL has the greater ratio mean, which signifies that the NABIL lend higher amount in the form of loans and advances to earn better returns. The RBB has the lower mean ratio among them. It provides lower amount in the form of loan. Thus, it can be said that the management of RBB is risk averse as compared to NABIL. The bank will be able to better mobilize the collected deposit if there is above 70% to 90% of loans and advances to total deposit according to NRB. So, in all of the year the NABIL has met the NRB requirement or it has utilized its deposit to provide loan. But RBB has not met the NRB requirement or it has not utilized its deposit to provide loan properly.

The S.D. and C.V of RBB is 8.83, 0.0164 similarly NABIL has 4.33, 0.060. Thus, it signifies that RBB has higher deviation. The higher C.V. of NABIL shows the more inconsistency in the ratios with compared to RBB.

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

Figure: 4.2.2



4.2.3 Non- Performing Assets to Total Loans and Advances

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

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

Table: 4.2.3

Ratio of Non- Performing Assets to Total Loans and Advances

(Rs in Millions)

Year	RBB			NABIL		
	Nonperforming Assets	Loans and Advances	Ratio in %	Nonperforming Assets	Loans and Advances	Ratio in %
2004/05	13689.3	28919.8	47.33538959	144.51	11222.7	1.28765805
2005/06	8045.5	27164.7	29.61748151	182.6	13239.4	1.379216581
2006/07	6876.5	25422.3	27.04908683	178.3	15878.3	1.122916181
2007/08	5951.8	27491.2	21.64983704	171.4	21769.7	0.787332853
2008/09	5281.8	28209.9	18.72321419	207.4	25440.4	0.815238754
Total	39844.9	137207.9	144.3750092	884.21	87550.5	5.392362419
Mean	7968.98	27441.58	28.87500183	176.842	17510.1	1.078472484
S.D			11.17959029			0.269367378
C.V			0.387171934			0.249767501

(Source: Nepal Rastra Bank, Banking and Financial Statistics, 2009, Volume 52)

Table 4.2.3 shows that the RBB has the highest ratio throughout the study period and also shows the fluctuating trend of NPA. The highest ratio of RBB is 47.33% in year 2004/05 and lowest ratio is 18.72% in year 2008/09. The average mean ratio of RBB is 28.87%. The S.D is 11.17 and C.V. is 0.387.Similarly, NABIL shows the least ratio during the period. Mean ratio of

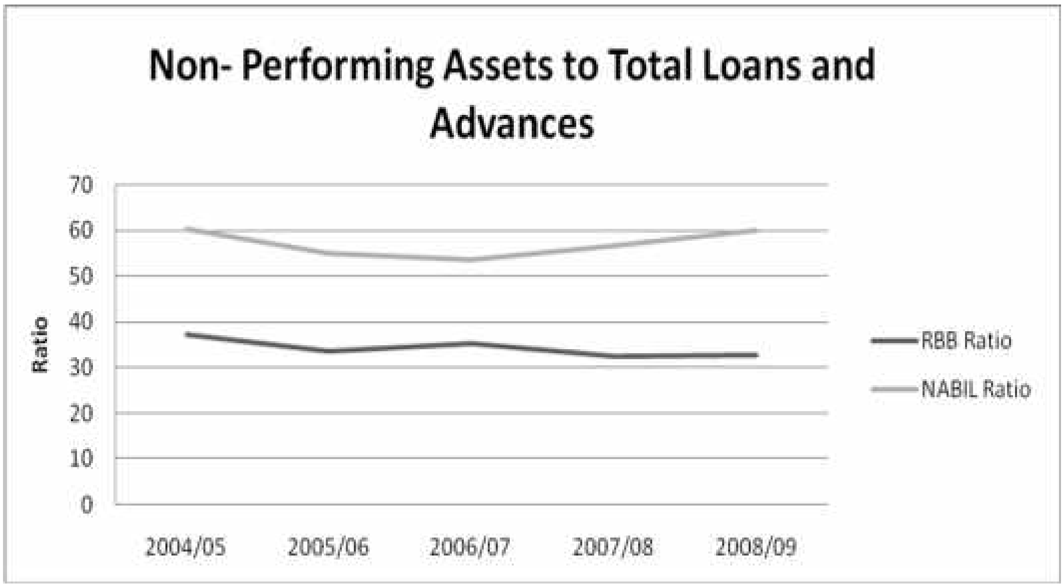
NABIL is 1.078 which is much lower than RBB. The highest ratio is 1.379 in 2005/06 and lowest ratio is 0.787 in 2007/08.

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

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

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

Figure: 4.2.3



4.2.4 Total Provision to Non-Performing Assets Ratio

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

Table: 4.2.4

Ratio of Provision Held to Non-Performing Assets

(Rs in Millions)

