CHAPTER I

INTRODUCTION

1.1 Background of the Study:

Nepal is said to be a stone between two boulders. It is surrounded by China to the north and India to east, west and south, and is one of the least developed countries in the world it is directing her efforts in accelerating the pace of her economic development. Being landlocked happens to be a disadvantage for the country. Nepal is located between the latitude 26°22' North to 32°27' South and longitude 80°4 East to 88°12 West. The average length being 885 km from East to West and average breadth is about 193 km from North to South and area is about 147,181 sq. km.

The economy of Nepal is mainly dependent on agricultural sector. The agricultural sector contributes over 60% to the GDP of the country. Over 80% of the population is dependent on the agriculture. Therefore, major contribution of every government of Nepal has been the development and advancement of agriculture sector. But, economic liberalization policy of Government has encouraged establishment and growth of financial institution in Nepal. There are so many financial institutions such as commercial banks, development banks, finance companies, micro credit development banks and saving and credit co-operatives are performing in their own way for national financial strength. In the context of Nepal there should be specific institutions are still to be promoted and encouraged.

Bank and financial sector is the backbones of country's economy are related with monetary and capital market. The main objective of the commercial banks is to mobilize the resources by investing the same in profitable manner. The resources include capital funds consisting of shareholder's equity, money deposited by the people, borrowing and profit capitalization. The competency of any commercial banks is referred as to utilization of the resources on most profitable manner. The profit should be adequate to meet its cost of funds as well as there should be some

margin left over as the reward for risk bearing. The financial institutions are supposed to have contribution for the overall economic reforms in the country.

Although the businesses are the major sources of capital, they also have to raise capital to run business. Especially, the bank capital has significant role to play as the banks have obligations to mass people, its depositors. Thus, the banks should hold an adequate capital to secure the interest of depositors.

A huge amount of resources is being utilized on loan and advances. As the return from loan flotation is higher than the return from any other activities, commercial banks are concentrating their financial activities for the management of loans and advances. By virtue of principle of higher return higher the risk should be taken and vice versa. On the one hand the economic condition of the country is not grooming rather remained stagnant, no any new avenue is being explored. The competition among the banks is just to share for the small and same size of the fruit.

After the restoration of multiparty democracy, the Nepalese financial system witnessed significant developments in the growth of financial institutions. Several commercial banks made a way to business in Nepal. At present, commercial bank holds a large share of economic activities of the country. Stock market has been dominated by commercial banks since a decade. By the end of mid January 2008 altogether 235 banks and non bank financial institutions licensed by NRB are in operation. Out of them, 23 are 'A' class commercial banks, 58 'B' class development banks, 79 'C' class finance companies, and 12 'D' class micro credit development banks, 16 saving and credit co-operatives and 47 NGOs (micro credit transaction). In addition with the financial sector has played vital role in economic growth, incremental in income level, infrastructure development and employment generation. Despite these, the qualitative aspects of the financial system still require much improvement as reflected in the inadequacy of the banks and financial institutions in providing increased benefits to the general public and in contributing adequately to the economic development through rising income level, creating employment opportunities and building internal strength for the growth of the institutions themselves. Though various reform efforts were undertaken in the past, to create a healthy financial sector as a pre-requisite to sustained economic growth by

eliminating the various institutional and structural deficiencies, still Nepalese financial sector is suffering from major problem that is Non-Performing Assets (NPA).

Non-Performing Asset literally means assets which are useless for the certain time frame or say asset that cannot be used in the productive sector and such condition the asset doesn't show any performance or positive results. In the banking term, when the borrower takes the loan, he should pay interest along with principle in the certain time that's mean the borrower is the asset for banks that's why banks must ensure that the interest and the principle amount on loans are timely recovered without much trouble but if that borrower doesn't show initiation in payment of interest and principle for long time then these types of loans fall under the category of Non-Performing Assets.

As per the NRB provision or definition, NPA is the loan that lies in the three category of loan these are sub standard, doubtful and loss. In Nepal, non scientific or traditional technique of lending lack of internal control system, lack of timely presentation of auditing report e.t.c all have created conducive environment to inflating NPA problem. Most of the nation all over the world is suffering from this financial disease. So, NPA initially become the banks burden but gradually the burden of the financial system and then the burden of the whole economy. The borrower's who fail to repay the banks due virtually turn out to be very wise in the whole game of banking. It if unchecked, may lead to loss of public confidence and systematic risk. That's why every stakeholders of the economy should show initiation to eliminate the problem of NPA by the way of strong rules and regulation.

1.2. Focus of the study:

The study will be based on the NPA of the commercial banks. NPA may be defined broadly as the Bad Debt. However NPA in terms of banking sector consists of those loan and advances which are not performing well and likely to be turn as bad loan. NPA as per current directives of Nepal Rastra Bank (NRB) has been categorized as classified loans and advances. NPA has serve impacts on the financial institution. On the one hand, the investment becomes worthless as expected return cannot be

realizable and on the other, due to the provisioning required for the risk mitigation the profitability is directly affected. The existence of the bank can be questioned on this situation. Thus interest along with principle has to recover timely and without any obstacles.

NPA has categorized by NRB are classified loans and advances. For the probable loss on lending that cannot be recovered even after liquidation of security held with banks NRB has directed to maintain loan loss provisioning according to ageing basis for risk mitigation. The loan loss provision is to be maintained by debiting profit account. Thus as the quality of loan degrades the ratio of loan loss provision is increased affecting the profitability of the banks. This study will have effort to find out the relationship of NPA on profitability of the commercial banks.

Management of NPA has necessitates banks towards taking the rigorous action which ultimately may cause auctioning of the security held with banks custody. Due to adverse economic situation of the country and perception build up among the people that the properties under auction are always over evaluated there is less participation of the bidder during auction. Such situation compels the banks to accept the security on its own name continuous acceptance of the ownership has now created another problem by pilling up the volume of Non Banking Assets (NBA). As the major chunk of NBA are fixed in nature the fund supposed to be rated over are being tied upon fixed asset which is heating the liquidity of the banks. Present study is confined to evaluate the relationship of NPA and NBA.

