

Non- Performing Loan and Its Impact
In
Rastriya Banijya Bank Limited

A Thesis

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RECOMMENDATION

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DECLARATION

I here by declare that this thesis entitled “**Non- Performing Loan and Its Impact In Rastriya Banijya Bank Limited**” is submitted to Office of Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of **Global College of Management** . This research work is not submitted to elsewhere for any other purpose.

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ABBREVEATION

ALMCO	:	Asset Liabilities Management Committee
BOK	:	Bank of Kathmandu Ltd
C.V.	:	Coefficient of Variations
CAR	:	Capital Adequacy Ratio
CPG	:	Credit Policy Guidelines
EBL	:	Everest Bank Ltd
FY	:	Fiscal Year
HBL	:	Himalayan Bank Ltd.
IRR	:	Interest Rate Risk
KBL	:	Kumari Bank Ltd
LLP	:	Loan Loss Provision
MBL	:	Machhapuchhre Bank Limited
NABIL	:	Nepal Arab Bank Limited.
NBBL	:	Nepal Bangladesh Bank Ltd
NBL	:	Nepal Bank Limited.
NGOS	:	Non-Government Originations
NMT	:	New Management Team
NPA	:	Non-Performing Asset
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank.
RBB	:	Rastriya Banijya Bank
RWA	:	Core Capital to Total Risk Weighted Asset
S.D.	:	Standard Deviation.
SBI	:	State Bank of India (Nepal)
SCBNL	:	Standard Chartered Bank Nepal Limited.
SD	:	Standard Deviation
T.U	:	Tribhuvan University.

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

As a financial institution, commercial bank is one of the major components of every economy because they collect dispersed savings and provides loan to the various sector according to the need of client.

A commercial bank is therefore any financial institution that receives, collects, transfer, pays, exchanges, lends, invests or safeguards money for its consumers. To accept money as deposit form it's customer and to lend such collected fund to individuals, businesses and individual communities are two major functions of a bank. When bank provides loan new business and industries is established which helps in the development of the country. In this way whole infrastructure of national development, direction of economy rate of progress is strengthen by banking system. The primary issue of development is to increase the investment in productive sector of economy. Such as industries and commercial, production, trade and commerce, international business, generation of individual income and expenditure, government revenue, etc.

Generally, bank refers to a commercial bank at present. Therefore, the activities of a commercial bank are synonyms to banking. Commercial banks pool scattered fund and channels it to productivity use. It can be of various forms such as deposits banks, saving banks, industrial banks, mixed banks, exam banks etc. In absence of commercial banks, it would have been impossible to meet the financial needs of the country.

Commercial bank plays a significance role in the development of national economy. A bank is a financial institution that primarily deals with accepts deposits and deals in credit. Here financial Institution refers to that business concern that is mainly confined to finance for the development, for the trade, commerce and industry so does the bank, trade, commerce and industry are the prime factors of the economic development. In Nepal, among the available financial institutions, banking industry dominates all. Thus banks are vital part of national economy and a vehicle for the business and service enterprise. Modern bank performs many varieties of functions. Therefore, it is difficult to define the function of modern banks because of their complexity and versatility in operation.

The word "bank" is derived form the Italian word “BANKA” which means a counter table or bench used by medieval money exchanges. Commercial bank act, 2031 BS of Nepal has defined commercial band as, An organization which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose.

A bank is an institution, which deals in money receiving it on deposit form customers, honoring customer's drawings against such deposits on demand collecting cheques for customers and lending or investing surplus deposits until they are required for repayment.

As per R.S. Sayers, "A Bank is an institution whose whole debts are widely accepted in settlement of other people's debts". (Shrestha M. S. 2009 Fundamentals of banking)

As per Crowther, "The banker's business is to take the debts of other people to offer his own in exchange and thereby create money". (Shrestha M. S. 2009 Fundamentals of banking)

According to oxford Advanced Learner's dictionary, A bank is an organization that provides various financial services, for example keeping or lending money. (2008,: 107)

A bank simply carries out the work of exchanging only, providing loan, accepting deposit and transferring the money.

Non-performing Loan

Non-performing loan is the quantum risk assets those are not performing well and are in the verge of being written off at the cost of organization's profit earned or more correctly at the cost of stakeholder by this way or that way. Basically by reducing the value of the stakeholder wealth in every aspect Keeping these views into consideration this study will concentrate on the non-performing loan and it's impact on RBB.

Nepal Rastra bank act 2058 defines bank as follows;

“Bank means the NRB established under section 3 of this act. Like wise according to commercial bank act 2031, bank means a commercial bank established under this act.” though the banks established by both of these acts are called bank. This act has also laid emphasis on the functions of commercial bank while defining the commercial banks, which provide short-term debts necessary for the trade and commerce.

They take deposits to provide short-term loans in different forms. They purchase and discount bills for exchange. Promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers and in exchange they are paid for their services.

Rastiya brainy bank limited is obviously a biome financial institution, which was established in 2022 B.S 10th Magh with 100% government ownership.

1.1.1 Brief History of Commercial Banks

In ancient society goldsmith were doing banking activities which received deposits and lent money to their clients. In those valuable ornaments and money in their house, they kept those valuables with the goldsmith because of safety motives. As early as 2000 BC Babylonians had developed a system of banks. the ancient Romans developed an advanced banking system to serve their trade Finance network, which extended through out Europe, Asia and much of Africa.

The bank of Venice established in 1157, is supposed to be the most ancient bank. Originally, it was not a bank in the modern sense, being simply an office for transfer of public dept. The word bank comes from the Italian word banco or benca, meaning bench. History shows the existence of "Monte" in Florence in 1336 AD. Since the 1960's banking has become much more international. This is because of the increase in the number of multinational companies and the spread of their operations worldwide. Such companies require the services of banks wherever they are. Banks also provide joint loans, with other banks, for all over the world.

In Nepal, king Gunkamadev had borrowed money from rich people to build the city of Kathmandu in 780 B.S. At the end of 8th century, Shankhadhar a merchant of Nepal, paid all the outstanding loans of Nepali people and stated a new era i.e.

Nepal Sambat, Jayasthiti Malla one of the famous king of Malla dynasty in Nepal, who had ruled this country in 11th century, divided the people in 64 casts on the basis of their profession. Among 64 casts they were merchants named, "Tankadhari" who used to perform the leading and borrowing functions and they also had business relationship with India and Tibet. But due to monopoly the Tankadhari charge exorbitant rate of interest on their extra dues in loans advanced as their business grew up. Due to such inconvenience brought by moneylenders (1877-1885). "Tejarath Adda" was established to provide loan facilities for government staff and to general public by the Rana Prime Minister Rnodip Sing J.B.R.

1.1.2 Origin of Banking In Nepal

The history of modern banking in Nepal starts right form the established of Nepal Bank LTD in 1937. Before the inception of this bank, the traditional ways of banking seemed to be in existence. Even today we find dominance of so called rich people in lending money. Despite of operation of many commercial banks, role of non-banking system is equally significant particularly in rural area.

Realizing the importance of banking sector for economic development, Nepal bank limited set-up as a commercial bank in 1937. Being a commercial bank NBL paid mire attention to profit generating business.

Having felt a need of central bank to control and direct the commercial banks and help the government fundamental policies, Nepal Rastra Bank was set-up in 1956. Since then it has been functioning as government bank and contributing to the growth of financial sector.

Speedy development of country is possible only when competitive banking services reaches in hidden place and corner of the country, being a central bank NRB had it's own limitation to go to profitable sector.

To cope with these difficulties, government set-up Rastriya Banijya bank in 1996 as fully government owned commercial bank.

Since the introduction of RBB, the commercial banks are to carry out commercial transaction as well as the function of development bank. To develop agricultural sector and to make necessary fund available for the framers, agricultural development bank was established in 1968 Nabil bank ltd. named as Nepal Arab ltd. was established on July 12th 1984 under a technical service arrangement with Dubai bank limited. Now there are 23 commercial banks, 60 finance companies, 26 development banks, 11 rural micro finance development banks and saving and credit Co-operation sector.

1.1.3 Commercial Bank

Nepal commercial Bank Act 031 BS defines. A commercial bank is a bank which deals in money exchange, accepting deposit, advancing loan and commercial transaction except specific banking related to cooperative, agriculture, industry and other objectives" Under the Nepal commercial bank Act 2031 BS the commercial banks are these banks which provides short term and long term debt when ever necessary for trade and commerce. They accept deposits from public and grant loan in different forms. They purchase and discount the bill for exchange foreign currency. The commercial banks pool together the savings of the community and arrange for productivity use. It fulfills the financial needs of modern business. They accept deposit from public which are repayable on demand or on short notices. They cannot afford to invest their funds in long term securities

or loan. Their business is restricted to financing the short term needs. They provide the working capital required for trade and industry. They cannot afford to supply the block capital required for the purchase of fixed assets.

1.1.4 Profiles of Rastriya Banijya Bank Limited

The history of the bank has not taken long duration in Nepal. Rastriya Banijya bank limited is the third oldest bank in the country. RBB was established at 10th Magh 2022 under RBB bank law 2021. Its head office was in Tangal Kathmandu. It established fully government ownership. Now RBB has one head office, 4 regional office and 120 branch office. The main vision statement of RBB limited is "To remain the leading financial institution of the country" and its main mission is RBB seeks to provide an environment within which the bank can bring unique financial value and services to all customers. It will be a sound institution where depositors continue to have faith in the security of their funds are receive reasonable returns, borrowers are assured of appropriate credit facilities at reasonable prices, other service-seeks receive prompt and attentive service at reasonable cost. Employees are paid adequate compensation with professional career growth opportunities."

RBB has the following objectives

- a) Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- b) Provide competitive and customer oriented banking services to all customers through competent and professional staffs.
- c) Reclaim leadership within the national financial community.

At the time of established RBB playing a role of commercial bank as well as development bank. After the some time, there were some development banks like

Agriculture development bank; rural development bank etc. came into operation. As a result RBB's responsibility has decrease to some extent. At the time RBB is authorized to transact various kinds of business, which are generally to be the normal function of commercial banks. The main function of the bank is as follows.

- a) To accept deposit with or without interest from the government, Nepalese and foreigners and open account in their names. The mode of acceptances of deposit is mainly current account, saving account and fixed account.
- b) To provide loans to individuals, companies against security of
 - Nepal and foreign Securities and promissory notes.
 - Shares and debentures of companies that have registered under the Nepal company act.
 - Bills of exchange endorsed by reliable persons.
 - Promissory notes or bonds executed by two or more persons. 5) Commercial commodities.
 - Gols or billion.
 - Advance against export document.
 - Hire purchase loans.
 - Working capital to industrial projects and priority sector as agriculture, small-scale industries and services.
- c) To issue letter of credit.
- d) To exchange the currency of Nepal with foreign countries.
- e) To purchase sale and discount of bills of exchange endorsed of accepted by a reliable bank that matures with in 90 days relating to the export of goods produced in Nepal. The bills of exchange, promissory notes, bonds, commercial bills drawn on payable in Nepal, bearing the signature of two or more reliable persons and maturing within 90 days.

- f) To act as an agent on commission on behalf of banks client in the following business.
- Selling, purchasing, transferring and receiving in safe custody, shares and debentures of companies with limited liability.
 - Sending remittance to any place in Nepal and other foreign countries by draft, Telegraphic transfer or fax transfer.
 - Remitting money realized on shares and securities in Nepal and foreign countries.
- g) To make an investment on subsidiary companies.
- h) To carry out following transactions on behalf of the government as per order or instruction in places having no branches of NRB.
- Receiving deposits of government money.
 - Remitting money through bills of exchange, cheque and drafts in Nepal and foreign countries.
 - Realizing dividends on share and interest on debenture or promissory notes.
 - Distributing pensions and retirement funds to the civil servants and Nepal Army personnel throughout the country.
- i) Miscellaneous service
- Opening specified current-accounts.
 - Collecting and discounting in foreign bills.
 - Buying and selling traveler's cheque.
 - Issue of guarantee.
 - Providing trade inquiries for all the parts of the world.
 - Providing safe deposit vault.
 - Collecting dividends.
 - Raise loans against properties of the bank.
 - Rent, sell or mortgage of the bank.

Thus, there are various kinds of job that bank can involve transact according to commercial bank act 1974, they area:

- a) To purchase or sell goods with commercial motives or hold immovable property to which it has acquired and not to sell for a period of exceeding seven years, except when the bank is required to hold such property for it's own use.
- b) To provide loans against the security of it's own shares.
- c) To purchase any immovable property for any purpose other than banks own use.
- d) To provide loans of any kind to any company or corporate body in which the directors or any member of his/her individual family works as a directors or managing agent or have any financial interest.
- e) To provide loans to a director or any member of his/her own undivided family.

Regarding the origination structure of the RBB, the structure has been changed several times over the period. During the period of it's establishment, the board of director's consisted of five persons. The tenure of these directors was fixed for five years.