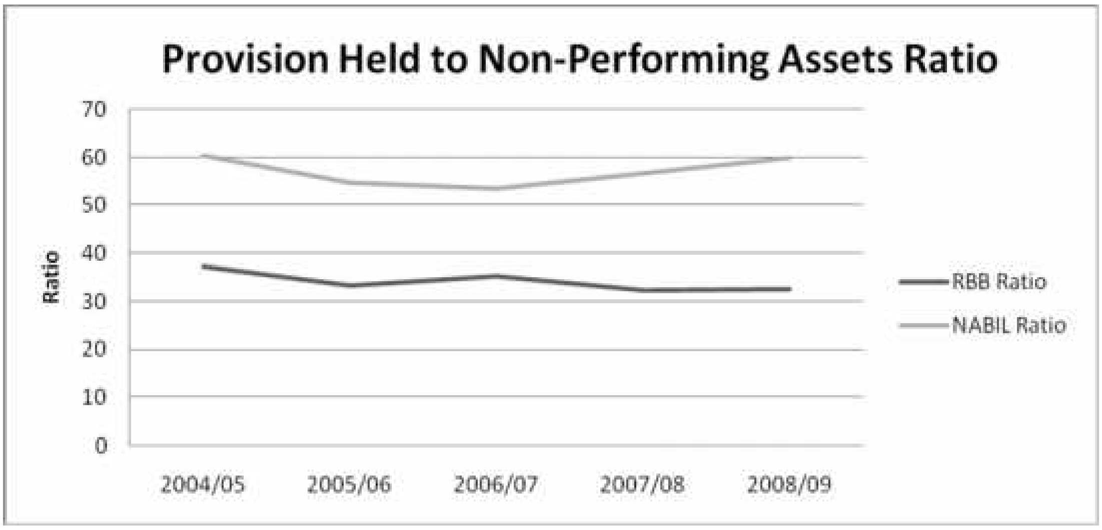
Year	RBB			NABIL		
	Total Provision	Nonperforming Assets	Ratio in %	Total Provision	Nonperforming Assets	Ratio
2004/05	15214.4	13689.3	111.140818	392	144.51	271.2615044
2005/06	13593.1	8045.5	168.9528308	352.9	182.6	193.263965
2006/07	8967.5	6876.5	130.407911	356.3	178.3	199.8317443
2007/08	7709.4	5951.8	129.5305622	404.6	171.4	236.0560093
2008/09	7407.3	5281.8	140.241963	462.4	207.4	222.9508197
Total	52891.7	39844.9	680.2740849	1968.2	884.21	1123.364043
Mean	10578.34	7968.98	136.054817	393.64	176.842	224.6728085
S.D			21.18355669			31.25157203
C.V			0.155698689			0.13909815

(Source: Nepal Rastra Bank, Banking and Financial Statistics, 2009, Volume 52)

Table 4.2.4 presents the ratio of provision held to total non-performing assets of RBB and NABIL for 5 consecutive years. Throughout the study period, RBB has the highest ratio than that of NABIL. The highest ratio is 168.95 in 2005/06 and lowest ratio is 111.14 in year 2004/05. The average mean ratio of

RBB is 136.05. The standard deviation is 21.18and C.V. is 0.155. Similarly, the mean ratio of NABIL is 224.67respectively.The highest provision i.e. ratio is 271.26 in 2005/05 and lowest ratio is 193.26in 2005/06. The S.D of NABIL 31.25 and coefficient of variation is 0.139 respectively. It indicates that NABIL bank has appropriate provision for non-performing assets. The ratio of RBB has significantly high in comparison with NABIL bank and it's portraying that the bank has adequate provision against non-performing loan. RBB has high ratio of NPL and so bank has to make high provision as well. It means that both the banks try to maintain the higher ratio for the safeguard of loan loss. The above provision held to non-performing assets ratio can be presented in a diagram also, which is as follows;

Figure: 4.2.4



4.2.5 Non-Performing Assets to Total Assets Ratio

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

Table 4.2.5 presented below exhibits the non-performing assets to total assets ratio of RBB and NABIL for five consecutive periods. RBB has the approximately highest ratio than that of NABIL. The ratio of NABIL continuously decreases which indicates that bank has properly utilized and invested the assets. The S.D. of NABIL is 0.1508 and coefficient of variation is 0.2458 respectively. The NABIL has the lowest and decreased ratio all over the period which indicates the greater profitability and the better performance to recover the loan and its interest during the study period.

The average mean ratio of RBB is 10.048. The highest ratio is 17.64 in 2004/05 and lowest ratio is 6.10 in year 2008/09. The S.D. of RBB is 4.544 and coefficient of variation is 0.4522. RBB has the highest ratio, which shows the bad performance and lower profitability on its assets.

Table 4.2.5

Ratio of Non-Performing Assets to Total Assets

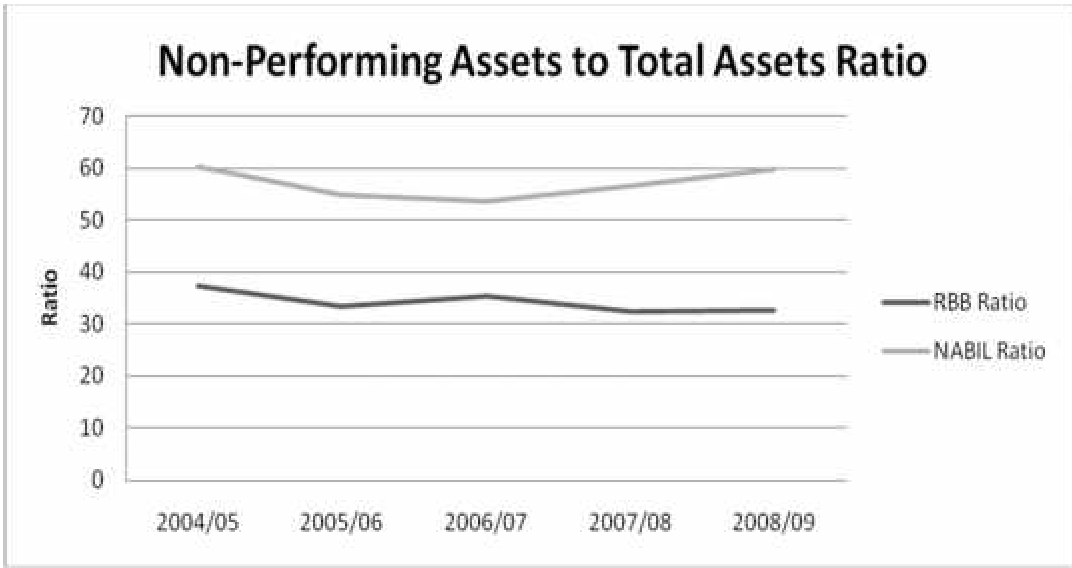
(Rs in Millions)