It is confined to analyze the implication of NPA on the profitability of the banks. Further it will be an effort to assess the relationship of NPA and NBA, credit concentration risk and its implication on NPA increment shall also be considered. Affecting Internal and external factors for the conversion of NPA shall be another area to be intended to focus under this study. For the analyzing of the cause and consequences the NPA level of three banks shall be taken in to consideration.

1.3 Introduction to Nepal Rastra Bank (NRB):

Nepal Rastra Bank (NRB), the Central Bank of the Kingdom of Nepal, was established in 1956 to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Since then, there has been a huge growth in both the number and the activities of the domestic financial institutions.

To reflect this dynamic environment, the functions and objectives of the Bank have been recast by the new NRB Act of 2002,the preamble of which lays down the primary functions of the Bank as: to formulate necessary monetary and foreign exchange policies to maintain the stability in price and consolidate the balance of payments for sustainable development of the economy of the Kingdom of Nepal to develop a secure, healthy and efficient system of payments; to make appropriate supervision of the banking and financial system in order to maintain its stability and foster its healthy development; and to further enhance the public confidence in Nepal's entire banking and financial system.

The Bank is eminently aware that, for the achievement of the above objectives in the present dynamic environment, sustained progress and continued reform of the financial sector is of utmost importance. Continuously aware of this great responsibility, NRB is seriously pursuing various policies, strategies and actions, all of which are conveyed in the annual report on monetary policy which provides a comprehensive review and evaluation of the previous monetary policy and justification and the analysis of the following year's monetary policy. The re-engineering of the NRB itself is one of the critical components of the reform agenda. To improve the financial sector legislative framework, some new Acts have already come out and there have been amendments to some existing Acts. Enactments of the draft legislations on bank and financial institutions, secured transactions, insolvency, Assets Management Company and anti-money laundering are expected to be soon materialized, all with the goal of strengthening the financial sector through building on its healthy development and improved stability.

These activities convey the commitment of the NRB for addressing the present and future challenges of the financial system more competently. This dynamic and proactive approach to the financial system, especially with its increasing openness and competitive process in the context of growing global financial environment, should ensure a sustained progress and stability of the financial system under NRB's guidance and leadership, for contributing substantially to the sustained development of the economy of Nepal.

Being the central bank of the country, the ownership of NRB is with the Government of Nepal but, the management of NRB is not controlled by it. NRB has 12 branches throughout the kingdom of Nepal including the head office at Baluwatar and the main banking office at Thapathali in Kathmandu.

1.4   Profile of Sample Banks:

1.4.1 Rastriya Banijya Bank (RBB):

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

RBB has Nepal's most extensive banking network with over 114 branches (as at February 2007).Under five regional offices (Kathmandu-32 branches, Biratnagar-25 branches, Birgunj-14 branches, Pokhara-19 branches, and Nepalgunj-24). Through its branch network, RBB has been contributing to Nepal's economic development by providing banking services throughout the country.

RBB's main objectives are to provide banking services throughout Nepal and contribute in the socio economic development of the country. The bank's major activities include accepting deposits, investment in government securities, lending to

productive sectors, dealing with foreign currency, processing domestic and foreign remittances, merchant banking and correspondent banking services etc.

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

RBB is committed towards the satisfaction of its customers by providing modern banking facilities. At the same time, the bank is equally committed to the economic growth and development of the country. The bank aims to reach every rural and urban corner of Nepal to accommodate the requirement of the people.

1.4.2 Standard Chartered Bank Nepal Limited (SCBNL):

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation with Grind Lays Bank, London under commercial bank act 2031 BS. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The bank enjoys the status of the largest international bank currently operating in Nepal. The shares of the bank are actively traded in Nepal Stock Exchange with leading price in comparison to other commercial bank in the current market.

Within 21 years of commencing business, the bank has grown rapidly with 15 branches throughout the country among of them 3 branches in Kathmandu valley, 8 branches outside Kathmandu valley and 4 extension counters with few more in the pipeline. The bank also has 16 points of ATM s representation across the kingdom (12 ATMs in Kathmandu and Lalitpur, 3 in Pokhara and 1 in Dharan). All branches are inter-connected through V-Sat and capable of providing online, real time transactions.

An integral part of the international banking Group currently operating in Nepal, the bank enjoys an impeccable reputation of a leading financial institution in the country with around 350 local staff which is the part of almost 60000 people employs by Standard Chartered Group representing over 100 nationalities in over 50 countries. Standard Chartered Bank Nepal Limited (SCBNL) is in a position to serve its customer through a largest domestic network. In addition to which the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal.

The bank offers the full range of banking products and services in wholesale and consumer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines companies, hotel as well as the segments comprising of embassies, aid, agencies, NGOs and INGOs.

The bank has been the pioneer in introducing customer focused products and services in the country apprises to continue to be a leader in introducing new products in delivering superior services. It is the first bank in Nepal that has implemented the anti-money laundering policy and applied the 'Know Your Customer' procedure on all the customers' accounts.

1.4.3 Himalayan Bank Limited (HBL):

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Despite the cut-throat competition in the Nepalese Banking sector , Himalayan Bank has been able to maintain a lead in the primary banking activities-Loans and Deposits. Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Product such as premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions

in the country have been following their lead by introducing similar products and services. Therefore they stand for the innovations that they bring about in this country to help their customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under their credit standing with foreign correspondent banks, they believe they obviously lead the banking sector of Nepal. The bank holds of a vision to become a Leading **Bank of the country** by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the bank.