In 2002 BS, when the Banijya bank act was promulgated, the number of directors in the board was seven persons. The working period for these directors was fixed for four years. The minimum number of board directors for meeting was fixed not less them four.

The RBB has stated a continuous and difficult journey of reforms. The management of RBB has handed to Brush Henderson team with national and international person six year before.

Thus the organizational structure of RBB has changed since that period. Now, there is management committee including four persons foreign and three person national all together 7 person in management team. Under the management committee, there is a chief executive officer and other team CEO is from the Brush Henderson group. Now CEO is Janardan Acharya. He is responsible for overall management of the bank. Likewise, under the CEO, there is seven management team including thirteen chartered accountant people. For the purpose of efficient day to day operation of the bank, various departments have been set-up, with own specific objectives and these departments works under the supervision of Brush Henderson management team. The different departments within RBB are as follows.

- a) Office of the chairman.
- b) Office of the chief executive officer.
- c) Office of the deputy general manager.
- d) Human resource management.
- e) Finance department.
- f) Information technology department.
- g) Credit department.
- h) Loan recovery and debt re-structuring department.
- i) Treasury department.
- j) General service department.
- k) Strategic planning department.
- l) Training and development department.
- m) Inter branch reconciliation department.

- n) Branch operation department.
- o) Marketing and development department.
- p) Internal audit department.
- q) Legal department.

1.2 Statement of the Problem

Commercial banks and financial institutions in Nepal have been facing several problems like lack of smooth functioning of economy. Different policies and guidelines of NRB, security problem, over liquidity caused by lack of good lending opportunities, poor information system, increasing nonperforming loans etc. In the present context where Nepalese banks are facing the problem of increasing NPL, more amounts have to be allocated for loan loss provision. The provision amount is taken out by deducting from the profit of the bank, the bank's profit might come down'

The core banking business is mobilizing the deposits and utilizing it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes which results into economic growth. However lending also carries credit risk, which arises from the failure of borrower to fulfill its contractual obligation during the course of transactions. It is well known fact that the bank and financial institution in Nepal face the problem of swelling non-performing loans and the issue is becoming more and more unmanageable.

Two large banks dominate the banking sector. NBL is 40.49% government owned and RBB is 100% government owned. However, both banks are troubled by bad loans and are now lending very little to customers. Together, NBL and RBB account for 60% of the entire banking systems deposits and loans. Both banks

reportedly have a large number of NPL's. The problem of NPL is seen less in private bank sin comparison to public banks. The NPL of two big nationalized public banks being about nearly 50% of the total loans are very serious situation and to make healthy banking environment, financial reform programme has been brought as it's consequences, the management of two big banks was handed to foreign company on contract. Even most of the privately owned banks has NPL within international standard, some privately owned banks NPL is higher that international standard. As per international standard 5% NPL is accepTable But Nepal's total NPL of banking sector is 18% which is very high.

Loans and advance falling in the category of sub-standard, doubtful and loss are classified and defined as non-performing loan. Non-performing loan is the quantum risk assets those are not performing well and are in the verge of being written off at the cost of organization's profit earned or more correctly at the cost of stakeholder by this way or that way. Basically by reducing the value of the stakeholder wealth in every aspect. Now a day Nepalese commercial banks are suffering from non-performing loan problem. It is directly affecting to decrease the net profit of banks. So the banks want to decrease their non-performing loan by using different strategies.

The total NPL in the banking system is about 35 billion, while it is even worse in case of two largest commercial banks, NBL and RBB. So Nepalese baking sector has been becoming a victim of huge NPL Especially NBL, RBB and ADB/N are suffering from non-performing loan, which are working in rural area and use of fund in rural area.

The main problem of non- performing loan arises from lending process of loan. The various factors are increasing NPL of banks. NPL has been affected on the net profit and total loan so its negative impact.

Such above stated situation raise a question, whether the Nepalese management team is competent enough? Whether the NRB fails to regulate the commercial banks? On the basis of the problem this study has been conducted to find out the solution of following problems.

- What is the volume of non- performing loan in RBB?
- What is the trend of non-performing loan in RBB?
- How does it affect on the net profit of the bank?
- How generation of non- performing loan can be controlled?

1.3 OBJECTIVES OF THE STUDY

The main objective of this study is to explorer the non- performing loan and it's impact in Rastriya Banijya Bank limited. In the study of the related area, other specific objectives are as follows:

- a) To analyze and evaluate non-performing loan of Rastriya Banijya Bank Ltd.
- b) To examine the trend of the non-performing loan of Rastriya Banijya Bank Ltd.
- c) To examine the relationship of non-performing loan and profitability position.
- d) To recommend the policy guideline to control over in non-performing loan of the bank.

1.4. SIGNIFICANCE of the Study

The significance of this study is theoretical as well as practical or applied. Some of the significances are given as below:

- a) This study, at first is filled up the gap of knowledge about various aspects of causes, impacts, volume of NPL.
- b) It is also hoped that this study may also be able to explore the NPL of Rastriya Banijya Bank limited.
- c) The problem of NPL is serious one in Nepalese commercial bank. So all commercial banks will have easy to control the NPL.
- d) This study will be useful for researchers, students and for those who wants to have further study in detail.
- e) Similar this study may be fruitful to government planner, policy makers and financial institutions.

15 LIMITATIONS OF THE STUDY

Only Nepalese commercial banks have been considered for the study and Rastriya Banijya Bank limited has been selected as a sample for the study. Hence the findings may not be applicable to other banks i.e. development banks, finance company and other companies of Nepal.

- The study is considered only with NPL of Rastriya Banijya Bank limited in the study area.
- So this study does not consider the aspect of bank. Only few articles and text books are available in the current subject in Nepalese prospective.
- As such the availability of pertaining data and information are also limited.
- Primary data collections have it's own limitation, since most of the banks are so strict to reveal the information on their NPLs.
- Their assumption bias in the question of efficiency factor, like the NPL level is the measuring mechanism of their performances.

- This is the basic reason that the commercial banks do not pay heed to release the exact NPL information.
- However, whatever data are available from Nepal Rastra Bank and annual report of Rastriya Banijya Bank Limited.
- Therefore, this study will be based on only the secondary data.

So the period of the study is limited only for the fiscal year 2004 to 2008.

1.6. ORGANIZATION OF THE STUDY

The chapter scheme as been deal with the contents mentioned in each chapter of the research. The report of this research has been organized in five chapters. Introduction, literature review, Research methodology, data presentation and analysis and finally summary, conclusion and Recommendation

Chapter I: The first chapter deals with the introduction including general background of the study. Statement of the problem, objectives of the study, significance of the study, scope and limitation of the study and organization of the study.

Chapter II: Second chapter follows the first chapter and carries meaningful importance in the whole work. It is the collections of authenticated views in regard to the matter of study. It is collected through various journals, news paper, websites, related books and news letters and move importantly Nepal Rastra Bank issues i.e. NRB Samachar, directives, circulars and statistical data.

Chapter III: The third chapter has been provides research methodology including research design. Nature and source of data, population and sample size, method of analysis and data analysis tools.

Chapter IV: The fourth chapter includes data presentation and analysis. It has been presented the collected data and result of the study in required form. This chapter deals with the main part of the study.

Chapter V: Finally, the fifth chapter deals with summary and conclusion to the study and recommendations given to the commercial banks. This is the ending of the work. Having done all the research work up to the fourth chapter. The work comes out with a consequence that should be deliberated in this chapter as a solution.

CHAPTER – II

REVIEW OF LITERATURE

This part of the study deals with making the review of past studies made on non-performing loan. So, this chapter will encompass the followings.

Conceptual/ theoretical review.

Review of NRB directives.

Review of articles/journals/newspapers/websites.

Review of book.

Review of thesis concerned.

Research gap.

2.1 Conceptual Theoretic Review

Under this heading Following issues are discussed under the Nepalese prospective.

a) *Loan and advances*

Commercial bank's main function is to create form it's borrowed fund. The bank doing so convert's it's liability into active asset. Loans and advances are the assets coming from such activities. Loans and advances dominate the assets side of the balance sheet of any bank and also constitute the primary source of income to the banks. Loans and advances may take different forms and are allowed against various types of securities. Loan, overdraft, discounting of bills of exchange etc are some of the forms of bank lending.

b) *Pass due/overdue*

An amount due under any credit facility is treated as past due or overdue when it has not been paid on the due date fixed by the bank. Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

c) *Loan classification*

Loan classification refers to the process banks use to review their loan portfolio and assign loans to categories of grades based on the perceived risk and other relevant characteristics of loans and as per guidelines of central banks. In the context of Nepal as per guidelines of NRB, loans are classified into four categories namely pass, substandard, doubtful and loss.

d) *Performing loan*

Performing loans are those loans that repay principal and interest timely to the bank from the cash flow it generates. In the context of Nepal, the loans classified as 'pass' category is termed as performing loan.

e) *Non performing loans/ non performing assets.*

These are the loans that do not repay principal and interest timely to the bank. A common feature of NPL appears to be that a payment is more than 90 days past due. In Nepal, if the loan is past due for over 3 months, it is NPL. Hence the loans falling under substandard, doubtful and loss categories are regarded as NPL.

However, adopting a proper risk management in place some loans turn to be distressed in due course of time due to various unavoidable reasons. Such distressed loans whose due date exceeds 90 days are called NPL. These NPL should be managed very carefully and technically in order to avoid a huge loss for the institution.

It will be imperative to understand the terms NPA and NPL. NPA relates to net profit financial assets. In this sense, NPAs are defined as debt instrument whose obligors are unable to discharge their liabilities as they become due. Therefore, NPAs comprise the wider area of assets portfolio where as the NPL is referred to distressed loans classified as per regulation of the central bank. Since the loan

being the significant component on financial assets portfolio, NPL and NPA are used interchangeably but if there are no other assets other than loans to denote, it will be better to say NPLs.

Nepalese financial system still has a high level of NPLs in the system. System's soundness cannot be restored without resolving the problem of NPL. The problem of high level of NPL needs to be addressed in time resolved as soon as possible. The sooner the problem is resolved, the quicker the crisis is removed from the system. In order to resolve the problem of NPL we should require initiating various measures in the system. Preventive measures will be helpful to control the growth and curative measure will be beneficial to lower down the level of NPL in the system. In order to resolve the problem the root cause of the problem needs to be identified; analyzed and properly addressed.

If the NPL'S are already at outstanding level, curative measures are required to lower down the level of NPL. If the level of NPL is at high level despite of having properties management, best credit practices and strong compliance mechanism in place, then the curative measures become significantly important. In such a situation, the authorities need to pay greater attention because the system might be falling adverse effect of external factors or shocks beyond the control of institutions. In such a circumstance, extra supportive measures are required to be introduced by the supervisory authorities and the government. (RBB Annual Report 2008)

If the NPL'S in the system in growing due to the lack of good credit culture corporate governance and risk management skills within the institutions; prudential measure such as; issuance of prudential regulation, compliance of regulations and strengthening of internal risk management skill, formulating of

risk control policies and procedures will be beneficial. These are generally called preventive measures controlling the growth of NPL'S.

Sometimes, the system may require introducing of both types of preventive and curative measures simultaneously when the system's NPL'S is growing and is already at the outstanding level. In order to response such type of situation in other countries, broad bank restructuring had been introduced in form of a reduction of NPL in the banking system bank capitalization, the implementation of regulations and norms to bring about improved bank governance and risk measurement, the implementation of rules to promote transparency and efforts to strength the capacity of supervisory authorities. NRB is also adopting both the curative and preventive measures to lower down the level of NPLS within comprehensive financial sector reform program. (NRB 2008)

Generally speaking, a loan is classified as NPLS only after it has been appears at least three months. The detail and classification standards of NPLS May vary from country to country. In the Nepalese case the three months above overdue rule has been adopted.

f) Loan loss provision (LLP)

LLP is the accumulated fund that is provided as a safeguard to cover possible losses upon classification of risk inherited by individual loans. There is risk inherent in every loan. Hence provisioning made as cushion against possible losses and to reflect the true picture of the bank's asset. Hence there is practice of showing net loan (total loan loss provision) in financial statements one percent provisions for total credit is an ideal position as it is the minimum requirement for all good loans. In Nepal, 1 percent, 25 percent, 50

percent and 100 percent provisioning should be made for pass, substandard, doubtful and loss loans respectively.

2.2 Review of Relevant NRB directives:

Nepal Rasta Bank issues various relating banking regulations and prudential norms. NRB has provided following directives for classification of loan and advances and it's loss provisioning for the purpose of minimizing possible risk in bank's lending by using the authority given by sub section 1 of section 23 of NRB acts 2012 (Revised) and section 19 (ka) of commercial bank act 2031 (Revised).

1. Classification of loan and advances on the basis of overdue again schedule. A bank is required to classify their loan on the basis of overdue.
2. Classification of loan and advance.
Loan and advances is required to classify

Pass:

This class includes the loan that principal overdue up to 3 month .It is also defined and classified as performing loan.