Year	RBB			NABIL		
	Nonperforming Assets	Total Assets	Ratio in %	Nonperforming Assets	Total Assets	Ratio in %
2004/05	13689.3	77594.1	17.64219187	144.51	18614.9	0.776313598
2005/06	8045.5	81087.1	9.922046787	182.6	24134.6	0.756590124
2006/07	6876.5	72041.3	9.545219201	178.3	29660.4	0.601138218
2007/08	5951.8	84686.2	7.028063604	171.4	38478.6	0.445442402
2008/09	5281.8	86517.7	6.104877961	207.4	42464.1	0.488412565
Total	39844.9	401926.4	50.24239942	884.21	153352.6	3.067896907
Mean	7968.98	80385.28	10.04847988	176.842	30670.52	0.613579381
S.D			4.544464461			0.150852624
C.V			0.452253924			0.245856735

(Source: Nepal Rastra Bank, Banking and Financial Statistics, 2009, Volume 52)

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

Figure: 4.2.5



4.2.6 Return on Total Loans and Advances

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

Table 4.2.6 below represents that the NABIL has the highest ratio throughout the study period. The highest ratio is 7.288 in 2004/05 and lowest ratio is 2.647 in 2008/09 study period. The ratio is continuously decreasing. The average mean ratio of NABIL is 5.019. The S.D. of NABIL is 2.2012 and coefficient of variation is 0.4385. Lower S.D. and higher C.V. indicates low variability in ratio of NABIL.

Similarly, RBB shows the fluctuating trend in the whole study period. The mean ratio of RBB is 5.2815. The highest ratio is 7.177 in 2005/06 and lowest ratio is 1.3430 in 2004/05. The S.D. of RBB is 2.515 and C.V is 0.476. Thus, it signifies lower return and high degree of variation.

Table: 4.2.6

Ratio of Return on Total Loans and Advances

(Rs in Millions)

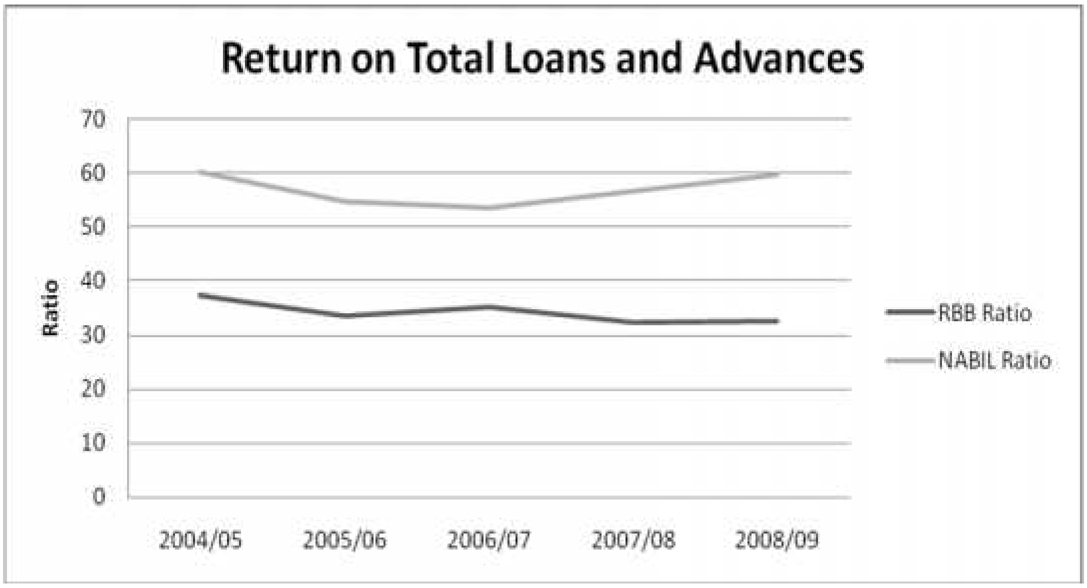
Year	RBB			NABIL		
	Net Profit	Loans and Advances	Ratio	Net profit	Loans and Advances	Ratio
2004/05	388.4	28919.8	1.343024502	817.9	11222.7	7.287907545
2005/06	1949.7	27164.7	7.177329402	979.1	13239.4	7.395350242
2006/07	1777.1	25422.3	6.990319523	685.6	15878.3	4.31784259
2007/08	1846.9	27491.2	6.718149808	750.4	21769.7	3.446992839
2008/09	1178.8	28209.9	4.178674862	673.5	25440.4	2.647364035
Total	7140.9	137207.9	26.4074981	3906.5	87550.5	25.09545725
Mean	1428.18	27441.58	5.281499619	781.3	17510.1	5.01909145
S.D			2.515253888			2.201276179
C.V			0.476238582			0.438580608

(Source: Nepal Rastra Bank, Banking and Financial Statistics, 2009, Volume 52)

The NABIL has the higher ratio over the period that indicates the greater profitability and the better performance to recover the loan and its interest during the study period. RBB has more flotation ratio, which shows the bad performance and lower profitability on its assets. RBB has the highest deviation which signifies the greater variability in this ratio. It can be concluded that RBB seems better than NABIL and RBB is continuously increasing its ratio i.e. return through loans and advances.

The above return on total loans and advances ratio can be presented in diagram as follows;

Figure: 4.2.6



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

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

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

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

The RBB has the approximately higher ratio than the NABIL. The average ratio of non-performing asset to total asset is 0.0892. The ratios of NABIL is continuously decreasing which indicates that bank have properly utilized and invested the assets. The S.D. of NABIL is 0.0486 and C.V. is 0.515. The average mean ratio of RBB is 0.549. The S.D. of RBB is 0.281 and C.V. is 0.511. RBB has the highest ratio, which shows the bad performances and lower profitability on its assets.