Within 15 years of commencing business, the bank has grown rapidly with 17 branches throughout the country among of them 8 branches with card centre in Kathmandu valley, 9 branches outside Kathmandu valley. The bank also has 23 points of ATM s representation across the kingdom (15 ATMs in Kathmandu valley and 8 in outside Kathmandu). The bank is going to install 3 ATMs in near future.

 All branches of HBL are integrated in to Globus (developed by Temenos), the single banking software where the bank has made substantial investments. This has helped the bank provide services like 'Any Branch Banking Facility', internet and SMS banking. HBL very recently introduced several new products and services. Millionaire deposit scheme, small business enterprises loan, pre-paid visa card, international travel quota credit card, consumer finance through credit card and online TOEFL, SAT, IELTS, etc. Fee payment facilities are some of products and services. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel, HBL has developed exclusive and proprietary online money transfer software-Himal Remit TM. By deputing their own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where customers' needs and wants stand first.

1.5 Importance of the study:

The increase of NPA has become a major problem of all commercial banks of Nepal. This is a serious problem of all commercial banks so this study will contribute by investing the issues more systematically. The conclusion and findings of this study will be very useful for the literature of NPA in general and review the previous findings. The study will be helpful for the banking industry to identify and to trace out the contributing factors causing NPA and to reduce its level. This helpful for the finding out the cause and effect of NPA in commercial banks and to give some suggestions for the modification on directives, laws and other proceedings for the better performance of the banks.

1.6 Statement of the problem:

When the bank provide loan to the public, at that period it expects that interest and principal will be recovered on time. Bank collects fund in term of deposit capital e.t.c. from savers and gives loan to the user of money so in principle, loan and advances extended by banks are repayable on demand. But in practice all loans are not recovered as per the terms of sanction or within the expiry of repayment period granted in normal courses. When the interest and principle can not be recovered in time, the loan is considered as a classified loan or NPA. Private sectors banks are also suffering from the NPA burden but it is the major problem of the government owned banks because of the poor loan categorization, diversification, risk analysis or in other words the overall performance if the government banks are poor. This study has the following questions regarding to NPA with special question regarding to NPA with special reference to RBB, SCBNL and HBL.

a)   What is the present condition of NPA in sample banks?
b) What is the overall impact of NPA on the profitability of the banks?
c) What is the relationship of NPA and total loan and advances, non-performing assets and loan loss provision of sample banks?

1.7 Objectives of the study:

Every bank has now put the NPA management under top priority because increasing NPA is more or loss being faced by every commercial bank. This study shall be useful for banking sector. The basic objectives of this study are to analyze and identify the impact, cause and consequences of NPA. The following are the specific objectives.

  i.   To analyze the present condition of NPA on sample banks.
  ii.   To evaluate the impact of NPA on profitability of the banks.
  iii. To assess the relationship of NPA with total loan and advances of sample banks.
  iv.   To analyze the trend of total deposits, loan and advances, non-performing assets and loan loss provision of sample banks.
  v.   To make recommendation of overcome the difficulties in managing non-performing assets of the banks with high level of NPA.

1.8 Limitations of the study:

This research study is very useful in searching the NPA problems and its solutions in Nepalese financial sector. This study suffers from many limitations which are as follows:

  i.   First of all this study is concerned only with non-performing assets of the sample banks.
  ii.   The study is basically based on secondary data, which consist of banks publications, audited reports and other secondary sources. Bank publications may not be always reliable or in other words it may not provide exact vision of the field because they may publish the reports according to their profit policy and market situation. The personal interviews and interactions may not be factual. But the audited data, which are used, are more reliable.
  iii. The study covers the data of only five fiscal years from 2002/02 to 2006/07

iv. The basic purpose of the study is to fulfil the requirement for the masters in business study, but the limited time and resources are other limitations of the study to reach into the specific aspects of the issues.

v. The study is focused on the Nepalese commercial banks only. Hence, the finding may not be applicable to other banks (i.e. development banks finance companies and other companies of Nepal).

1.9 Organization of the study Report:

The study has been organized into the five different chapters, they are as follows:

i. Introduction
ii. Review of Literature
iii. Research Methodology
iv. Presentation and Analysis of data
v. Summary, conclusion and recommendation.

Chapter I: Introduction:

This chapter deals with the subject matter of the study with the study with the brief conceptual classification about the existing financial condition of the commercial banks in Nepal, increasing NPA and its impact on commercial banks. Similarly it deals with focus of the study, importance of the study, statement of the study, objective of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature:

Many writers and researchers have been given their idea about the related topic. These opinion and views are review in this chapter. This chapter also covers the review of the theoretical background being implemented as for the management of NPA.

Chapter III: Research Methodology:

This chapter explains about the research methodology used to evaluate and analysis. This includes research design, nature and types of data, sources of data, population and sample, data collection procedure, data processing procedure and methods of data analysis.

Chapter IV: Presentation and analysis of Data:

This chapter deals with the main part of the study. It includes the secondary data classification, tabulation analysis using the tool and techniques as mentioned in methodology part.

Chapter V: Summary, Conclusion and Recommendation:

Fifth chapter i.e. last chapter presents summary in aggregate, conclusion drawn through the findings and the probable recommendations enlightened through the study.

CHAPTER II

REVIEW OF LITERATURE

After a long period of establishment of Nepal Rastra Bank as the Central Bank of Nepal, the second commercial bank namely Rastriya Banijya Bank (RBB) has been established on January 23, 1996 (2022 Magh 10 BS) with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 BS both Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) have made a remarkable contribution by providing reliable banking services to the Nepalese people. Its contribution is well noted in terms of capital formation to the small dispersed saving into meaningful capital investment in order to flourish industry, agriculture, trade and commercial sector in the country.

In the Nepalese context, a commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs commercial bank functions (Commercial bank act, 1974). When the government got some rays of hope in the banking sector than they decided to allow foreign banks to operate their activities in Nepal as "Joint-Venture Model", joint venture banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. As that time, it was hoped that joint venture banks (JVBS) would support the country in various ways.