Substandard

Loan with principal overdue above 3 month and up to 6 months called substandard loan.

Doubtful.

All loans and advances which are past due for a period 6 months to 1 year shall be included in this category.

Loss.

Loan with principal overdue above 3 year called bad loan, which have least possibility of recover or considered unrecoverable and those having this possibility of even partial recovery in future.

Loans and advances failing in the category of substandard, doubtful and loss are classified and defined as NPL.

2.3 Review of Books

There are no adequate availability of books in this topic but some relevant books are available in the market. These books are categorized in the from international publications and Nepali publications as follows.

Book named "Banking Management" says that in banking sector or transaction, an unavoidable of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought, For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, and the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities (Bhandari D., 2003:170).

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non-payment of loan is known as credit risk or default risk (Dahal N., 2002:114).

Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. These methods of managing credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari D., 2004:300).

2.3.1 Review of Book (Nepalese publications)

A book for beginners in banking by writer duo Mr. Bhuwan Dahal and Mrs. Sarita Dahal namely 'a hand book to banking' has emphasized on various aspects of banking in brief that is required to exercise sound banking practices. It says "A bank is judged on the basis of capital, assets quality, management earning liability and sensibility to market risk. Almost all the government banks are running at loss while all the private sector banks are showing profits, it is very difficult to call them sound if appraised from CAMELS approach. Some banks have very low capital adequacy ratio while some banks have piled up NPL. Similarly banks do not have proper system in place for management of market risks.

Writer duo is more specific in this book while marking financial institutions in terms of standard form of yard sticks i.e. CAMELS. Nepalese banking sector as they mean, are yet to be streamlined and systematized. Due to this reason credit processing and calculation of market risks are given low priority while extending advances. There are the main causes of siphoning of funds and impairment of loans. As a result whole financial sector is heading towards a huge and accumulated NPL. Therefore, suggestion is given by the writer duo to NRB to control the system by implementing directives enforceable/actable in this regard.

(Dahal B. and Dahal S., 2007:171)

2.3.2 Review of Books (International Publication)

It seems that the problem of cumulating NPLs is also raising its head to neighboring country in India where banking system is considered to be more systematic advanced and up to the global standard. Therefore Reserve Bank of India (RBI), Central Bank of India has given paramount preferences to the mounting NPL in financial sectors of Indian economy.

The book on 'Managerial Finance' written by Weston and Brigham stresses on Risk-Return trade off as one of the major financial functions. They believe that the maximization of the value of the firm can be achieved through maximization of returns in one hand and minimization of risk in the other. The relationship between the expected future state of the economy and the performance of individual firms enables a relationship to be set forth between the state of the economy and the returns from investment in firms (Weston and Brigham; 1980: 93).

Describing about the new areas of finance, James C. Van Horne in his book 'Financial Management and Policy' stresses on two broad functions, viz:

- Investment in assets and new products;
- Determining the best mix of financing and dividends in relation to a company's overall valuation.

According to him "Investment of funds in assets determines the size of the firm, its profits from the operations, its business risk and its liquidity. Obtaining the best mix of financing and dividends determines the firm's financial charges and its financial risk; it also impacts its valuation" (Van Horne; 1997:758-776).

Mr. B.S. Khubchandani in his book "practices and law of banking" has mentioned about NPL and income recognition norms. He has quoted a high level committee headed by Shri M Narasingham appointed by the government of India that was formed in august, to examine all aspects relating to the structure, Organization , functions and procedures of financial system. (Khubchandani B.S. 1991:305)

The recommendations were to make the balance sheets more transparent with full disclosures. It also emphasizes on internationally accepted accounting system practices so far income recognition is concerned i.e. income recognition should be based on cash realization instead of accrual basis. Similarly, risky assets should be classified as per their NPL criterion. It also speaks of BASEL committee recommendation in regard to the capital adequacy ratio (CRR) of banks. It says

"following these recommendations, the RBI issued a host of guidelines\instructions to banks in April 1992. Since the crux of the matter relates to definition of NPL based on which alone the income recognition, assets classification, provisioning and capital adequacy of banks and other financial institutions is determined, the RBI has issued the following guidelines the banks from time to time.

- a) The definitions/criterion adopted for treating an account as NPL is that, for instance, if interest debited/installment due in an account prior to 31 march, 1991 say as on 31 March, 1991 is still not collected such interest/ installments should be deemed to have become due on 30, April 1991. Up to 30 April 1991, the facilities would be treated as "substandard" and from 1 may 1991, they would be treated as "doubtful". Thus for the treatment of credit as a NPL, the entire period for which interest/ installment remains uncollected should be reckoned.
- b) All the accounts will be treated as non-performing. If in the case of :
 - i) Term loans: interest remains past due for a period of
 - quarters, for the ending 31 march 1993.
 - quarters, for the ending 31 march 1994.
 - quarters, for the ending 31 march 1995 and onwards.
 - ii) Cash credits and overdrafts: the account remains out of order or the periods indicated as before.
 - iii) Bills purchased discounted: The bill (BP/BD) remains overdue/ unpaid for the period specified hereinbefore.
- c) If a particular facility of a Borrower on the above criterion/definition becomes NPL. And then all the facilities granted to the borrower should be treated as NPL. Thus, the treatment of NPL concept is borrower wise and not facility wise.

- d) It was also clarified by the RBI that in cases where the outstanding balances in the principal operating account is less than the sanction limit/drawing limit, but there are no credits continuously for six months as on the date of the balance sheet or credits are not enough to cover the interest debited during the period, these accounts should be treated as out of order.
- e) An account should be considered 'past due' if is not repaid within 30 days from the due date. Thus if interest is due on 31 March 1992, it becomes past due on 30, April 1992, if it is not paid/collected within 30 days grace period.
- f) Both interest and installments, where ever applicable, should be taken in to account for assessing the NPA status of an account, after of course, allowing for 30 days, grace period in both cases.

2.4 Review of Relevant Articles, News Letter, Journals

For Nepalese banking system and its amounting NPL s level, some of the think takes from the related sectors have commented and forwarded their views, suggestions through articles, journals, speeches, news letters etc.

These suggestions, recommendations and views are based on past track record and practices; some of financial menance. Therefore the researcher has tried to drag in some of their related views to the research work.

Bhisma Raj Dhungana director bank and financial institution Regulation department, NRB in some years ago. In his article "NPLS and its management" in Banking Prabradam 20 pg 7, he has expired an introduction of NPL and its problem in commercial banking sector. He has explained the main cause for high level of NPL in the Nepalese banking system and he has given instruction of how to solve the NPL problem? He has described the steps initiated by NRB to control the level of NPLS in the system.

He has described of main factor effect to increasing level of NPL. According to his own view on main causes for high level of NPA in the Nepalese banking system, "Nepalese banking system suffers from problem in credit management and also some obstacles beyond the area of credit management those are contributing to raise the level of NPL. For the purpose of this analysis, the factors contributing to have a high level of NPL have been classified into two groups. The first is internal factor which mainly comprise of weakness of the particular bank or financial institution in the credit management and over sight deficiencies in this regard. If preventive measures are applied at the institutional level, the banks themselves to some extent can resolve the problem of NPLS. Similarly, another aspect relate with the external factor beyond the control of the external factors beyond the control of the bank and financial institution. We can point out some of these components as follows:

Internal factors

- a) Lack of loan write off policies.
- b) Poor recovery efforts even the loan is categorized under bad.
- c) Insider abuse and fraud in lending and recovery.
- d) Limited supervision by the bank itself and weak internal controls in the bank. This comprise of weak supervision and monitoring, lack of reward and punishment system and poor management information system (MIS) to monitor, manage and control the risks with in the banks and financial institutions.
- e) Management oversight deficiencies in policy level, along with rapid and aggressive growth strategies in some banks and lack of competencies in the BOD to monitor risk.

- f) Risk management deficiencies within banks and financial institutions. This comprises of poor system, procedures and credit culture in credit management.

External factor

- a) Poor legislative regime in the system specially governing financial issues.
- b) Other systematic problems that are being faced by all the financial institutions equally.
- c) Security and conflicts situation at present.
- d) Poor regulative and supervisory capacity of the central bank in the past.
- e) Deterioration in economic growth rates and activities since last few years.
- f) Lack of supportive institutions helping to reduce the NPA, such as lack of effective and professional notary public office in order to eliminating problems associated with bills purchased and discounted, lack of secured transaction office to register moveable properties, lack of credit rating agencies facilitating to rate the risk grades, lack of asset management corporation assisting the financial institution to manage the distressed loans, lack of proper training center and academic institutions focused to enhance the skills on credit management, lack of debt recovery tribunal to deal with loan accounts.

2.5 Review of Thesis

Researcher tried to find out research works done in this field through the concerned places and found two unpublished thesis in the related field. Therefore review of the same is attempted.

Mr. Dinesh Kumar Khadka (2004), in this thesis has pointed out overall commercial bank's problem raised by NPL. He has stated with some definitions of NPL to make the subject easily comprehensive to the reader/ new researchers. Though his research is meant for overall commercial banks, he has focused his views and comment on two large state owned commercial banks saying "the total NPL in the banking system is about 35 billion while it is even worse in case of two largest commercial banks RBB and NBL."

He gives a short glimpse of the status of these two state owned commercial banks in line with views expressed by Dr. Tilak Rawal, former governor of NRB that overall NPL stands at 30 percent and the NPL level exclusively for RBB and NBL counts for 52 percent and 62 percent respectively that together accounts for 37 percent of the total deposit of sum of Rs 200 billion and 40 percent of total loan outstanding of Rs 125 billion of the banking system as a whole.

He also emphasizes some relaxation based on the Himalayan times 12 November, 2003 that says "the financial sector reform measures undertaking can be broadly grouped under three heads- Reengineering of NRB, Restructuring of RBB and NBL, and capacity building of the financial sector. Management of the two ailing banks has been handed over to two teams, consisting of experts from within and outside Nepal."

His study is based on sampling of five commercial banks. Those are Nepal Bank limited (NBL), Nepal SBI Bank limited (NSBIBL), Bank of Kathmandu (BOK), Nabil Bank limited (NABIL) and Nepal Investment Bank limited (NIBL). Comparison has shown the NBBL to be the worst in case of NPL. He states," Among five sampled commercial banks, the NPL of NBBL seems very worse than all other banks. The NPL of NBBL at the end of F/Y 2059/060 stands at 12.73 percent of total lending's which was decreased from 15.77percent of previous year.

Paudel, P. (2001) in his Thesis "A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd. (NBBL) and Himalayan Bank Ltd. (HBL)" has made comparative study of these two banks in different lending aspects and strategies.

In his findings, the liquidity position of NBBL is comparatively better than HBL. The liquidity ratio of HBL is more stable and consistent than NBBL that indicates the stable policy of HBL, NBBL is found slightly better to be maintaining between assets and liabilities. NBBL has high lone and advances to total assets ratio, loan and advances to total deposit ratio, but HBL has high investment to total loans and advances and investment and total investment to total deposit ratio. He has concluded that NBBL is able to manage its assets to complete in this competitive banking business than HBL. As per his findings its liquidity position of NBBL is better and hence HBL is recommended to its liquidity position. He has suggested both bank to strictly follow the NRB directives, which will help them to reduce credit risk arising from borrower's defaulter, lake of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Loan lass provision of both banks is in fluctuating trend. So both banks are suggested to adopt sound credit collection policy which wills helps to decrease loan loss provision.

The main objective of his Thesis lending practices of joint venture commercial banks with reference to NBBL and HBL is investment criteria and sector, loan distribution and advance practice of joint venture bank. The limitation of the thesis was base on secondary data given by responded, five year's data and non ending year's data.

Ojha, L P. (2002) in his dissertation about "lending practices" has written that the commercial banks have to expand their credit in the area if rural economy so as to compromise between the liquidity and credit need such economy. This helps in minimizing the idle find in business and at the same time contribute to the national economy. The banks should also increase the volume of credit in the sector of agriculture as the ratio of contribution made by the banks in this priority is decreasing.

Research has found out that following the normal guidance of Nepal Rastra Bank and acting upon reduces many on the credit risk arising from borrower's defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers, and professional defaulter. The over confidence of commercial banks regarding credit appraisal efficiency and negligence taking information from Credit information bureau has caused many of the bad debts in these banks. He thinks that these banks have to follow the directives of NRB strictly and be more cautious and realistic while granting loans and advances.

The high volume of liquidity reveals that a degree of lending strength has been prevailing in all of the commercial banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks less oriented towards the lending function. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural

economy. Posing the compulsions by directives does not create long-term healthy lending practices unless the commercial banks are not self-motivated to flow credit in this sector.