The ratio of returns on loans and advances show how much banks make earning through providing loans and advances. 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. Lower S.D. and higher C.V. indicates low variability in ratio of NABIL. The mean ratio of RBB is 0.0156, the S.D. is 0.075 and C.V is 0.167. Thus, it indicates lower return and high degree of variation in this ratio.

4.3 Correlation Analysis

4.3.1 Co-efficient of Correlation between Total Deposit and Loans and Advances

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

Table: 4.3.1

Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er .	6 P.E.
RBB	0.018028776	0.00032504	0.296207	1.777242
NABIL	0.984895492	0.97001913	0.003061	0.018366

Source: BY SPSS Data Editor

From the above table 4.3.1 it is found that coefficient of correlation between deposits and loan & advances of RBB and NABIL is 0.018 and 0.984 respectively. It shows that both have the positive relationship between these two variables. It refers that deposit and loan & advances of RBB and NABIL move together very closely. RBB also have low degree positive correlation. Moreover, the coefficient of determination of RBB is 0.000325. It means 0.035 % of variation in loan & advances has been explained by deposit. The relationship is insignificant because the coefficient of correlation is less than 6 P.E. Similarly, value of coefficient of determination of NABIL is 0.97 which indicates that 97.00% variance in loan & advances are affected by total deposit. The coefficient of determination of NABIL bank is significant because the correlation coefficient is greater than the relative value of 6 P.E. In other words, there is significant relationship between deposits and loan & advances.

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

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

Table: 4.3.2

Correlation between Loans and Advances and Net profit

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

Source: BY SPSS Data Editor

Table 4.3.2 shows correlation coefficient between loans and advances and net profit. The correlation coefficient between loans and advances and net profit is -0.7421 of RBB. It refers that there is negative correlation between these two variables. Here, 55.07%t of net profit is contributed by loans and advances and its coefficient of determination is 0.5507. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P.E. Likewise, RBB has also low negative correlation i.e. -0.6422 between loans and advances and net profit. The coefficient of determination R^2 is 0.4125 which indicates that 41.25% variability in net profit is explained by loans and advances. Less correlation coefficient than 6P.E. shows that the relationship between loans and advances and net profit is insignificant for NABIL. In conclusion, RBB and NABIL have insignificant relationship between loans and advances and net profit.

4.3.3 Correlation between Loan Loss Provision and Loan & Advances

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

Table: 4.3.3

Correlation between Loan loss Provision and Loans and Advances

Name of Banks	Evaluation Criterions			
	r	R^2	P.E.	6 P.E.
RBB	0.354325972	0.12554689	0.263775	1.58265
NABIL	0.791697099	0.6267843	0.112579	0.675474

Source: BY SPSS Data Editor

Table 4.3.3 shows correlation coefficient between loan loss provision and loans and advances. The correlation coefficient between loan loss provision and loans and advances is 0.3543 of RBB. It refers that there is positive correlation between these two variables. Here, 12.55% of provision is contributed by loans and advances and its coefficient of determination is 0.1255 Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P.E. Likewise, NABIL also has positive correlation i.e. 0.7916 between loan loss provisions and loans and advances. The coefficient of determination R^2 is 0.6267, which indicates that 62.67% variability in provision is explained by loans and advances. NABIL bank has more correlation coefficient than 6 P.E. which shows that the relationship between loan loss provision and loans and advances is significant.

4.3.4 Correlation between Loan Loss Provision and NPA

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

Table: 4.3.4

Correlation between Loan Loss Provision and Non-Performing Assets

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

Source: BY SPSS Data Editor

Table 4.3.4 shows the relationship between LLP & NPA of RBB and NABIL. The correlation between LLP & NPA of RBB is 0.887. It refers that there is positive correlation between these two variables. The coefficient of determination of RBB is 0.7879 and the relationship between LLP & NPA is significant because the coefficient of correlation is more than 6 P.E i.e. -0.8876 > 0.3837. Likewise, NABIL has positive correlation i.e. 0.4492 between loan loss provision and non-performing assets. The coefficient of determination R^2 is 0.20175 which indicates that 20.17% variability in provision is explained by non-performing assets. The coefficient of correlation is less than 6P.E. So, the relationship between loan loss provision and loans and advances is insignificant. RBB has the higher degree of NPA in comparison to NABIL.

4.3.5 Correlation between Non-Performing Assets and Loans and Advances

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

Table: 4.3.5

Correlation between Non-Performing Assets and Loans and Advances

Name of Banks	Evaluation Criterions			
	R	R^2	P.E.	6 P.E.
RBB	0.478780863	0.22923111	0.232499	1.394994
NABIL	0.735424974	0.54084989	0.138501	0.831003

Source: BY SPSS Data Editor

Table 4.3.5 shows correlation between non-performing assets and loans and advances. Non-performing assets and loans and advances of RBB is 0.4787. It refers that there is positive correlation between these two variables. Here, coefficient of determination is 0.2292, which indicates that 22.92% of non-performing assets is contributed as loans and advances. Moreover, this relationship is insignificant because the coefficient of correlation is less than 6 P. E. In the case of NABIL, there is positive correlation i.e. 0.7354 between non-performing assets and loans and advances. The coefficient of determination R^2 is 0.5408, which indicates that 54.08% variability in non-performing assets is explained by loans and advances. The relationship is insignificant because the coefficient of correlation is little less than 6 P.E .i.e. 0.7354 < 0.8310. As a whole there are insignificant correlation coefficient of bank between non-performing assets and loans and advances during the study.