2.1   Conceptual Framework

Review of literature is useful to explore the relevant and true facts for the research purpose. The main purpose of literature reviews is to find out what research studies have been conducted in ones chosen field of study and what remains to be done. Thus, the previous studies can't be ignored because they provide the foundation of the present studies. In other word there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies.

Thus, the review of literature is an essential and important part of all studies. For review study, an attempt has been made to look in to bank publications, periodicals and central banks rules and regulation. In addition, informal interviews with bank personnel and a few customers/ borrowers have been made to receive. Further different books, reports, journals and research studies published by various institutions interaction programs related with the financial issues transmitted by the various television channels will be taken as a supportive concept.

2.1.1 Conceptual Review:

Origin and Development of Banks

The economic activities existed in every civilization of mankind in all over the world. But the modern banking practice was originated from Europe. The first bank called 'Bank of Venice' was established in Venice in 1157. Then 'Bank of Barcelona' was established in 1401 and 1407 'Bank of Genoa' was established.n1694 the 'Bank of England' was established as a joint stock bank.

Nepal has a long history of using money. History unveils that the first Nepali coins to be introduced were *Manank* during the reign of the King Mandev and *Gunank* during the reign of the King Gunakamdev. Afterwards the coins were reintroduced during the reign of Amshuverma. After the unification of Nepal, the great King Prithivi Narayan Shah started the coin *Mohar*. The *Taksar* was established in 1789 to issue coins scientifically. In 1876, during Rana Regime an office named *Tejarath Adda* was established in Kathmandu to provide loans against deposit of gold and silver. But the office did not have right to accept deposits.

To begin to the modern banking system, Nepal Bank Limited was established in 1937 as the first bank of the country. Nepal Bank Limited dominated the financial sector of the country for almost 30 years without any competitor. This bank played a major role to boost up the Nepalese economy during that period. Nepal Rastra Bank was established in 1955 as central bank of Nepal which was very essential for Nepalese economy. The second commercial bank, Rastriya Banijya Bank was established in 1965 under the Rastriya Banijya Bank Act, 2022 with full ownership of the Government of Nepal.

Development of Central Bank

In 1894, the Bank of England was converted into the central bank of England. This was done by establishing the Governor and the Company of the Bank of England. At present, this bank is known as the Central Bank of England.

Shekhar & Shekhar (1998) have stated that after the World War I and the consequent chaotic monetary conditions brought home to many countries the imperative necessity of establishing a centralized institution capable of creating and maintaining equilibrium in the monetary sphere.

In September 1920, an International Financial Conference was held at Brussels, which pointed out that those countries which had not yet established a central bank and were the spring of 1922, the Genoa Conference also indicated the need of central bank. Then after, there came a wave of establishing central banks by several countries.

2.1.2 Meaning of Central Bank

Central bank is the national institution that monitors all financial and monetary procedures and policies. **Vaidya (1997)** has stated that the central bank is the apex bank in a country that controls all monetary system and banking structure.

Rosenberg (1982) has defined the central bank as a banker's bank and a bank holding the main body of bank reserves of a nation and the prime reservoir of credit. (e.g. Bank of England, Bank of France)

Clark (1999) has expressed the central bank as bank that often carries out government economic policy, influences interest and exchange rates and monitors the activities of commercial and merchant banks. In this way it functions as the government's banker and is the lender of the last resort to the banking system.

Encyclopaedia Britannica (2002) defines Central Bank as an institution that is charged with regulating the size of a nation's money supply, the availability and cost of credit, and

the foreign-exchange value of its currency. Regulation of the availability and cost of credit may be non selective or may be designed to influence the distribution of credit among competing uses. The principal objectives of a modern central in carrying out these functions are to maintain monetary and credit conditions conducive to a high level of employment and production, a reasonably stable level of domestic prices, and an adequate level of international reserves.

Central bank is an institution which is charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of the general public welfare. It is also a banker's bank and holding reserves of the country and ultimate reservoir of credit. Hence, central bank is the regulating authority for commercial banks, and other banks and financial institutions.

Importance & Functions of Central Banks

It is a difficult task to put aside the importance and functions of a central bank. **Shekhar& Shekhar (1998)** comment that it is difficult to lay down any hard and fast rule regarding the functions of a central bank. The powers and the range of functions of central banks vary from country to country.

The most important and the earliest functions to be discharged by a central bank is that of acting as a bank of issue. As well as it is a banker's bank. The central bank also acts as a lender of the last resort. In case of any problems and emergency to any of the banks operating under it, central bank comes forward to rescue them temporarily from such problems. It also plays the role of an agent, an advisor and banker to the Government. Central bank is a custodian of the nation's metallic reserves and controller of currency.

A central bank has sole right to issue national currency notes. It controls money flow in the market by imposing monetary policy. It issues notes after full analysis of unemployment, inflation, economic growth, etc. of the country. Central bank is the holder of all the Government balances. It is the holder of all the reserves of the other banks and financial institutions in the country.

Objectives between a central bank and other commercial banks are different. The main objective of a central bank is to assist the government to implement economic politics without any profit motive, where as the main objectives of other banks is to earn profit by mobilizing funds collected from the general public. As well as the central bank plays the role of guardian and parents to other commercial banks.

As a regulatory body of all other banks and financial institutions, a central bank is the origin of all banking policies under which all the banks are suppose to operate. Therefore, a central bank guides and assists in operating banking system as a whole. A central bank has full authority to interfere in the banking market i.e. to all banks in terms of implementing its policies. It can penalize the banks in case they go out of the central bank's policy or the termination of the license and also can restrict their working dimensions to a large extent.

A central bank is also important in the context to co-ordinate with different international institutions such as International Monetary Fund (IMF) etc. It works under the supervision and guidance of such institution to develop the monetary system of a country.

Meaning of Commercial Banks

Commercial bank Act 2031 BS of Nepal; has defined that "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank mean for cooperative, agriculture, industries for such specific purpose.