Joshi, S. (2003) In "A Comparative Study on Financial Performance of Standard Chartered Bank Nepal Limited and Everest Bank Ltd" states that the mean current ratio of EBL is slightly higher than that of the SCBNL and the variability of ratio of EBL is more consistence than SCBNL in comparison. The mean ratio of cash and bank balance to total deposit of SCBNL is lower in comparison to EBL. SCBNL has better liquidity position than EBL because of the high volume of liquidity indicated the inability of the bank to mobilize its current assets. Moreover SCBNL's ratios are homogeneous than EBL. The mean ratio of case and bank balance to current assets of SEBNL is lower in comparison to EBL. Similarly, SCBNL's ratios of the study period are more consistent than EBL. The mean ratio of loan and advances to total deposit of EBL is higher than SCBNL. It can be said that EBL used to provoked grater loan and advance in comparison to its total deposit than SCBNL. Likewise, SCBNL's ratio seems to be variable than EBL. The mean ratio of investment on government securities to total working fund of SCBNL is higher than EBL. Consequently, it has consistency in maintaining the ratio than EBL. The mean ratio of return on loan and advances of SCBNL has found to be significantly grater than EBL with more consistency than that of EBL. The mean ratio of credit risk of SCBNL is lower than that of EBL's ratio are more consistent that of SEBNL. Growth ratio of deposit is more consistent than that of SCBNL is lower i.e. 19.28% in comparison to EBL i.e. 76.46%.

The main statement of the problem of his research is the investment decision is the major tool of financial institution. There are many finance companies and commercial banks operating in Nepal. The fast growth of such organizations has

made pro-rata increment of in collecting deposits and their investment. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilizes their fund on the changing context of Nepal. Many banks or companies succumbed to liquidation although they had sustainable investment capacity. The increasing rate of liquidation has caused a downward trend in investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of shares etc. for the assessment of such adverse impact, this study has shown to contrast and analyses the investment policy of joint venture banks. Joint venture banks viz. standard chartered bank Nepal ltd and Everest banks limited. The main objectives are compare investment policy of concern banks, find out the empirical relationship among total investment deposit, deposit utilization loan and advance, net profit and outside asset and compare of SCBNL and EBL.

Regmi, P. (2004) in the study Entitled "Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Katmandu" states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management help to minimize or manage the credit risks and spreading over the risks to various portfolio. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 year of research period, cash and bank balance to total deposits of ratio of NB bank & BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an asset guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is

3421.3milliins (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

The main statement of the problem of his the Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector. Nevertheless, commercial banks and rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRB's regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence the principle "do not put all the eggs in basket" really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction. The objectives of this research are to analyze the functions, objectives, activities, credits and advances procedure and recovery status of the NB bank and BOK.

Shrestha, S. (2005) in has dissertation "Credit management with special reference to Nepal SBI Bank ltd" illustrates that lending is one of the most important parts of function of a commercial bank and composition of loan and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of a certain portion of the loan and advances, profitability deposits

position of Nepal SBI bank Limited is analyzed and its contribution in total profitability has been measured.

The main statement of the problem of his study is the credit management is the essence of commercial banking. Consequently, the formulation and implementation of sound Credit policies are among the most important responsibilities of bank directors and management. Well-conceived credit policies and credit careful credit practice are essential if a bank is to perform its credit creating effectively and minimize the risk inherent in any extension of credit-credit management effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks. Measuring the credit performance in quality, efficiency and contribution of profitability, liquidity position and its effect on credit performance and measure the growth rate and propensity of growth based on trend analysis are the main objective of his dissertation.

Gurung, A.K. (2006) explored in his research "Lending policy and recovery management of Standard Chartered Bank Nepal Ltd and NABIL Bank Limited" has found out that the deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continues. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and NABIL has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. Thus, this ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and NABIL respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is in decreasing trend. While looking at the future trend of loan loss provision it shows the increasing trend in case of SCBNL and the trend of lone loss provision is decreasing every year in case of NABIL, which is provide by the trend analysis. The correlation of loan loss provision and loan disbursement of NABIL is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, landing and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Misra, S. (2007) entitled her Thesis "Credit management of Everest Bank Limited" illustrate that liquidity position, cash reserve ratio shoes the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition. Cash and bank balance to current asset ratio shows that the bank's sound ability to meet the daily cash requirement of their customers deposit. That is why liquidity position of the bank is the better.

In the aspect of profitability position, interest income to interest ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operating income. Return on

loan advances are showing position that is more profitable on of the EBL. Analysis of the assets management ratio, loan advances to total assets ratio shows the better performance but loan and advances to total deposit position in minimum than the averages. Whereas investment in loan and advances is safely and not taking more risk. That's why assets management position of the bank shows better performance in the latest year.

After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank. EBL Bank has sufficient liquidity. It shows that bank has got investment sectors to utilize their liquid money.

This is recommend that Cash and bank balance of EBL bank is high. Bank efficiency should be increased to satisfy the demand of depositor at level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors. Bank should open their branches in the remote area with the objective to provide the banking services and minimum deposit amounts should be reduced. The main objective of this study is to evaluate the credit management of Everest Bank limited. Besides, there may be other objectives as well like to examine the impact of deposit in liquidity, loan management procedure, asset management and lending efficiency of the Everest Bank Limited.

Limbu, R. (2008) in his dissertation "Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of NABIL bank. In the aspect of liquidity position cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5

years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

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

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

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and

total assets has high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

B. R. Ghimire (2009) in his article titled "Credit Sector Reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is common across most of the banks is the increased size of non performing assets (NPAs), to resolve the problem of the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years.

As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lenient as they help to strengthen banks financially. He has also stated that tightening provisioning requirements on NPL is to ensure that banks remain liquid even during economic downturns. In the conclusions he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis, "All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2002. To adapt to such changes there can be some difficulties and for a better and harmonized reform NRB should continue to be supportive, proactive and also

participative to take opinions of bankers for a change in regulation/policy taking place in the future."

CHAPTER –III

RESEARCH METHODOLOGY

This study aims to explore the NPL and its impact of RBB. It also intends to examine whether there is any direct relationship between the growing instability of all kinds and NPLs. and to fulfill the objective of the study a systematic methodology has been followed. To reach the findings of any study we have to use right methodology. Methodology is a design or framing of whole study. This study has used mostly descriptive research methods. By this methodology researcher tries to find out the real scenario of NPLs of RBB and its comparative relation to banking healthy. This study only based on secondary data, as a data analysis tools, researcher has used the statistical and financial analysis tools to show the relations

3.1 Research Design

So research design is the specification of methods and procedures for acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. This research is aimed at studying the NPL of RBB. For this purpose, the present study has been analytical and descriptive type of research design.

3.2 Natures and Source of Data

This study has included only secondary data, Sources of information. Secondary data will be obtained from all the published books, booklets, articles, bulleting, annual reports and other related materials including international rules and regulation. The data collected will be both qualitative and quantitative.

Basically, the data and information required for this purpose is to be obtained from Nepal Rastra Bank. Therefore all the data collected are secondary.

Following are the secondary data collection sources:

- Annual reports, News letter, broacher etc of RBB.
- Laws, guidelines and directive regarding the subject matter. iii:-Text books
- Related articles published in newspapers, journals, magazines, and other publications.
- Unpublished thesis and dissertation.
- Various reports published by NRB. Quarterly report of financial statistics, banking and financial statistics no.46, Nepal Rastra Bank Samachar etc.
- Various related websites www.nrb.org.np, <http://internet/newsn.events.php>, www.nepalnews.com.np, www.sebonp.com.np etc.
- Beside above any kind of other sources, such as assertions, interviews, remarks/opinion by the experts that provides valuable data and conclusion regarding the subject mater has been considered in this study.

3.3 Population and Sample

Population refers to the entire group people, events or things of interest that a researcher wishes to investigate. Since this study is about NPL and its impact of commercial banks, the population for this study comprised all the licensed commercial banks of the country.

There are altogether 26 commercial banks in Nepal. The commercial banks of Nepal can be categorized into two type's namely public sector and private sector. Public sector banks include two old banks NBL and RBB and private sector banks comprise remaining banks. Out of the total population RBB is selected as sample for this study by using judgmental sampling method. Cause of selecting RBB is more effecting by NPL and it's impact on various sector (like Net profit, loan

lending procedure, deposit repayment capacity, loan loss provisioning e.t.c.) of RBB. So this study could represent true picture of NPL and it's effect on commercial banks.

The population is as follows:

Population	Sample
Nepal Bank Limited	Rastriya Banijya Bank
Rastriya Banijya Bank	
Agricultural Development Bank	
Himalayan Bank Limited	
Nepal SBI Bank Limited	
Nepal Bangladesh Bank Limited	
Standard Chartered Bank Limited	
NABIL Bank Limited.	
Siddhartha Bank Ltd.	
Laxmi Bank Ltd.	
Nepal Investment Bank Ltd.	
Kumari bank Ltd	
Machhapuchhre bank Ltd.	
Everest Bank Limited	
Bank of Kathmandu Limited	
Nepal Credit and Commerce Bank.	
Nepal Industrial & Commercial Bank	
Lumbini Bank Limited	
Bank of Asia Ltd.	
Development Credit Bank limited.	
Prime commercial bank Ltd.	
Citizen bank international Ltd.	
NMB bank Ltd.	
Global bank Ltd.	
Sun raise Bank Ltd.	
Kist Bank Ltd.	

Among the 26 Commercial Banks, I have chosen one R. B. Bank.

3.5 Methods of Analysis

The available information is grouped as per the need of the research work in order to meet research objectives. The collected data are presented in appropriate forms of in tabulation and charts. The collected data are organized and analysis is done using all the appropriate statistical, financial and simple mathematics tools.

3.6 Financial Tools

While adopting financial tools, ratio analysis is used as a benchmark for evaluating the financial position and performance of any firm. According to LM. Pandey, "Financial analysis is the process of identifying the financial strength and weakness of the balance sheet and profit and loss account." According to John wild, K.R, Subramanyan, report Halsey, "Financial analysis is the use of financial statements to analyze a company's financial position and performance and to assess future financial performance."

3.7 Ratio analysis

Ratio analysis is the widely used tool of financial analysis. Financial ratio is the mathematical relationship between two accounting figures. Ratio is simply one number expressed in terms of another and as such it expresses the numerical or quantitative relationship between two reprisals. Ratio analysis reflects the relative strengths and weakness of any organization and also indicates the operating and financial growth of the organization.

According to I.M. Pandey, "ratios help to summarize large quantities of financial data and to make quantitative judgment about the firm's financial performance. The relationship between two accounting figures expressed mathematically is known as financial ratio." Even though there are many ratios, only those ratios

have been calculated which are related to the subject matter. Following ratios have been computed and analyzed in this study.

- a) NPL to total deposits.
- b) NPL to total assets.
- c) NPL to total loans and advances.
- d) NPL loan loss provision to NPL.

a) *NPL to total deposits*

This ratio tells the volume of NPL compared to ascertain the repayment capacity of the banks to its depositors; this ratio is calculated as follows; NPL to total deposit

$$\text{Ratio} = \frac{\text{NPL}}{\text{Total deposits}}$$

b) *NPL to total assets ratio*

This ratio determines the proportion of NPL held to total assets of the bank. This ratio measures the financial health of bank and measures the marginal efficiency of bank. Higher the ratio indicates that the low capacity of marginal efficiency of bank and weak financial health. Therefore, lower the ratio is preferred for financial institutions NPL to total assets ratio

$$= \frac{\text{NPL}}{\text{Total assets}}$$

c) *NPL to total loans and advance ratio*

This ratio determines the proportion of non- performing loans in the total loan portfolio. It is used to know the situation of NPL of Nepal bank limited. Knowing % of NPL to total loans and advances, we may be aware what are the possibilities of roll over of the funds exposed to risk assets? Higher ratio implies the bad quality of asset of banks in form of loans and advances.

Hence lower NPL to total loan and advances ratio is preferred. as per international standard only 5% NPL is allowed but in the context of Nepal 10% NPL is accepted. This ratio is calculated as follows:

$$\text{NPL to total loan and advance} = \frac{\text{NPL}}{\text{Total loan and advances}}$$

d) Loan loss provision to NPL ratio

This ratio describes the quality of assets in the form of loans and advances that a bank is holding. Since there is risk inherent in loans and advances, NRB has directed commercial banks to classify its loans into different categories and accordingly to make provision for probable loss. Loan loss provision signifies the cushion against future contingency created by the default of the borrower in payment of loans and ensures the continued solvency of the banks. Since high provision has to be made for NPL, higher provision for loan loss reflects increasing NPL in volume of total loans and advances. The low ratio signifies the good quality of assets in the volume of loans and advances. It indicates how efficiently it manages loan and advances and make efforts to cope with probable loan loss. Higher ratio implies higher portion of NPL in the total portfolio. This ratio is calculated as follows:

$$\text{LLP to loan and advances} = \frac{\text{LLP}}{\text{NPL}}$$

3.8 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as correlation coefficient analysis, standard deviation, coefficient or variance, least square linear trend and hypothesis testing have been used. The basis analysis is written in point below:

1. Coefficient of correlation between different variables.
2. Trend analysis of important variable.

Correlation and Regression

Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. For

example in the study area, change in the value of loan and advances are associated with the change in NPL.