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

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

Table: 4.3.6

Correlation between Non-Performing Assets and Total Assets

Name of Banks	Evaluation Criterions			
	R	R^2	P.E.	6 P.E
RBB	-0.410490079	0.1685021	0.250818	1.5049056
NABIL	0.749644117	0.5619663	0.132131	0.7927854

Source: BY SPSS Data Editor

Table 4.3.6 shows the relationship between the non-performing assets and total assets of RBB and NABIL for five consecutive. The correlation between NPA and total assets of RBB is -0.41049. It refers that there is negative correlation between these two variables. The coefficient of determination of RBB is 0.1685, which indicates total assets contribute to 16.85% of non-performing assets. The relationship between LLP & total assets of RBB is insignificant because the coefficient of correlation is less than 6 P.E. i.e. -0.4104 < 1.5049.

Likewise, NABIL has positive correlation i.e. 0.7496 between the non-performing assets and total assets. The coefficient of determination R^2 is 0.1685 which indicates that 16.85% of non-performing assets is explained by total assets. The coefficient of correlation is less than 6P.E. So, the relationship between non-performing assets and total assets is insignificant.

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

In conclusion, as from correlation analysis it is found that, the coefficient of correlation between deposits and loans and advances of RBB and NABIL is 0.018 and 0.98 respectively. It shows that both have positive relationship between these two variables. The coefficient of determination of NABIL is 0.978. Similarly, value of coefficient of determination of RBB is 0.0003. The correlation coefficient of NABIL bank is significant because the correlation coefficient is greater than the relative value of 6 P.E. whereas, correlation coefficient of RBB banks is insignificant because the correlation coefficient is lower than the relative value of 6 P.E.

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

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

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

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

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

4.4 Trend Analysis

Trend analysis is the statistical tools for 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 is based on the assumption that past tendencies continue in the future. In this study, data are presented for further eight years. For 2004/05 - 2008/09 and forecast is done on the basis of these trend lines.

4.4.1 Trend Analysis of Total Deposit

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

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

RBB	NABIL
a = 51863.52	a = 17838.52
b = 4920.03	b = 5109

Where,

Yc = 51863.52 + 4920.03X of RBB

Yc = 17838.52 + 5109X of NABIL

It is presented in the following table;

Table: 4.4.1

(Rs in Millions)

Trend analysis of Total Deposit of RBB and NABIL		
Year(X)	RBB	NABIL
2004/05	42023.46	7620.52
2005/06	46943.49	12729.52
2006/07	51863.52	17838.52
2007/08	56783.55	22947.52
2008/09	61703.58	28056.52
2009/10	66623.61	33165.52
2010/11	71543.64	38274.52
2011/12	76463.67	43383.52
2012/13	81383.7	48492.52
2013/14	86303.73	53601.52
2014/15	91223.76	58710.52
2015/16	96143.79	63819.52
2016/17	101063.8	68928.52

The above table is presented in the following diagram;

Figure: 4.4.1

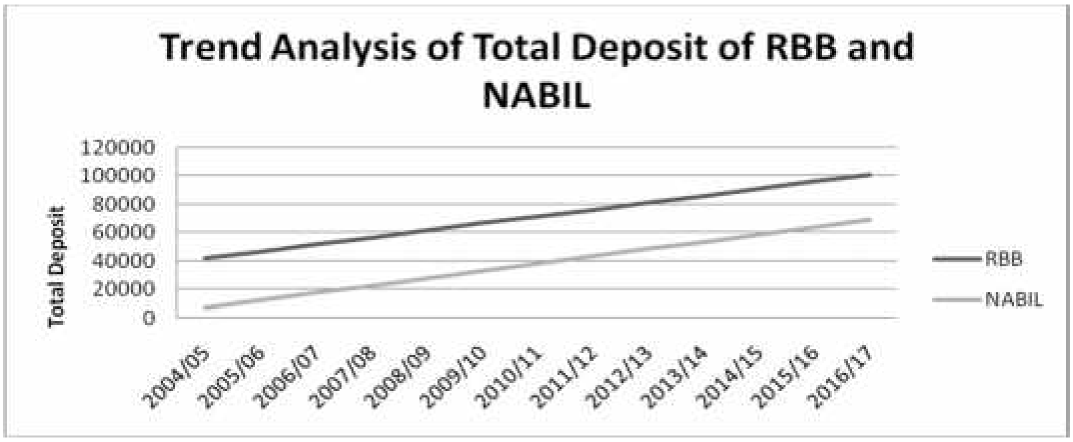


Table 4.4.1 and figure shows that total deposit of RBB and NABIL. Both banks is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of RBB. The increasing trend of total deposit of NABIL is more aggressive and higher than RBB. It indicates that NABIL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year FY 2009/10 to FY 2016/17. From the above trend analysis it is clear that NABIL has higher position in collecting deposit than RBB.

4.4.2 Trend Analysis of Loan & Advances

Here, the trend values of loan & advances between RBB and NABIL have been calculated for further eight year. The following table shows the actual and trend values,

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,

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

RBB

a = 27441.58

b = -109.33

NABIL

a = 17510.1

b = 3696.57

Yc = 27441.58 -109.33X of RBB

Yc= 17510.1+ 3696.57X of RBB

It is presented in the following table;

Table: 4.4.2

(Rs in Millions)

Trend line of Total Loans and Advances of RBB and NABIL		
Year(x)	RBB	NABIL
2004/05	27660.24	10116.96
2005/06	27550.91	13813.53
2006/07	27441.58	17510.1
2007/08	27332.25	21206.67
2008/09	27222.92	24903.24
2009/10	27113.59	28599.81
2010/11	27004.26	32296.38
2011/12	26894.93	35992.95
2012/13	26785.6	39689.52
2013/14	26676.27	43386.09
2014/15	26566.94	47082.66
2015/16	26457.61	50779.23
2016/17	26348.28	54475.80

The above table is presented in the following diagram;