But the bank and financial development institutions ordinance, 2060 has accumulated the five banking acts including Commercial Bank Act 2031, which defines the bank with respect to their transaction. This act is trying to categories the banking institutions in two ways that is based on their transactions. According to this Act, "Bank is the institution which performs its transaction under the provision mentioned on section 47 of this act".

Rosenberg (1982) has stated commercial bank as an organization chartered either by the Comptroller of the Currency and known as` a national bank or chartered by the state in which it will conduct the business of banking. A commercial bank generally specializes in demand deposits and commercial loans.

Clark (1999) has defined commercial bank as bank that concentrates on cash deposit and transfer services to the general public, often to be found on the High Street. It may be joint-venture bank or a private bank.

"Bank is an institution that deals in money and substitutes and provides other financial services. Banks accept deposits and make loans and derive a profit from the difference in the interest rates paid and charged, respectively. Some banks also have the power to create money. Commercial bank is a bank with the power to make loans that, at least in part, eventually become new demand deposits. Because a commercial bank is required to hold only a fraction of its deposits as reserves, it can use some of the money on deposit to extend loans. When a borrower receives a loan, his checking account is credited with the amount of the loan; total demand deposits are thus increased until the loan is repaid. As a group, then, commercial banks are able to expand or contract the money supply by creating new demand deposits." (Encyclopaedia Britannica, 2002)

"Banking, the business of providing financial services to consumers and businesses. The basic services a bank provides are checking accounts, which can be used like money to make payments and purchase goods and services; savings accounts and time deposits that can be used to save money for future use; loans that consumers and businesses can use to purchase goods and services; and basic cash management services such as check cashing and foreign currency exchange. Commercial banks specialize in loans to commercial and industrial businesses. Commercial banks are owned by private investors, called stockholders, or by companies called bank holding companies." (Microsoft Encarta Reference Library, 2003)

The main objective of a commercial bank is to earn profit by collecting the fund scattered around the general public, and mobilizing it. So, the main functions of commercial banks happen to be collecting deposits from general public and lending loans to various economic sectors that require financing. Commercial banks make profit by charging a bit higher interest rate in loans than they pay to depositors. So the main source of income of commercial banks is interest income.

2.1.3 Definition of NPA

When the borrower takes loan, he should pay interest along with principle in certain time that's mean the borrower is the assets for banks that's why banks most ensure that the interest and the principle amount an loans are timely recovered without much trouble but if that borrower does not show initiation in payment of interest and principle for long time then these types of loans fall under the category of non performing assets (NPA). That's why from the viewpoint of security, banks and financial institutions should gather the sufficient information about the firm/ client to which supposed to be invested, these information include as financial background, nature of business as well as its ability to pay loan back.

Now-a-days, we have seen that Nepalese Commercial banks have now started to give proper attention on NPA. Some banks have recently introduced the NPA management policy for the recovery and regularization of the dues.

Commercial banks as financial institutions perform a member of internal functions. Among them, providing credit is considered as most important one. "Commercial banks bring into being the most important ingredient of the money supply, Demand deposit through the creation of credit in the form of loan and investment." , (Course, H.D (1963), "Management policies for commercial banks", Prentice Hall Inc, Eagle wood cliffs).

2.1.4 Classification of NPA:

As per the NRB directives, NPA are said as classified loans and this includes sub-standard doubtful and loss categories as defined by new NRB Directives. (NRB circular, 2057)

As per circular, NRB has identified the NPA as an account of loan where the balance sheet date in respect of

- ⟩ Term loan interest remains "past due" for more than 180 days, overdraft and cash credit amount are main out of order.
- ⟩ Bills purchase or discounted remain overdue or unpaid for more than 180 days.
- ⟩ Other accounts receivables remain past due for 180 days.

In our country, previous circular of NRB had classified the loans in to six categories: however as per new circular issued and effective from FY 2058/059, commercial banks are required to make provision against loan and advances as follows:

Classification of loans and advances	Criteria for provisioning	Provisioning rate
Pass	Not part due and part due for a period up to 3 months(Performing Loans)	1%
Substandard	Past due for a period of 3 months to 6 months	25%
Doubtful	Past due for a period of 6 months to 1 year	50%
Loss	Part due for a period of more than 1 year or advance which have least possibility of recovery.	100%

However, for FY 2058/059, 2059/060 and 2060/061 there are certain relaxation on ageing of due loan. The above criteria are supposed to be effective fully onwards FY 2061/062 (NRB circular, 2057).

2.1.5 Effect of NPA on Profitability of Bank:

Under the circumstances assets that do not earn any income to the bank affect the profits in a number of ways. (Athmannathan and Venkata Krishna, 2001)

Profitability Impact

- The resources locked up in NPA are borrowed at a cost and have to earn a minimum return to service this cost.
- NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirement.
- Since they do not earn interest they bring down the yield on advances and the net interest margin or the spread.
- NPA have a direct impact on return on assets and return on equity, the two main parameters for measuring profitability of the bank.
- Return on assets will be affected because while the total assets include the NPA they do not contribute to profits, which are the numerator in the ratio.
- Return on equity is also affected as provisioning eats more and more into profits earned.
- The cost of maintaining these assets include administrative costs, legal costs and cost of procuring the resources locked in.
- NPA bring down the profits, affect the shareholders value and thus adversely affect the investor confidence.

As a whole the impact of NPA can be assessed with the following (Athmannathan and Venkata Krishna, 2001)

- Lower ROE and ROA.
- Lower image and rating of bank.
- Disclosure reduces investor's confidence.
- Increase Costs/ Difficulties in raising capital.
- NPA do not generate income.
- They require provisioning.
- Borrowing cost of resources locked in.
- Opportunity loss due to non-recycling of fund.
- Capital gets blocked in NPA.
- Utilizes capital but does not generate income to sustain the capital that is locked.
- Recapitalization by government comes with string.