Similarly, changes in value of LLP are accompanied by change in NPL.

Karl person's correlation coefficient

Karl person's correlation coefficient denoted by r measures the intensity or magnitude or degree of relationship between the two variables.

3.9 Trend Analysis

Trend analysis is one of the statistical tools, which is used to determine the improvement or deterioration of it's financial situation. Trend analysis informs about the excepted future values of various variables. The least square method has been adopted to measure the trend behaviors of these selected banks. This method is widely used in practices.

Diagrammatic and Graphical Representation

Diagrammatic and graphs are visual aids that give a bird eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Hence various bar diagrams, pie chart and graph have been used for presentation and analysis of data. This representation has been conducted on the various factors related to NPL.

- a) Trend line analysis of NPL.
- b) Trend line an of total Assets.

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

In this chapter, efforts have been made to present and analyze the collected data. All the efforts have been made to analyze and Present the collected data from the various sources. This chapter determines the quality of the study because how for the collected data are present and analyze with the help of various financial and statistical tools, tables, graphs etc as of meaning fully and clearly. This chapter is performed to know the clear picture of the non performing loan of Rastriya Banijya bank LTD.

Simple percentage is used to analyze the data as arithmetical tools. Karl person's correlation coefficient and trend analysis are also used to analyze data as statistical tool. Ratio analysis is used to analyze the data as financial tool. Graphical and diagrammatic analysis is used to show the clear picture of collected data but it has been using with ratio analysis. This chapter is the heart of the study as all. The findings, conclusions and recommendations are going to be derived from the calculations and analysis done in this section.

4.1 Ratio Analysis

4.1.1 NPL to Loan and Advances Ratio

This ratio determines the proportion of NPL in the total loan portfolio. As per NRB directives the loans falling under category of sub-standard, doubtful and loss are regarded as NPL. Loans and advances are the assets created through liabilities to earn profit. The ratios represent the NPL to loan And advances, higher ratio implies the bad quality of assets of banks in the form of loan and advances. Hence lower NPL to total loan ratio is preferred.

As per international standard only 5 percent NPL is allowed but in the context of Nepal maximum 10 percent NPL is accepted Table

Table 4.1
NPL to Loan and Advance Ratio

Year	Total loan and advance	NPL	Ratio (in %)
2004 mid July	24804	14186	57.19
2005 "	26694	13393	50.17
2006 "	22945	8349	36.38
2007 "	24568	5127	20.86
2008 "	27428	5776	21.05.

Table 4.1 exhibits the ratio of NPL to loan and advances of RBB for five consecutive years. The figure represented in table 4.1 shows that RBB has the highest ratio throughout the study period. Ratios of NPL total loan and advances are 57.19 percent in mid July 2004, 50.17 percent in mid July 2005, 36.38 percent in mid July 2006, 20.86 percent in mid July 2007, 21.05 percent in mid July 2008. The figures show a decreasing trend of the ratio of NPL to total loan and advances. Decreasing trend of this ratio is the result of effective credit management of bank and its effort of recovering bad debts through establishment of recovery cell. RBB has NPL very much higher than the acceptable standard of 10 percent. However RBB is managing to reduce this ratio in these recent years.

Figure 4.1

Status of Total loan and advance and NPL

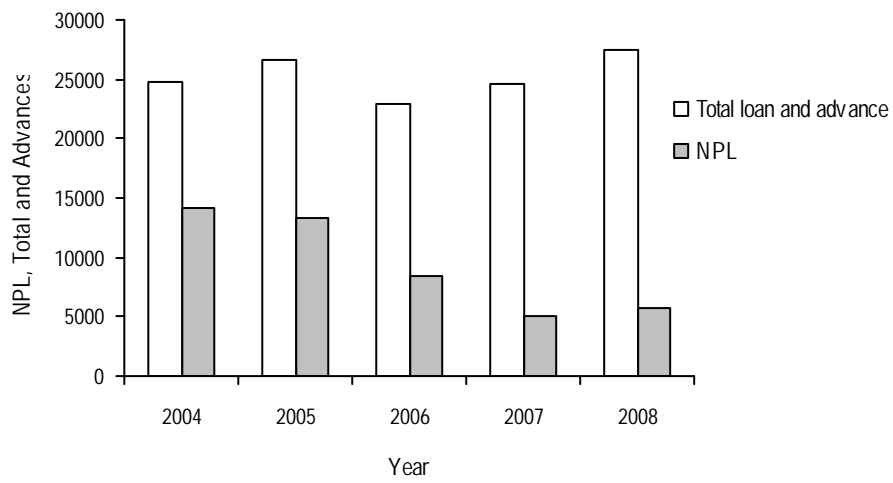


Figure 4.1 makes it easier and clearer to understand the status of NPL and total loan and advances of RBB for five consecutive years.

4.1.2 NPL to Total Assets Ratio

This ratio determines the proportion of non-performing loans to total assets of the banks. This ratio measures the inactive assets of a bank. All assets are expected to generate net profit, but NPL is always inactive and is also one type of asset. A lower ratio signifies that the bank has more assets that are generating net profit. Hence, a lower ratio is better for the financial position of the bank.

Table 4.2

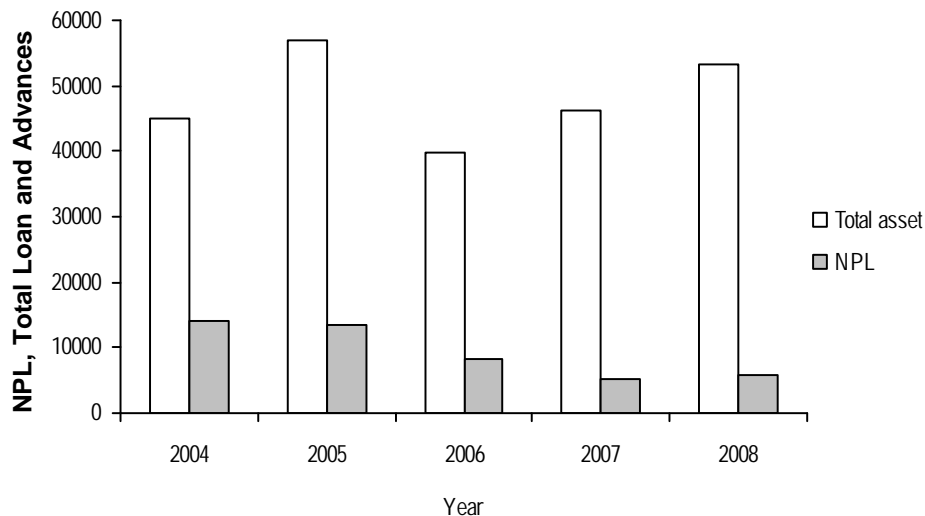
NPL to Total Assets Ratio (Rs. in million)

Year	Total asset	NPL	Ratio (%)
2004 mid July	45056	14186	31.45%
2005 mid July	56822	13393	23.57%
2006 "	39879	8349	20.93%

2007 "	46139	5127	11.11 %
2008 "	53232	5776	10.85%

Table 4.2 exhibit the ratio of NPL to total assets of RBB for five consecutive years. Ratios of NPL to total assets are 31.45 percent in mid July 2004, 23.57 percent in mid July 2005, 20.93 percent in mid July 2006, 11.11 percent in mid July 2007, 10.85 percent in mid July 2008. According to table 4.2 the ratio is decreasing trend of RBB for five years. This trend shows that these assets were using to generate the net profit.

Figure 4.2
NPL and total assets of RBB



4.1.3 NPL to Total Deposit Ratio

The NPLs are directly related to the monies that are borrowed by a bank from depositors. The ratio of NPL to total deposit represents the non refundable deposit of banks. It means the ratio indicates the measure the repayment capacity of banks.

Table 4.3

NPL to Total deposit Ratio (RS in million)

Year	Total deposit	NPL	Ratio
2004 mid July	40866	14186	34.71%
2005 "	43016	13393	31.13%
2006 "	46195	8349	18.07%
2007 "	50464	5127	10.15%
2008 "	58333	5776	9.90%

Table 4.3 exhibit the ratio of NPL to total deposit of RBB for five consecutive years. The figure represents in above Table3 shows that RBB has highest ratio through out the study period. Ratios of NPL to total deposit are 34.71 percent in mid July2004, 31.13 percent in mid July 2005, 18.07 percent in mid July 2006, 10.15 percent in mid July 2007, 9.90 percent in mid July 2008. This gives in current years due to strict recovery policies and recovery actions of the banks, the repayment capacity of bank are improvement with lower NPL level compared to deposit growth rate indicates effective recovery action.

Figure 4.3
Status of total deposit and NPL

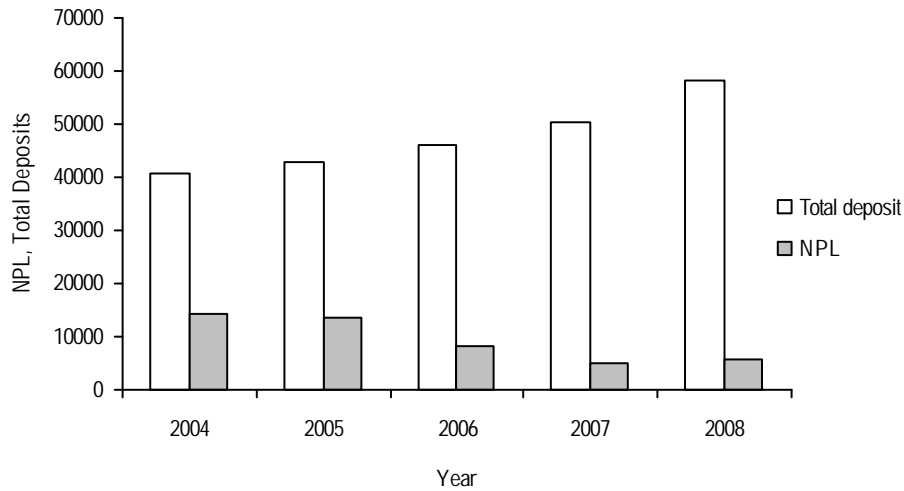


Figure 4.3 makes easier and clear to understand the status of NPL and total deposit of RBB for five consecutive years.

4.1.4 Loan Loss Provision to NPL Ratio

This ratio determines the proportion of provision held to NPL of the banks. This ratio is measures up to what extent of risk inherent in NPL is covered by the total loan loss provision. Higher ratio signifies that the banks are safeguard against future contingencies that may create due to NPL or in other words, banks have cushion of provision to cape the problem that may be cause due to NPL. Hence higher the ratio better is the financial portion of the bank.

Table 4.4
Loan Loss Provision to NPL Ratio (Rs. in million)

year mid July	Loan loss provision	NPL	Ratio
2004	12497	14186	113.51 %
2005	13311	13393	100.61%
2006	8340	8349	100.10%

2007	7310	5127	70.13%
2008	6302	5776	91.65%

Table 4.4 exhibit the ratio of provision held to NPL of RBB for five consecutive years. Ratio of LLP to NPL are 113.51 percent in mid July 2004, 100.61 percent in mid July 2005, 100.10 percent in mid July 2006, 70.13 percent in mid July 2007, 91.65 percent in mid July 2008.

According to table4.4 the ratio of mid July 2004 to mid July 2007 was decreased and mid July 2008 was increased. It shows that RBB has highest ratio though out the study period and also shows decreasing trend for the study period. Higher LLP is indicates of poor and ineffective credit policy, higher proportion of NPA and poor performance of the economy. Hence the greater LLP of RBB suggest that there is high proportion of NPL in the total loan and advance and decreasing trend of loan loss provision amount of RBB explains that RBB has been successful to reduce its NPL resulting to decreasing LLP amount.

Figure . 4.4
Status of NPL and LLP

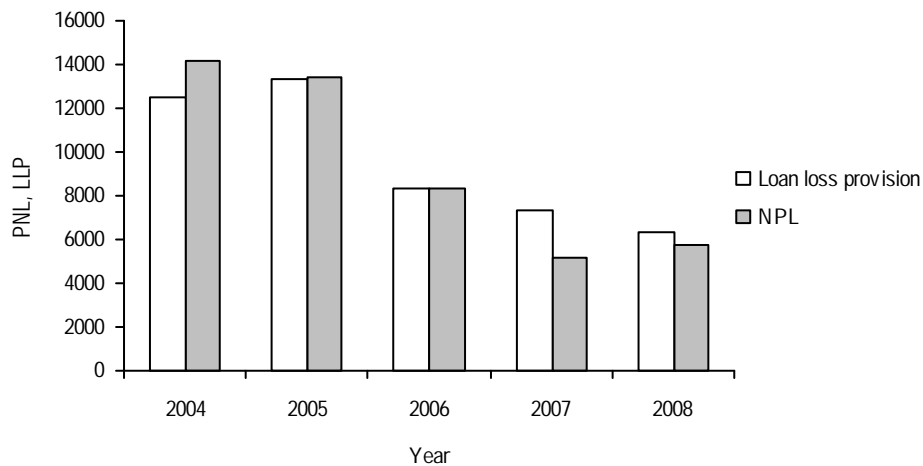


Figure 4.4 makes easier and clear to understand the status of NPL and loan loss provision of RBB for five consecutive years.