Figure: 4.4.2

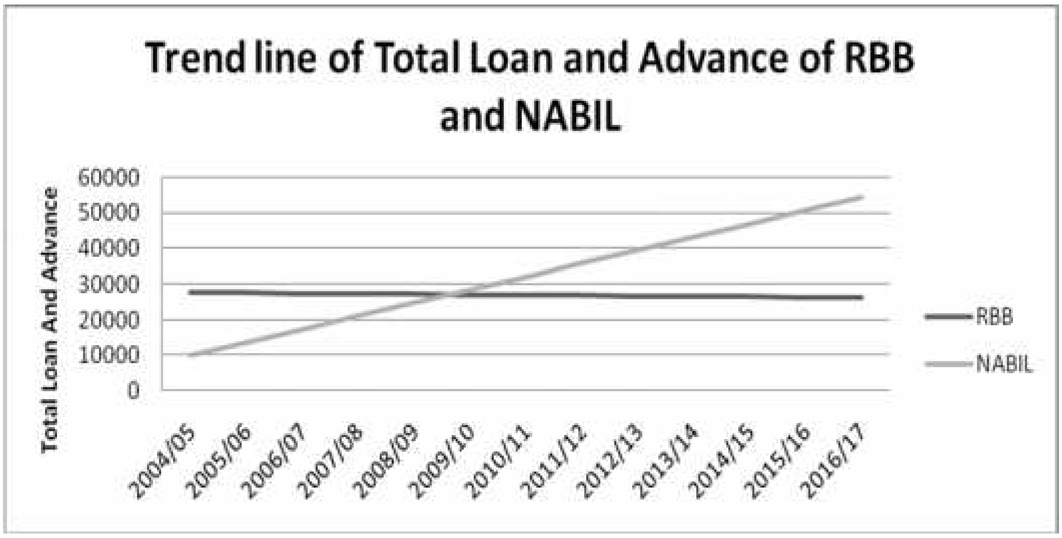


Table 4.4.2 depicts the loan & advances of RBB and NABIL. Both banks has in reverse trend i.e. RBB loans and advances is going on decreasing trend whereas. NABIL is in increasing trend. The actual value of loan & advances for RBB is quite fluctuating and slow in relation to NABIL. The trend projected for father eight year FY 2008/09 to FY 2016/17. From the above analysis, it is clear that both RBB and NABIL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows that NABIL has highly mobilizing loan & advances than RBB.

4.4.3 Trend Analysis of Net Profit

Here, the trend values of net profit of RBB and NABIL 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 + bX……………………. (I)

Where,

x = X - middle year

Here,

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

RBB	NABIL
a = 1428.18	a = 781.3
b = 147.8	b = -51.75

Yc = 1428.18 + 147.8 X RBB

Yc = 781.3-51.75 X RBB

It is presented in the following table;

Table: 4.4.3

(Rs in Millions)

Trend Analysis of Net Profit Between RBB and NABIL		
Year(x)	RBB	NABIL
2004/05	1132.58	884.80
2005/06	1280.38	833.05
2006/07	1428.18	781.30
2007/08	1575.98	729.55
2008/09	1723.78	677.80
2009/10	1871.58	626.05
2010/11	2019.38	574.30
2011/12	2167.18	522.55
2012/13	2314.98	470.80
2013/14	2462.78	419.05
2014/15	2610.58	367.30
2015/16	2758.38	315.55
2016/17	2906.18	263.80

It can be presented by the help of the following figure;

Figure: 4.4.3

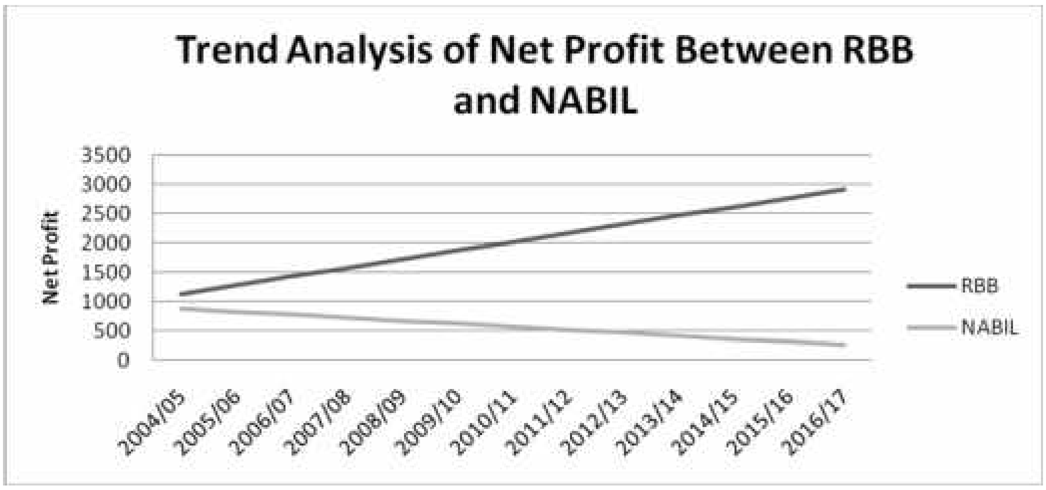


Table 4.4.3 reveals the trend of net profit of RBB and NABIL. Net profit of both bank forecasted is in reverse trend. The trend of increasing value of net profit of RBB is higher and aggressive than NABIL. The net profit of RBB is increasing year to year and NABIL has been decreasing every year by year. The trend of net profit projected to FY 2016/17 i.e. further eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, RBB is doing better in order to generate net profit during the projected study period. In conclusion, the prospect of profit generating capacity of RBB is higher than the NABIL.