⟩ Administration and recovery cost of NPA.

⟩ Affect an employee morale and decision-making.

2.2 Review of Related Studies:

2.2.1 Review from journals and Articles:

Sound and competitive financial sector is not only the backbone of country's economy but also the key to the economic development. As the countries are becoming more and more interdependent through globalization and liberalization most of the poor and developing nations are finding themselves way behind the developed countries in terms of trade and development to become a successful trade partner and to achieve economic development, development of a financial sector is a must and this is impossible without proper management of NPA. So the RBB is trying to manage the position of NPA through financial sector reform program. For this purpose, the books, journals, articles, thesis and reports related to NPA, financial sector reform program and other relating factors are reviewed for this study.

Non-performing loan is an outstanding loan that is not repaid i.e neither payments nor principle is made. In case of banks, the loans and advances are the assets as the banks flow loans from the fund generated through shareholders equity money deposited by the people and fund having through borrowings. Hence the term NPA means the loans and advances that are not performing well. Thus all the irregular loans and advances can be treated as NPA.

The reference book and management of bank credit written by Suneja (1992) has also been consulted. Suneja (1992) pointing out the cause of NPA says that the risk connected with lending to business depends on an enormous number of factors. For any particular type of business the risk failure is affected by the state of economy, trend in demand for the product or service provided competition from any other suppliers, financial resources are too limited and management skills are lacking. Reiterating the difficulties Suneja (1992) says probably the most difficult decision facing a banker is to determine when it

becomes necessary to recall a loan and to begin the process of liquidating the security. Further, she suggests that if a customer fails to make repayment on the due date, the bank has to consider what steps need be taken to recover the debt.

Basyal (2057) discussing the financial performance of government owned banks in his article, "Placing RBB and NBL under management contracts rational and apposition" agreed that the disappointing performance of these two banks has become serious concern to all the shareholders. Further he mentions that they are having with huge level of NPA, which could be termed as the darkest sides of their operational inefficiency and undisciplined financial behaviours.

Pradhan (2058) in his article "NPA: Some suggestions to tackle them" found saying that unless the growth in NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment, which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate misused the credits and delayed payments and contributed indirectly for enhancing NPA ration. He further argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group of parties and sector, lack of coordination among various financier, lack of initiatives to take timely action against will full defaulters, indecision on existing out of bad loans for fear of investing agencies like special policy, CIAA, public accounts committee of the parliament have also contributed in whatever measures to the worsening situation of NPA. He further pointed out that most crucial reason for the increasing in the NPA is shabby and defaulter friendly legal system. Suggesting the remedy of NPA he adds that Administrative system should be strengthened. Legal reforms should be made and assets Reconstruction Company should be formed.

Henderson (2003), CEO of RBB during to new business age agrees that the challenging target of RBB turn around is restructuring and collection of NPA.
Through these studies are found to be quite useful in their own side but the question of NPA and its cause as well as effect on various aspects in commercial bank is yet to be reviewed. In view of these, this study has been based on the various contributing factors that increase NPA level in commercial banks in Nepalese perspective and its effect on profitability portions of the bank.

In the article, "Financial sector stability and monetary policy" Nara Bahadur Thapa mentions "The primary instrument that is generally used for achieving the financial sector stability is the regulation and supervision of banks and financial institution. (Thapa, Nara Bahadur (2061) "Financial sector stability and monetary policy" Nepal Rastra Bank Samachar, P31)

In the article, "Need for macro prudential appraisal of the financial system soundness" Gunakar Bhatta has presented the interest of multilateral donor agencies in the financial soundness of the recipient countries. He writes "Vulnerabilities in the financial system along with its development has become a common word in the recent years. There have been several efforts in the local, regional and global fronts to mitigate the risk and uncertainties in the financial system. Episodes of turmoil in the international financial markets particularly after mid nineties have underscored the need for better tools to monitor financial risks and vulnerability. Realizing this emerging need, the international monetary fund (IMF) initiated to strengthen its assessment of financial system soundness as part of its surveillance work."
(Bhatta, Gunakar (2061), "Need for macro prudential appraisal of the financial system soundness" Nepal Rastra Bank Samachar P58)

In the article, "Contract of Rastriya Banijya Bank opportunities and challenges "Mahesh Ghimire opines that "although the management contract of Rastriya Banijya Bank was quite expensive in cost, when it started, it is now starting to produce good results. Although there has not been good progress in loan recovery other aspects of management is starting to show progresses."
(Ghimire, Mahesh (2062), "Management contract of Rastriya Banijya Bank: opportunities and challenges" Nepal Rastra Bank Samachar, P88)

In the article published in "The Kathmandu post" August 28, 2006 on topic "Huge bank Defaulter" who is responsible? Rajib Upadhaya. Sr. External Affairs Specialist, The World Bank, found saying that defaulters are the villains of the marketplace. The must hurt in the situation is the poor, if the defaulting continues, the government will have to spend money from its budget to fix the problems at the expenses of programs that help poor to improve their living standard. Delaying the resolution of the problem will result in

accumulation of more losses, eating further into future government resources for poverty reduction.

In an article, Mahesh Bhattarai, "Is trying to indicate the problem of banks bad debt and non performing assets. According to him "If a bank can not recover its loan lending banks cash flow will be badly affected" Similarly it can affect the close relationship between depositors.

(Bhattarai, M (2059), "Restructuring process of commercial bank and responsibility of restructuring team, "Nepal Rastra Bank Samachar vol 47, P 62)

2.2.2 Review from Thesis:

Ajay Kumar Nepal in his thesis "Financial sector reform in Nepal: After economic liberalization" recommends "There is a critical need to reform, revitalize and modernize the financial sector. The government is endeavouring to achieve a privately owned and managed banking system, which provides economic and efficient financial intermediation in the economy. The inefficiency of the banking sector stems mainly because of the problem in the state owned banks viz. Nepal Bank Limited and Rastriya Banijya Bank. Meanwhile the agricultural Development Bank and Nepal Industrial Development Bank are also facing similar type of problem".