4.2 Trend Analysis

4.2.1 Trend Analysis of NPL

Under this topic, an effort has been made to calculate the trend value of NPL of RBB for five years from the mid July 2004 to mid July 2008 and forecast for next five year mid July 2009 to mid July 2013. The following Table-5 show the trend value of NPL for the ten years from mid July 2004 to mid July 2013. (Annex -2)

Table 4.5
Trend Analysis of NPL

Year mid july	Deviation from mid July 2006 X	Yc=a+bx Yc=9366.2-2508.6x
2004	-2	$y_{2004} = 9366.2 - 2508.6 \times -2 = 14383.4$
2005	-1	$y_{2005} = 9366.2 - 2508.6 \times -1 = 11874.8$
2006	0	$y_{2006} = 9366.2 - 2508.6 \times 0 = 9366.2$
2007	1	$y_{2007} = 9366.2 - 2508.6 \times 1 = 6857.6$
2008	2	$y_{2008} = 9366.2 - 2508.6 \times 2 = 4349$
2009	3	$y_{2009} = 9366.2 - 2508.6 \times 3 = 1840.4$
2010	4	$y_{2010} = 9366.2 - 2508.6 \times 4 = -668.2$
2011	5	$y_{2011} = 9366.2 - 2508.6 \times 5 = -3176.8$
2012	b	$y_{2012} = 9366.2 - 2508.6 \times 6 = -5685.4$
2013	7	$y_{2013} = 9366.2 - 2508.6 \times 7 = -8194$

Table 4.5 show that RBB has decreasing trend of NPL. The average NPL of RBB is Rs 9366.2 million, which is decreasing at the rate of Rs2508.6 million every year. NPL is expected to decrease from Rs4349 million in mid July 2008 to Rs - 668.2 million in mid July 2010, which is negative value for NPL. Therefore its

NPL would be zero, in mid July 2010. According to decreasing rate of NPL, the bank would be recovery all the NPL only up to mid 2010. RBB is suffering from the problems of bad debts, it has huge amount of NPL in starting of study period Here, NPL of RBB has decreasing trend. Decreasing trend of NPL shows that it is successful in reducing the NPL of bank and it show decreasing trend, which is an indication of decrement of NPL in the total assets quality.

Figure . 4.5
Trend analysis of NPL

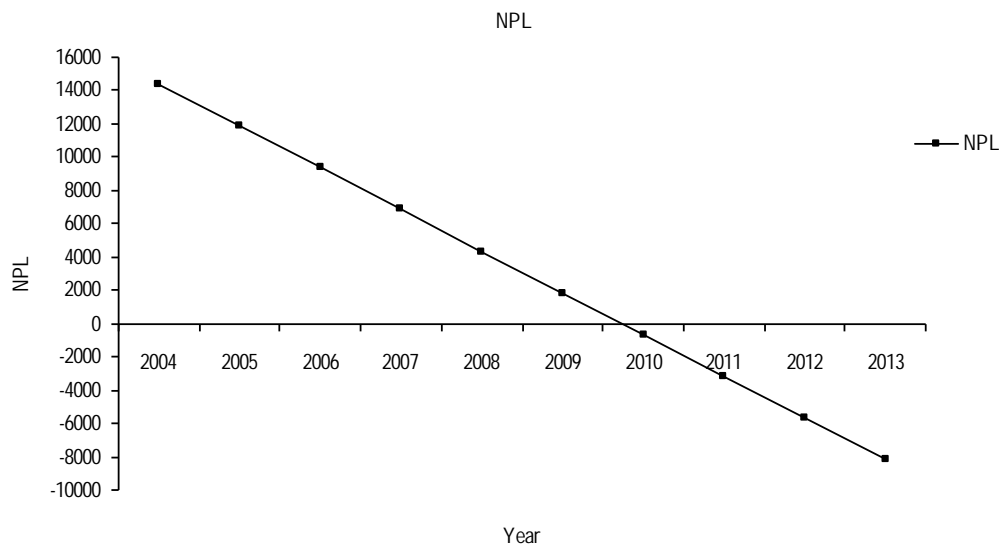


Figure 4.5 represents the trend line of NPL of bank for consecutive year.

4.2.2 Trend Analysis of Total Loan and Advances

Under this topic, an effort has been make to calculate the trend value of total loan and advances of RBB for five years from the mid July 2004 to mid July 2008 and forecast for next five year from mid July 2009 to 2013. The following Table 6 show the trend value of total loan and advances for the ten years from mid July 2004 to mid July 2013. (Annex-2).

Table 4.6

Expected Trend Value of Total Loan and Advances (Rs in million)

Year mid July	Deviation from mid July 2006 (X)	$Y_c = a + bx$ $Y_c = 25287.8 + 312.2 * x$
2004	-2	$y_{2004} = 25287.8 + 312.2x - 2 = 24663.4$
2005	-1	$y_{2005} = 25287.8 + 312.2x - 1 = 24975.6$
2006	0	$y_{2006} = 25287.8 + 312.2x_0 = 25287.8$
2007	1	$y_{2007} = 25287.8 + 312.2x_1 = 25600$
2008	2	$y_{2008} = 25287.8 + 312.2x_2 = 25912.2$
2009	3	$y_{2009} = 25287.8 + 312.2x_3 = 26224.4$
2010	4	$y_{2010} = 25287.8 + 312.2x_4 = 26536.6$
2011	5	$y_{2011} = 25287.8 + 312.2x_5 = 26848.8$
2012	6	$y_{2012} = 25287.8 + 312.2x_6 = 27161$
2013	7	$y_{2013} = 25287.8 + 312.2x_7 = 27473.2$

Table 4.6 shows that RBB has an increasing trend of total loan and advances. The average total loan and advances of RBB is Rs.25287.8 million, which is increasing at the rate of Rs.312.2 million every year. Total loan and advances is expected to increase from Rs.25912.2 million in mid July 2008 to Rs.27432.2 million in mid July 2013. RBB is suffering from the problems of bad debts, they are concentrating more on recovering bad debts and there was further investment in the form of loan and advances, hence its loan and advances show an increasing trend for the study period. On the other side, its profitability opportunity will be gained because of the increasing trend of loan and advances. Increasing trend of loan and advances shows that it is successful in the increment of investment in loan and advances of the bank, which is an indication of an increment of net profit.

Figure. 4.6
Trend Analysis of total loan and advances

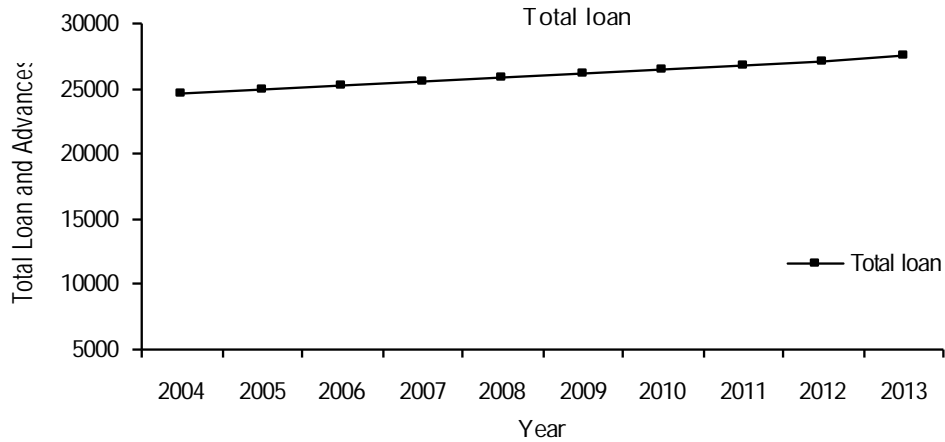


Figure 4.6 represents the trend line of total loan and advances of bank for consecutive year.

4.2.3 Trend Analysis of total assets

Under this topic, an effort has been make to calculate the trend value of total assets of RBB for five years from the mid July 2004 to mid July 2008 and forecast the next five years from mid July 2009 to mid July 2013. The following Table 4.7 shows the trend value of total assets for the ten years from mid July 2004 to mid July 2013. (Annex-2).

Table 4.7
Except Trend Value of Total Assets (Rs in Million)

year	Deviation from mid July 2006 (x)	yc = a + bx, yc = 48225.6 + 566.9 × x
2004	-2	y ₂₀₀₄ = 48225.6 + 566.9 × -2 = 47091.8

2005	-1	$y_{2005} = 48225.6 + 566.9 \times -1 = 47658.7$
2006	0	$y_{2006} = 48225.6 + 566.9 \times 0 = 48225.6$
2007	1	$y_{2007} = 48225.6 + 566.9 \times 1 = 48792.5$
2008	2	$y_{2008} = 48225.6 + 566.9 \times 2 = 49359.4$
2009	3	$y_{2009} = 48225.6 + 566.9 \times 3 = 49926.3$
2010	4	$y_{2010} = 48225.6 + 566.9 \times 4 = 50493.2$
2011	5	$y_{2011} = 48225.6 + 566.9 \times 5 = 51060.1$
2012	6	$y_{2012} = 48225.6 + 566.9 \times 6 = 51627$
2013	7	$y_{2013} = 48225.6 + 566.9 \times 7 = 52193.9$

Table 4.7 shows that RBB has increasing trend of total assets. The average total assets of RBB is Rs. 48225.6 million which is increasing at the rate of Rs. 566.9 million every year. Total assets are expected to increase from Rs. 49359.4 million in mid July 2008 to Rs. 52193.9 million in mid July 2013. According to increasing rate of total assets, the bank would be success of gaining profit further year.

RBB is suffering from the problems of bad debts, it has huge amount of NPL in starting of study period. Higher the NPL is decreasing the total assets. Here NPL of RBB has decreasing trend, so total assets are increasing trend for study period. Hence, its total assets shows increasing trend. Increasing trend of total assets shows that it is successful in increasing good performance of bank. It shows increasing trend total assets, which is an indication of increment of profit.

Figure 4.7
Trend analysis of Total Assets

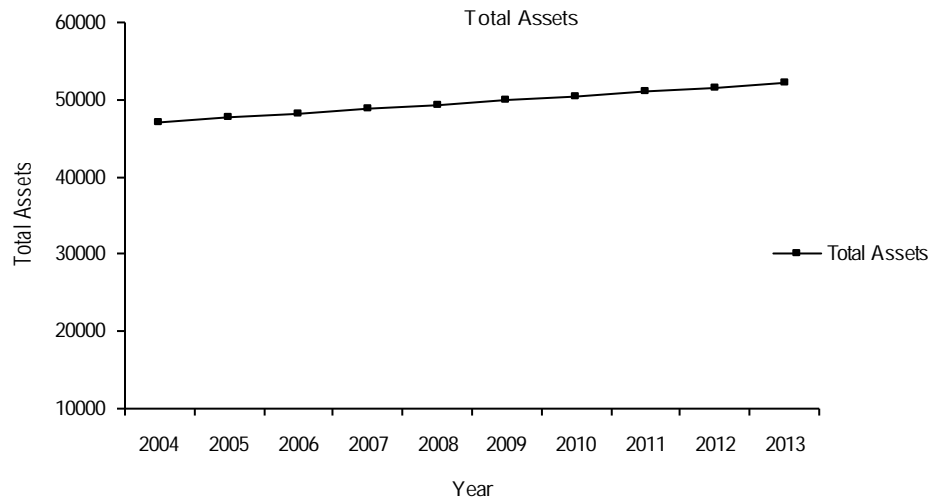


Figure 4.7 represent the trend line of total assets of bank for consecutive year

4.2.4 Trend Analysis of Loan Loss Provision

Under this topic, an effort has been make to calculate the trend value of loan loss provision of RBB, for five years form the mid July 2004 to mid July 2008 and forecast for next five year from mid July 2009 to 2013. The following Table-8 show the trend value LLP for the ten years from mid July 2004 to 2013.(Annex-2)

Table 4.8

Expected Trend Value of Loan Loss Provision (Rs in million)

Year Mid July	Deviation from mid July 2006(x)	$Y_c = a+bx$ $Y_c = 9552 - 1839.1 \times x$
2004	-2	$y_{2004} = 9552 - 1839.1 \times -2 = 13230.2$
2005	-1	$y_{2005} = 9552 - 1839.1 \times -1 = 11391.1$
2006	0	$y_{2006} = 9552 - 1839.1 \times 0 = 9552$
2007	1	$y_{2007} = 9552 - 1839.1 \times 1 = 7712.9$
2008	2	$y_{2008} = 9552 - 1839.1 \times 2 = 5873.8$
2009	3	$y_{2009} = 9552 - 1839.1 \times 3 = 4034.7$

2010	4	$y_{2010} = 9552 - 1839.1 \times 4 = 2195.6$
2011	5	$y_{2011} = 9552 - 1839.1 \times 5 = 356.5$
2012	6	$y_{2012} = 9552 - 1839.1 \times 6 = -1482.6$
2013	7	$y_{2013} = 9552 - 1839.1 \times 7 = -3321.7$

Table 4.8 show that RBB has decreasing trend of loan loss provisioning. The average LLP of RBB is Rs 9552 million which is decreasing at the rate of Rs 1839.1 million every year. LLP is expected to decrease from Rs 5873.8 in mid July 2008 to Rs -1482.6 in mid July 2012, which is negative value for provisioning. Therefore its LLP would be zero. According to decreasing rate of LLP the bank would be managing only up to mid July 2011.