4.4.4 Trend Analysis of Non- Performing Assets

Here, the trend values of non-performing assets of RBB and RBB 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

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

RBB	NABIL
a = 7968.98	a = 176.842
b = -1890.87	b = 11.458

Yc = 7968.98- 1890.87X RBB

Yc = 176.842+ 11.458X RBB

It can be presented by the help of the following table;

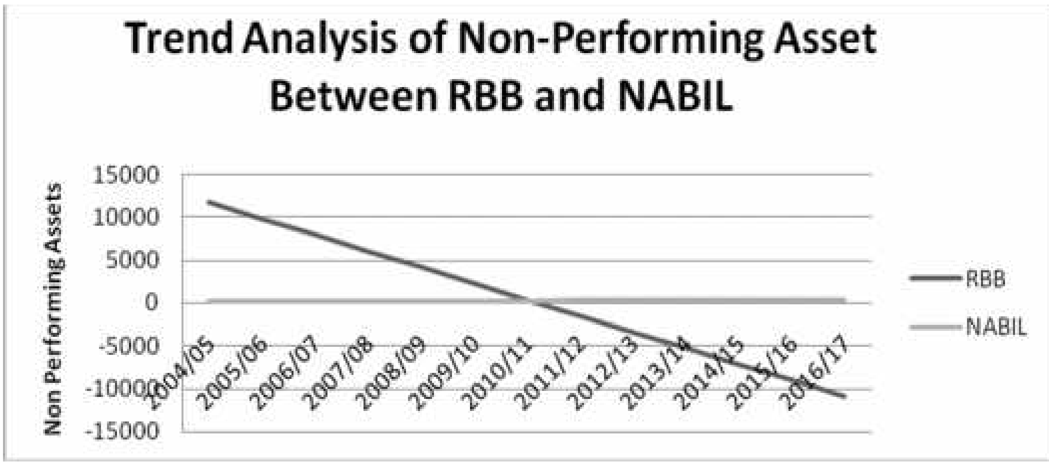
Table: 4.4.4

(Rs in Millions)

Trend Analysis of Non-Performing Assets Between RBB and NABIL		
Year(x)	RBB	NABIL
2004/05	11750.72	153.926
2005/06	9859.85	165.384
2006/07	7968.98	176.842
2007/08	6078.11	188.3
2008/09	4187.24	199.758
2009/10	2296.37	211.216
2010/11	405.5	222.674
2011/12	-1485.37	234.132
2012/13	-3376.24	245.59
2013/14	-5267.11	257.048
2014/15	-7157.98	268.506
2015/16	-9048.85	279.964
2016/17	-10939.7	291.422

It can be presented by the help of the following figure;

Figure: 4.4.4



The above table reveals the trend of non-performing assets of RBB and NABIL. Non-performing assets is forecasted in decreasing trend. The trend of non-performing assets of NABIL is estimated in increasing trend. The trend of non-performing assets of RBB is decreasing which indicates non-performing assets is regularly decreasing during the study period. The non-performing assets of NABIL have been increasing every year and RBB decreasing. The trend of non-performing assets projected to FY 2016/17 i.e. further eight year. Above statistics shows that RBB is doing better by decreasing non-performing assets over the period. However, NABIL is increasing non-performing during the projected study.

4.4.5 Trend Analysis of Loan Loss Provision

Here, the trend values of loss loan provision of RBB and RBB have been calculated for five years FY 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 + bX……………………. (I)

Where

x = X - middle year

Here,

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

RBB	NABIL
a =10578.34	a = 393.64
b =-2149.79	b = 19.25

Yc = 10578.34 - 2149.79 X RBB

Yc= 393.64+ 19.25 X RBB

It can be presented by the help of the following table;

Table: 4.4.5

Trend Analysis of Loan Loss Provision Between RBB and NABIL		
Year(x)	RBB	NABIL
2004/05	14877.92	355.14
2005/06	12728.13	374.39
2006/07	10578.34	393.64
2007/08	8428.55	412.89
2008/09	6278.76	432.14
2009/10	4128.97	451.39
2010/11	1979.18	470.64
2011/12	-170.61	489.89
2012/13	-2320.4	509.14
2013/14	-4470.19	528.39
2014/15	-6619.98	547.64
2015/16	-8769.77	566.89
2016/17	-10919.6	586.14

It can also be presented with the help of the following figure;

Figure: 4.4.5

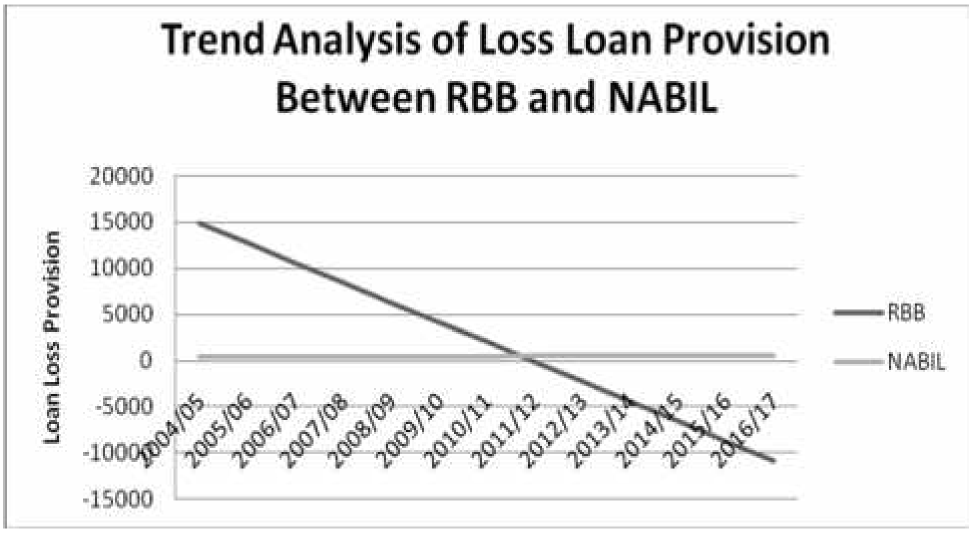


Table 4.4.5 reveals the trend of loss loan provision of RBB and NABIL. Loss loan provision of NABIL is forecasted in constant and decreasing trend. The trend of increasing value of loss loan provision of NABIL is higher and aggressive than RBB. The loss loan provision of NABIL is increasing every year and RBB has been decreasing every year. The trend of loss loan provision projected to FY 2016/17 i.e. further eight year. In conclusion, NABIL is doing better because it has constant loan loss provision but RBB has decreasing loss loan provision, which indicate it is doing best. It is suggested that NABIL should decrease the NPL to minimize loan loss provision.