(Nepal, Ajay Kumar (2002), "Financial sector reform in Nepal; after economic liberalization" T.U. Kritipur)

Dinesh Kumar Khadka (2004) in his thesis non-performing assets of Nepalese commercial banks with an objectives to examine the level of NPAs in total assets, total deposits and total lending of Nepalese commercial banks. He also showed that the effects of non-performing assets on Return on Assets (ROA) and Return on Equity (ROE) of Nepalese commercial banks.

He said that despite of being loan and advances more profitable those other assets it creates risk of non-payment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets, the loan and advances are classified into performing and non-performing assets on the basis of overdue schedule. Escalating level of NPAs has been becoming great problem in banking business in the world. In this context, Nepal can not

be run off from such situation. The level of NPAs in Nepalese banking business is very alarming. It is well known fact the problem of swelling non-performing assets and the issue is becoming more and more unmanageable day by day. We are well known from different financial reports, newspaper and news that the total NPA in Nepalese banking system is about 35 billion, while it is very worse in case of two largest commercial banks Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL).

Finally he concluded that the level of NPA in sampled Nepalese Commercial Banks is not so alarming. The situation is quite satisfactory. But the increasing trend remain continue in coming days, the situation will be unmanageable and alarming. The commercial banks could not give full attention toward supervising their lending and towards recovering their bad loans perfectly. Level of NPA has been increasing. The level of NPA of joint venture banks such as Nepal Bangladesh Bank Limited (NBBL) seems very unsatisfactory, if the situation is not handling right now, it will be unmanageable and difficult to handle.

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

Niva Shrestha (2004) in her study "A study on non-performing loan and loan loss provisioning of commercial banks" with reference to Nepal Bank Limited, Nabil Bank Limited and Standard Chartered Bank Nepal Limited has made on attempt to analyze the various aspects of non-performing loan in the commercial banks. Her main objectives of the study is to find out the proportion of non-performing loan, factors lending to accumulation of non-performing loan, relationship between loan and loan loss provision and impact of loan loss provision on profitability of the commercial bank.

She concludes increasing non-performing loan is the serious problem of the banking sector in Nepal. Non-performing assets directly affects the income flow of the bank. It has been found that NBL has very high portion of non-performing loan resulting to higher portion. Hence, even the bank has the highest investment in the most income generating assets, i.e. loan and advances, it is in loss. Even the private sector bank like Nabil has higher non-performing loan during the study period is higher than the acceptable. However in recent

two year, Nabil's non-performing loan has shown significant decrement and according provision has also decreased. Among the three banks SCBNL has the least non-performing loan and thus the least loan loss provision. From these indicators it can be said that SCBNL is the best among the three banks. SCBNL seems less oriented towards lending. Hence, the lower percentage of NPL and provisioning of SCBNL is not only due to proper lending function but also due to relatively lower investment in loans and advances. (Shrestha, 2004:99)

She also said that ineffective credit policy, political pressure to lend uncreditworthy borrowers, overvaluation of collateral are the major caused of mounting non-performing assets in government owned banks like NBL. Other factors lending to accumulation of NPAs are weak loan sanctioning process, ineffective credit monitoring and supervision system, economic slowdown, borrower's misconduct etc. In addition to this establishing recovery cell, hiring assets Management Company is also measure to resolve the problem of NPA.

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

Shama Bhattarai (2004) has stated in her research "Implementation of Directives issued by Nepal Rastra Bank: A comparative study of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited" to analyze the various aspects of NRB directives such as capital adequacy and loan classification and loan provisioning. In her view, the loan

classification helps to the banks to monitor the quality of their loan and advances and to take step toward the remedial action in the credit quality of their loan and advances.

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

She recommends the banks should be very careful while analyzing the paying capacity of its credit clients with longer period of past due, the banks will end up increasing its provisions which will keep the bottom line low if the bank is not careful. (Bhattarai, 2004:95)

2.3   Research Gap

Most of the studies mentioned earlier dealt about NRB Directives as a whole and generalized the matter about the objectives, purpose and impact of the directives to the commercial banks and financial institutions. Very few of them have gone specific about the position of the non-performing assets but none of them have written over the position of the non-performing assets taking RBB, HBL and SCBNL in specific. So, this study is conducted to make a specific review of the position of the non-performing assets with a specific case of above mentioned three Banks. The study covers the data of only five fiscal years from 2002/03 to 2006/07 basically based on secondary data, which consist of banks publications, audited reports and other secondary sources. It may be the case that the banks are very old, so, many studies regarding this bank have been made compared to other elder commercial banks. As such, this study might be a novelty one with reference to the study of the position of the non-performing assets of RBB, HBL and SCBNL.

Unified Directives for Financial Institutions has been issued as applicable from FY 2062/63, so, it can be said that this study should be new one incorporating the position of the non-performing assets norms of such new directives. The study is focused on the position of the non-performing assets of the bank, norms fulfilled by the bank and its impact on profitability of the bank. The study has also reviewed few important items like trend of total deposits, loan and advances and loan loss provision, which have important

role to play in the position of NPA. Moreover, the study has incorporated the views and opinions of the bank officials with the help of questionnaires regarding NPA requirements set by NRB. In addition to that, the study has been able to incorporate the views of the stake holder regarding the causes and position of NPA. The studies certainly give clear picture of the position of the NPA of three sample banks and identify the impact, cause and consequences of NPA.

CHAPTER III

RESEARCH METHODOLOGY

The topic of the problem has been selected as the position of NPA in RBB, SCBNL and HBL. The main objectives of the study are to assess the level of NPA in government owned banks especially in RBB and the joint venture banks (i.e. SCBNL and HBL), to find out the causes and effect of NPA in selected banks and to give some suggestions for the proper management of NPA.