RBB is suffering from the problems of bad debts it has huge amount of NPL in starting of study period. Higher the NPL higher would be the LLP and vice versa. Here LLP has decreasing trend for the study period because of NPL of RBB has decreasing trend. Hence its LLP shows decreasing trend. Decreasing trend of LLP shows that it is successful in reducing the NPL of bank and which is an indication of decrement of NPL in the total assets quality.

Figure 4.8
Trend Analysis of LLP

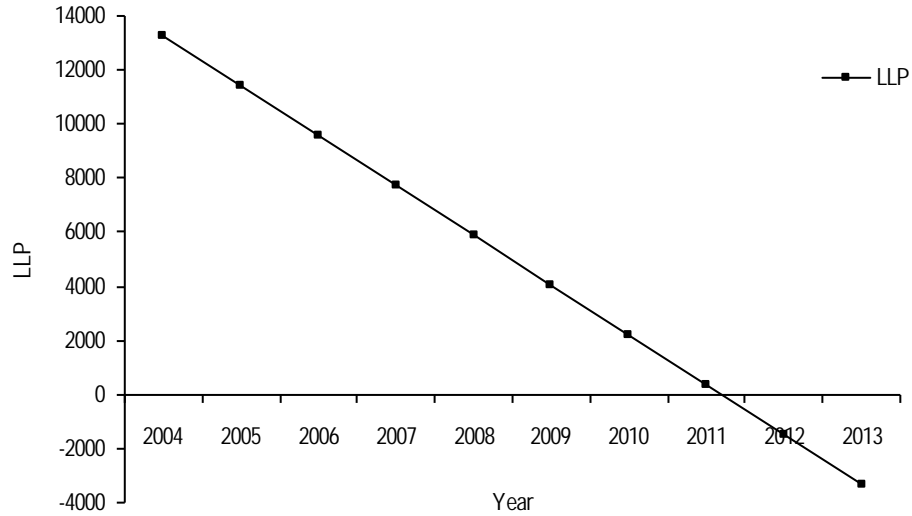


Figure 4.8 represents the trend line of LLP of bank for consecutive year.

4.2.5 Trend Analysis of Net Profit

Under this topic an effort has been made to calculate the trend value of net profit of RBB for five years from the mid July 2004 to mid July 2008 and forecast for next five year from mid July 2009 to mid July 2013. The following Table 4.9 shows the trend value of net profit for the ten years from mid July 2004 to mid July 2013 (Anex-2).

Table 4.9
Trend Analysis of Net Profit

Year mid	Deviation from mid	$Y_c = a+bx$
July	July 2006 X	$y_c = 1457.4 + 165 \times x$
2004	-2	$y_{2004} = 1457.4 + 162 \times -2 = 1127.4$
2005	-1	$y_{2005} = 1457.4 + 165 \times -1 = 1292.4$
2006	0	$y_{2006} = 1457.4 + 165 \times 0 = 1457.4$
2007	1	$y_{2007} = 1457.4 + 165 \times 1 = 1622.4$
2008	2	$y_{2008} = 1457.4 + 165 \times 2 = 1787.4$
2009	3	$y_{2009} = 1457.4 + 165 \times 3 = 1952.4$
2010	4	$y_{2010} = 1457.4 + 165 \times 4 = 2117.4$
2011	5	$y_{2011} = 1457.4 + 165 \times 5 = 2282.4$
2012	6	$y_{2012} = 1457.4 + 165 \times 6 = 2447.4$
2013	7	$y_{2013} = 1457.4 + 165 \times 7 = 2612.4$

Table 4.9 show that RBB has increasing trend of net profit. The average net profit of RBB is Rs 1457.4 million, which is increasing at the rate of Rs 165 million every year. Net profits are expected to increase from Rs 1787.4 million in mid July 2008 to Rs 2612.4 million in mid July 2013. According to increasing rate of Net profit, the bank would be success of increasing of bank for further year.

RBB is suffering from the problems of NPL. It has huge amount of NPL in starting of study period. Higher the NPL is decreasing the net profit. Here, NPL of RBB has decreasing trend for the study period. Hence its net profit shows increasing trend. Increasing trend of net profit shows that it is successful in increasing good performance of bank and successful in credit management. It shows increasing trend of net profit, which is an indication of increment of bank.

Figure 4.9
Trend Analysis of Net Profit

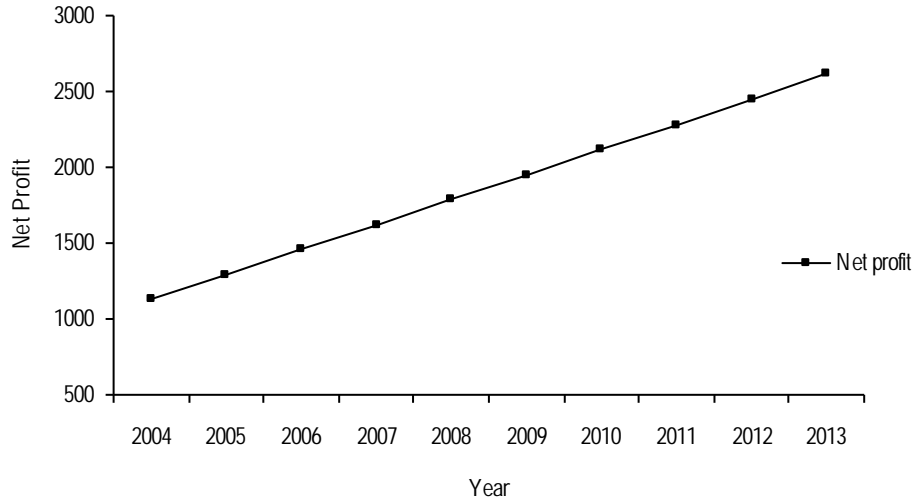


Figure 4. 9 represents the trend line of net profit of bank for consecutive year.

4.2.6 Trend Analysis of Total Deposit

Under this topic, an effort has been make to calculate the trend value of deposit of RBB for five years from the mid July 2004 to mid July 2008 and forecast for next five year from mid July 2009 to 2013. The following Table10 show the trend value of total deposits for the ten years from mid July 2004 to mid July 2013. (Annex-2)

Table 4.10
Expected Trend Value of Total Deposit (Rs in million)

Year mid July	Deviation from mid July 2006 X	Yc = a+bx yc = 47774.8 + 4238.2 × x
2004	-2	y ₂₀₀₄ = 47774.8 + 4238.2 × -2 = 39298.4
2005	-1	y ₂₀₀₅ = 47774.8 + 4238.2 × -1 = 43536.6
2006	0	y ₂₀₀₆ = 47774.8 + 4238.2 × 0 = 47774.8
2007	1	y ₂₀₀₇ = 47774.8 + 423 8.2 × 1 = 52013

2008	2	$y_{2008} = 47774.8 + 4238.2 \times 2 = 56251.2$
2009	3	$y_{2009} = 47774.8 + 4238.2 \times 3 = 60489.4$
2010	4	$y_{2010} = 47774.8 + 4238.2 \times 4 = 64727.6$
2011	5	$y_{2011} = 47774.8 + 4238.2 \times 5 = 68965.8$
2012	6	$y_{2012} = 47774.8 + 4238.2 \times 6 = 73204$
2013	7	$y_{2013} = 47774.8 + 4238.2 \times 7 = 77442.2$

Table 10 show that the deposit of RBB has the increasing trend. The average total deposit of RBB is Rs47774.8 million, which is increasing at the rate of Rs4238.2 million every year. If the other things remain the same, total deposits are expected to increase from Rs56251.2 million in mid July 2008 to Rs77442.2 million in mid July 2013. According to increasing rate of total deposits the bank would be able to attract to his customers. Higher the NPL would be loss the belief of customers. Here, NPL of RBB has decreasing trend and total deposit of bank has increasing trend, so belief of customers increasing. Increasing trend of total deposits shows that it is successful in maintaining believes of customers and it show increasing trend, which is an indication of increment of total assets.

Figure 4.10
Trend Analysis of Total Deposits

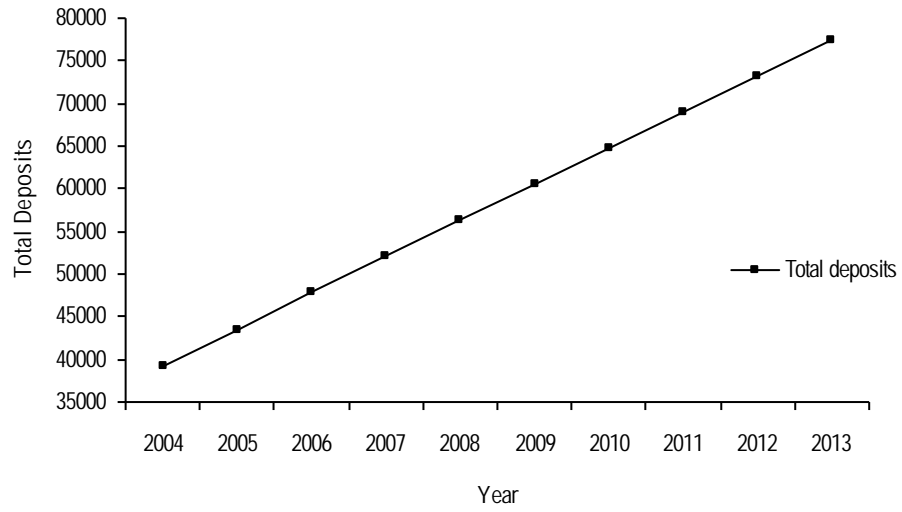


Figure - 10 represent the trend line of total deposits of bank for consecutive years.

4.3 Correlation Coefficient Analysis

4.3.1 Correlation coefficient between NPL and loan and advances

The correlation between NPL and loan and advances describes the relationship between NPL and loan and advances. How a unit changes in loan and advances effect the NPL is exhibited by this correlation. Here NPL is dependent variable and loan and advances is the independent variable.

Table 4.11

Correlation coefficient between NPL and loan and advances

S.N.	Calculation of	Result
1.	Correlation coefficient r	0.0357
2.	Coefficient determinant r^2	0.0012
3.	Probable error (PE)	0.0301
4.	$6PE$	1.8072
5.	Significance / in significance	significance
6.	Relationship	positive

Table 4.11 explain the relationship between NPL and loan and advances (Annex-3). Here the RBB have positive correlation between NPL and loan and advances. That means decrement in loan and advances leads to decrement in NPL and vice versa. The correlation coefficient of RBB is 0.0357 and its PE is 0.0301. Since correlation coefficient r is greater than PE, the correlation coefficient is significant and reliable. In other words the NPL of RBB is very highly correlated with the total loan and advances during the study period and decrease in NPL of RBB is due to decrease in total loan and advances for the bank.

Coefficient of determinants (r) is 0.0012, which indicates that .12% of total variation in dependent variable(NPL) has been explained by the independent variable loan and advances and remaining is due to the effect of other factor.

4.3.2 Correlation Coefficient between NPL and Total Assets

The correlation between NPL and total assets describes the relationship between NPL and total assets. How a unit changes in total assets effect the NPL is exhibited by this correlation. Here NPL is dependent variable and total asset is the independent variable.

Table 4.12

Correlation Coefficient between NPL and Total Assets

S.N	Calculation of	Result
1	Correlation Coefficient (r)	-0.0349
2	Coefficient of Determinant (r^2)	0.0012
3	Probable Error(PE)	0.3012
4	6PE	1.8072
5	Significance/Insignificance	Insignificant
6	Relationship	Negative

Table 4.12 explains the relationship between NPL and Total assets (Annex- 3). Here the RBB have negative correlation between NPL and total assets. That means increment in total assets leads to decrement in NPL and vice versa. The correlation coefficient of RBB is -0.0349 and its PE and 6PE are 0.3012 and 1.8072. Since correlation coefficient (r) is less than 6 times the value of PE, the correlation coefficient is insignificant. In other words, the total NPL of RBB is not correlated with the total assets during the study period and the decrement in NPL of RBB is due to increase in total assets for the bank.