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

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

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

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

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

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

Despite loans and advances are more profitable than other assets, it creates risk of non-repayment for the banks, such risk is known as credit risk or default risk. Therefore, like other assets the loans and advances are classified into performing and non-performing on the basis of overdue aging schedule. If the due in the form of principal and 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 run off from such situation. The level of NPA in Nepalese banking business is very alarming. It is well known fact that the banks and financial institution in Nepal have been facing the problem of swelling non-performing assets (NPAs) and the issue is becoming more and more unmanageable day by day. We are well known from different financial reports, the total NPA in Nepalese banking system is about 18548.20 million.

This research was focused on studying the non-performing assets of public and private commercial banks. For this purpose, descriptive and analytical research designs were adopted out of total population of 26 commercial banks; one public and one private bank were taken as sample using judgmental sampling method. They are Rastrya Banjiya Bank and NABIL Bank Limited. In this study. mostly secondary data were used. Besides this, newspaper, relevant thesis, journals, articles, related website etc. were also taken for this research. The data collected from various sources were recorded systematically and presented in appropriate forms of table and charts and appropriate mathematical, statistical, financial and graphical tools were applied to analyze the collected data in suitable mannE The data of five consecutive years of the banks were analyzed to meet the objective of the study.

5.2 Major Findings of the Study

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

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

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

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

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

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

The ratio of returns on loans and advances show how much bank earn through providing loans and advances. The NABIL has the highest ratio through the study period. The average mean ratio of NABIL is 0.0464. The S.D. of NABIL is 0.052 and C. V. is 0.331. Lower S.D. and higher C.V. indicates less variability in ratio of NABIL. The mean ratio of RBB is 0.0156, S.D. is 0.075 and C.V is 0.167. Thus, it signifies lower return and high degree of variation.

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

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

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

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

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

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

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

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

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

The trend of non-performing assets of RBB and NABILis in opposite direction. Non-performing assets of RBB is forecasted in decreasing trend. Which indicate non-performing assets is regularly decreasing during the study period. The trend of non-performing assets of NABIL is estimated in increasing trend.

The non-performing assets of NABIL has been increasing every year by Rs.11.458 million and RBB is decreasing Rs1890.87 million respectively. RBB is doing better by decreasing non-performing assets. However, NABIL is increasing non-performing assets.

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

5.3 Conclusions

Money is the blood for any organization. Thus, its proper utilization may be the cause of success of the business or organization. Today's banking industry is severely affected by the problem of non-performing assets (NPA). It can be concluded that improper credit appraisal system, ineffective credit monitoring and supervision system, economic slowdown, borrower's misconduct, and over valuation of collateral, political pressures to lend for accredit worthy parties etc. are the major factors lending to non-performing assets.

Even the financial sector is growing in terms of quantity but it is required to develop 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 will result in the overall economic development. The banks should take in consideration the interest of depositors, shareholders, and society. Lending is one of the main function of commercial banks which is the most income generating asset. As the saying goes "high risk, high return" it gives high return for high risk. To minimize this risk banks should have to make loan loss provision for safety. If high amount of loans and advances are lent, then high amount of loan loss provision is required as per NRB directive.

Nepalese banks have focus their efforts to recover their spiraling bad loans, or non-performing assets, to sustain the positive trend of improving assets quality. Better risk management techniques, compliance with core principles for effective banking supervision, skill building and training and transparency in transaction could be the solution. Removal of non-performing loan from the banking system even through government or quasi government funds at time, is essential. But official assistance should be structured so as to avoid moral hazard. To conclude with, till recent past, corporate borrowers even after defaulting, continuously never has any real fear of banks taking any action to recover their dues despite the fact that their entire assets are 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 exitence. If this specific goal is reached, there is an eventual solution for this problem. Good governance is essential for the success in NPA management.

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

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

5.4 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 the NPA is not controlled immediately, it will be the main cause for shutdown of the banks in the 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 RBB to make serious action to recover the bad loans (NPA). And it should also make remedial action for new loan. Hiring assets management company (AMC) is recommended to reduce the current non-performing assets.

- RBB has the low amount of loan comparing to NABIL. It provides lower amount in the form of loans. Thus, it can be said that the management of RBB is risk aversed as compared to NABIL. RBB bank will be able to better mobilize its collected deposit. Even though investing their resources is the most income generating sources, but they have negative returns due to enough bad loans.

- NABIL need to increase their lending in terms of loans and advances, according to returns, safety, liquidity and risk.

- The loan loss provision of RBB has high due to high amount of NPA. It is recommended that the bank should have to increase the provision amount to recover the bad loans.

- Government must apply regulatory body to take timely action against willful default.

- One of the main cause of default loans and increase in the NPAs is that the banks aren't taking much collateral or over valuation of collateral. Therefore, banks should take enough collateral, so the banks at least can be able to recover its principle and invest amount in case if it is unable to repay 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 must be transparent and must be in 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 the negligence in taking information from credit. Information Bureau may be also leading factor to NPAs. It is, thus, recommended that banks should apply precaution before granting loans and advances to decrease the bad loans.

- Lack of credit rating agency. So it is recommended to establish the credit rating agency and AMC for proper analysis.

- Last but not the least, the bank staffs must know their responsibility of the work rather than their selfishness. They must have strong commitment and should support the rule and regulations.

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