Coefficient of determinant r^2 is 0.0012 which indicates that 0.12% of total variation in dependent variable NPL has been explained by the independent variable (Total assets) and remaining is due to the effect of other factors.

4.3.3 Correlation Coefficient between NPL and Total Deposit

The correlation between NPL total deposit describes the relationship between NPL and total deposits. How a unit changes in total deposits effect the NPL is exhibited by this correlation. Here NPL is dependent variables and total deposit is the independent variable.

Table 4.13

Correlation Coefficient between NPL and Total Deposit

S.N	Calculation of	Result
1.	Correlation Coefficient (r)	-0.0857
2.	Coefficient of determinant (r^2)	0.0073
3.	Probable error(PE)	0.2994
4.	6 PE	1.7964
5.	Significant / in significant	in significant
6.	Relationship	negative

Table 4.13 explains the relationship between NPL and total deposits (Annex- 3). Here the RBB have negative correlation between NPL and total deposits. That means increment in total deposits leads to decrement in NPL and vice versa. The correlation coefficient of RBB is -0.0857 and its PE and 6PE are 0.2994 and 1.7964. Since correlation coefficient r is lesser than 6times the value of PE, the correlation coefficient is insignificant. In other words, the total NPL of RBB is highly negative correlated with the total deposits during the study period.

Coefficient of determination r^2 is 0.0073, which indicates that 0.73 percent of total variation in dependent variable (NPL) has been explained by the independent variable (Total deposits) and remaining is due to the effect of other factors.

4.3.4 Correlation Coefficient between NPL and LLP

The correlation between NPL and LLP describes the relationship between NPL and LLP. How a unit changes in NPL effect the LLP is exhibited by this correlation. Here NPL is independent variable and LLP is the dependent variable. Higher the NPL higher will be the provisioning amount.

Table 4.14
Correlation Coefficient between NPL and LLP

S.N	Calculation of	Result
1.	Correlation coefficient(r)	0.9701
2.	Coefficient of determinant (r^2)	0.9411
3.	probable error(PE)	0.0177
4.	6 PE	0.1062
5.	Significant / insignificant	significant
6.	Relationship	positive

Table 4.14 explains the relationship between NPL and LLP (Annex-3). Here the RBB have positive correlation between NPL and LLP. That means increment in NPL leads to increment in LLP and vice versa. The correlation coefficient of RRB is 0.9701 and its PE and 6 PE are 0.0177 and 0.1062. Since correlation coefficient r is greater than 6 times the value of PE, the correlation coefficient is significant and reliable. In other words the total LLP of RBB is highly correlated with the NPL during the study period and the decrease in LLP of RRB is due to decrease in NPL for the bank and vice versa.

Coefficient of determinant (r^2) is 0.9411, which indicates that 94.11% of total variation in dependent variable (LLP) has been explained by the independent variable NPL and remaining is due to the effect of other factors.

4.3.5 Correlation Coefficient between NPL and Net Profit

The correlation between NPL and net profit describes the relationship between NPL and net profit. How a unit changes in NPL effect the net profit is exhibited by this correlation. Here NPL is independent variable and net profit is the dependent variable.

Table 4.15
Correlation Coefficient between NPL and Net Profit

S.N	Calculation of	Result
1	Correlation coefficient	-0.0924
2	Coefficient of determinant r^2	0.0085
3	Probable error(PE)	0.2990
4	6PE	1.794
5	significant/insignificant	insignificant
6	Relationship	negative

Table 4.15 explain the relationship between NPL and net profit (Annex- 3). Here the correlation coefficient of RBB is -0.0924 and it is less than 6 times the value of its PE and even lesser than PE , the correlation coefficient is significant. In other words the total net profit of RBB is not correlated with NPL during the study period. Coefficient of determinant r^2 is 0.0085, which indicates that .85 percent of total variation in dependent variable (NPL) has been explained by the independent variable net profit and remaining is due to the effect of other factors.

4.4 Major Findings of the Study

From the analysis of data, following major findings have been obtained.

Under this analysis, ratio of NPL to loan and advances, NPL to total assets and NPL to total deposits are higher for bank but these ratios are decreasing in each study periods. Higher ratio is not acceptable for bank so the ratio will be lower in coming year. LLP to NPL ratio is high and it is better for the RBB. It will be high ratio because it is the treatment of suffering of NPL problems. Major findings of these ratios are as follows.

- Ratio of NPL and loan and advances is higher than international standard in each year.
- Ratio of NPL to total assets is also higher on banking transaction in the study period. Decreasing trend will be better for RBB.
- Ratio to NPL to total deposits is high but it is decreasing in each consecutive years. Decrease the ratio repayment capacity of bank so the lower ratio is better for bank.
- LLP to NPL ratio is higher and it is increasing for recent years. This is the safeguard of bank for NPL problems. Higher ratio is better to safe from NPL problems.
- Trend analysis of NPL and LLP are decreasing in each consecutive year respectively. Decreasing trends of NPL and LLP are better for banking transaction. They are help to increase the net profit of bank and it is using for investment. It is the best performance of banking policy for credit management.

- Trend of total assets, total deposits and net profit are increasing in each consecutive year respectively. Expected value of each trend will be acceptable and suitable for banks. Increasing trend of these is better result of banks managerial efficient.
- Trend of total loan and advances is increasing in each year respectively. It is good for banking sector. It will be increasing and investing this fund in productive sector of bank.
- Correlation coefficient between NPL and loan and advances is 0.0357, which is positive correlation. That means decrement in loan and advances leads to decrement in NPL and vice versa.
- Correlation coefficient between NPL and total deposits is 0.0857, which is negative correlation. Here PE and 6 PE are 0.2994 and 1.7964 since correlation coefficient is lesser than 6 times the value PE , the correlation coefficient is in significant.
- Correlation coefficient between NPL and LLP is 0.9701, which is highly positive correlation. That means increment in NPL leads to increment in LLP and vice versa. Coefficient of determinant is 0.9411, which indicates that 94.11 percent of total variation in dependent variable (LLP) has been explained by the independent variable (NPL) and remaining is due to the effect of other factor.
- Correlation coefficient between NPL and net profit is -0.0924, which is negative correlation. it is loss than 6 times the value of its PE and even lesser than PE, the correlation coefficient between NPL and net profit is in

significant coefficient of determinant is 0.0085, which indicates that .85 % of total variation in dependent variable (net profit) has been explained by the independent variable (NPL) and remaining is due to the effect of other factor.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Banks deals in e process of channel the available resources to the needy sector causing over all economic development. A commercial bank means the bank, which deals with exchanging currency, accepting deposit, giving loan and doing other commercial transactions. Therefore one of the main functions of commercial bank is given loan. There is not so long history of commercial bank in Nepal. RBB was established on 10th Magh 2022 B.S. It is that commercial bank which has largest Network in the country. Now there are 23 commercial banks have been extending their service in different part of the country.

This research is aimed at studying the NPL and its impact of commercial banks. For this purpose descriptive and analytical research design was adopted. Out of the total population of 23 commercial banks, RBB was taken as a sample using judgmental sampling method because of due to highest proportion of NPL in total loan and advances. RBB is suffering of problem of NPL than joint venture bank is private sector banks. Only secondary data has been used in the study. Secondary data has been collected through annual reports, newspaper and other publication. The data collected from various sources are recorded systematically and presented in appropriate form of table and chart and appropriate mathematical, statistical, financial and graphical tools have been applied to analyze the data. The data of five consecutive year of the RBB has been analyzed to meet the objective of the study.

Trend of NPL and LLP are decreasing trend and trend of total deposit, total assets and net profit, total loan and advances of RBB for the consecutive years are increasing trend. The ratios of NPL to total loan and advances, NPL to total deposits and NPL to total assets are decreasing of RBB for consecutive years which is a good symbol for bank.

5.2 Conclusion

As a business institute, a bank aims at making huge profit. Since loan and advances are more profitable than any other assets, he is willing to lend as much as his fund as possible. But he has to be careful about the safety of such loan and advances. So it is very important to be reminded that must of the banks. Failures in the world due to the shrinkage in the value of loan and advance. Hence loan is known as risky assets. Loan and advances are the most profitable of all the assets of a bank. These assets constitute primary sources of income to the bank. It means interest earned from loan and advances occupy major space in income statement of bank. Performing loan has multiple benefits while NPL erodes even existing capital. The success of any bank is depends upon the quality of loan, i.e. amount of performing loan. Performing loan re those loans that repay principle and interest to the bank from the cash flow it generates. Risk of non-repayment of loan is known as credit risk or default risk.

Nepalese banking sector has been facing the problem of swelling NPL. NPL are those loans, which neither pay interest nor repay principle from the cash flow it generates. Higher the NPL indicates the poor financial position and poor assets management. NPL is directly related with the loan and advances. The level of NPL in sampled bank is more than international standard many other banks has also higher level NPL than international standard. Many other banks have also higher NPL than international standard. Nepalese commercial banks are suffering

from NPL problem. It is directly impact. Main cause of NPL is the weakness of credit management and other. The decreasing trend remain continue in coming days, the situation will be satisfactory. Level of NPL of RBB has been gradually decreasing every year so we can say that credit management is improving of this bank after foreigner handle the management of the bank.

There are many factors, which are effecting to the increment level of NPL. There are two type of factor, one is internal factor and other is external factor. The banks will microanalysis of these factor and take the action immediately. It has been found that bank has high level of NPL that makes higher provision to maintain this provision. Bank interest highest amount in the income generality asset i.e. loans and advances it is loss.

However, the bank is operating in good condition. Bank has giving emphasis on loan restructuring of bad loan as well, and main focus of RBB is recovering the bad loan using different of strategies. Level of NPL is decreasing gradually with the implementation of comprehensive financial sector reform program. But existing level is still alarming in order to restore the financial sustainability in the system.

Main causes of increment of NPL are followings:

- Weakness of credit management of bank.
- Over valuation of collateral.
- Lack of good project evaluation.
- Lack of implementation of rule and regulation of Brower.
- Political environment.
- Weakness of employees.

5.3 Recommendations

High level of NPL or NPA not only decreasing the profitability of the banks but also affects the entire financial as well as operational health of the organization. If the NPL does not control immediately, it will be proved it as a cause for the banks in future. Therefore, following are some of the recommendations, which will help to reduce the level of NPL of Nepalese commercial banks.

- **Improvement of credit management:**

Main cause of increment of level of NPL is the weakness of credit management of bank. Therefore, the bank should improvement the credit management of bank.

- **Financial analysis of loan proposal.**

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

- **Microanalysis and control the factors.**

There are many factors which raise the NPL, so bank should microanalysis of these factors and control them.

- **To take the adequate collateral.**

Banks want to ensure that their loan is repaid even in case of default. To protect banks from such happenings, the banks take collateral from the borrower so that in the event of default this collateral is disposed for recovery of loan. Therefore banks should take enough collateral so that the bank at least can able to recover its principle and interest amount in case of being unable to repay by the borrower.

- **Improvement of bank.**

Management inefficiency is one of other major cause behind high level of NPA of Nepalese commercial banks. Therefore, all banks should provide necessary training regarding loan management to the managers and staffs who are involving in managing their lending experts within or outside the country whatever possible. Banks should be done the analysis of projects of borrower, suitable valuation of collateral, adopt the good lending policy, collecting related information about the borrowers.

- **To take the action for recovery of bad loan.**

Those banks having high level of NPL should take immediate action toward recovering their bad loan as possible as soon. In case of default to repay the loan

by borrower, the bank should dispose off the collateral taken from the borrower and recover principle and interest amount.

- **Maintain the loan loss provision.**

To decrease the NPL, loan loss provision will be managed so all Nepalese commercial banks are recommended to maintain loan loss provision in accordance to the NRR's directives.

- **Corporate structure of the banks.**

Corporate structure of the banks play key role in the effective loan management. Being loan a risky asset, effort should be made to have proper control in the every step of loan management. Single person or a single department cannot do anything. There should be involvement of at least two officials or two departments.

- **Investment in productive sector.**

Sample bank has an increasing trend of total loan and advances i.e. each year. Entire economy is largely dependent upon the proper execution of lending function by commercial banks. Low level of lending means low level of investment resulting to low level of productivity which may ultimately affect negatively on the national economy. Loans and advances on one hand is the highest income generating asset of bank and on the other hand it also helps to upgrade the economic health of country. Hence the banks are recommended to increase its investments in productive sector in the form of loans and advances.

- **Collecting related information about the borrowers.**

It is often said that prevention is better than cure. Hence, it is recommended for all the banks to take preventive measures before the loan goes to default. All the banks are recommended to have and information system together all the possible information and activities about its borrowers so that necessary precautions can be taken in time.

- **Co-operative with NRB and CIB.**

The regulation regarding loan classification and provisioning is stringent and tighter than the previous hence NRB should not only impose directives but also create supportive environment for the commercial banks. NRB is recommended to strengthen credit information bureau (CIB) so that banks can get required credit information about the borrowers on time. This would help in reducing NPL.

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