3.1 Background

Research Methodology describes the method and process applied in the entire aspect of the study. Research Methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain objects in view. Its focus is made on the basic relationship between relevant topics. To achieve the basic objectives to the study, the following methodology has been adopted which includes research design, nature and types of data, sources of data, data collection, processing and tabulation procedure and methodology.

Research Methodology is a way to systematically solve the research problem (Kothari, 1990 10). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them.

So, without the help of proper research methodology, the justification on the present study cannot be obtained.

3.2 Research Design

A Research Design is the specification of the methods and procedures of acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information needed. It is the overall operational pattern of framework of the project that stipulates what information is to be collected from which sources and what procedure. If it is a good design, it will ensure that the information obtained is relevant to

research question and that it was collected objective and economical procedures. Similarly, research design is the plan structure and strategy of investigation conceived to obtain answer to research question and control variance. The first purpose is to answer the research question or test the relationship, the second purpose of a research design is to control variance. The purposed study will be carried out successfully by collecting information regarding the behaviour / attitude of the bank personnel, borrowers and the policies of the banks through personal interviews and written sources as well. Moreover, the study will be conducted in the light of central banks rules and regulations that abide the commercial banks. This study seeks to analyze the impact of NPA on profitability, NPA and its relationship with NBA and influencing factors. The research design of the study is therefore combination of two major research designs i.e. descriptive design for secondary data and survey research design for primary data.

3.3 Nature and Types of Data

The main purpose of this study is to assess the impact of NPA on the profitability of bank as well as the influencing variables of NPA. The nature of data used in the study is both primary and secondary nature.

3.4 Sources of Data

Most of the data are collected from the secondary sources. Taking consideration into the sources of data, the secondary sources of data are collected from research department of Nepal Rastra Bank, directly from concern banks, audited financial report and through visiting different web sites. However, primary data has also been aimed to achieve to some extent through personal interviews.

3.5 Population and Samples

Overall 23 A class commercial banks and 58 development banks are operating in Nepal, out of these; the following commercial banks have been taken as the populations of the study.

1. Rastriya Banijya Bank (RBB)
2. Himalayan Bank Limited (HBL)
3. Standard Chartered Bank Nepal Limited (SCBNL)

Similarly, the financial statements of these banks for five years from 2002/03 to 2006/07 have been taken as sample for the same purpose. Among the three sample banks, RBB is a state controlled bank and rests of the banks are joint venture banks, so by studying the position of NPA commercial banks in Nepalese perspective. Therefore, the commercial banks are the population of the study.

3.6 Data Collection Procedure:

After the identification of sample banks, the sources of data required for the study are also identified and collected through the following procedures.

⟩ First of all nature of data have been identified.

⟩ For the collection of secondary data yearly annual report of the sampled banks have been taken for the period of five years i.e. during the fiscal year 2002/03 to 2006/07.

⟩ For the collection of the primary data information has been collected developing a scheduled questionnaire and distributing these employees of the banks. Besides this, junior employees are also being observed and responses have been drawn from them about relevant questionnaires.

3.7 Data Processing Procedure

According to the requirement of the study, the different types of data should be collected. That's why the collected data from various sources are in raw form. They are classified and tabulated as per the nature of the study. So, the primary data collected through questionnaire as well as the secondary data have been tabulated as per the need of calculating financial and Karl Person coefficient of correlation as a statistical tool.

3.8 Methods of Data Analysis:

Presentation and analysis of the collected data is the core part of the research work. The collected raw data are first presented in systematic manner in tabular form and are then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides, some graph charts and tables have been presented to analyze and interpret the findings of the study.

To make the study more specific and reliable, the researcher used two types of tool for analysis.

1. Financial Tools
2. Statistical Tools

3.8.1 Financial Tools:

Financial tools basically help analyze the financial strength and weakness of a firm.

Ratio Analysis

Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concerned especially to analyze its efficiency. Ratio analysis is used to compare firm's financial performance and status that of the other firms or to it overtime. So, ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance. There are so many reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings.

A. Liquidity Ratio

B. Asset Management Ratio/ Efficiency Ratio

C. Profitability Ratio

D. Lending Efficiency Ratio

A) Liquidity Ratio

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations or its current liabilities. It measures the speed with which a bank's asset can be converted in to cash to met deposit withdrawal and other current obligations. The following ratios are developed under the liquidity ratios to identify the liquidity position.

I) Current Ratio:

Current ratio measures the ratio between current assets and current liabilities. The more the current ratio bank has the more liquidity the bank possesses. The current ratio ratio is calculated by following formula:

$$\text{Current Ratio} = \frac{CurrentAssets}{CurrentLiabilities}$$

Current assets are those assets which can be converted into cash within a year and so it includes. Cash and bank balance investment in treasury bill, bills purchased and discounted, customer acceptances liabilities, prepaid expenses, bills for collection likewise current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable. Call deposits, bank overdraft, inter bank reconciliation account, provisions and customer acceptance liabilities etc.

II) Liquidity fund to current liability ratio:

It indicates the ability of bank to discharge its liquidity risk. Liquid fund are those assets, which can be converted in to cash within a short period without any decline in their volume.

$$\text{Liquid fund to current liability ratio} = \frac{LiquidFund}{CurrentLiabilities}$$

iii) Cash and Bank balance to total deposit ratio:

Cash and bank balance are the most liquid current assets. This ratio measures the real liquidity of the bank. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash, it has to pay interest on deposits and some earning may be lost. In contract, if a bank maintains low ratio of cash, may fail to make payment for the demands of the depositors. So, sufficient appropriate cash reserve should be maintained properly. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. This ratio can be calculated by the following formula.

$$\text{Cash \& bank balance to total deposit ratio} = \frac{Cash\ \&\ BankBalance}{TotalDeposits}$$

B) Assets Management Ratio/ Efficiency Ratio:

It is also known as activity or turnover ratio. Turnover means how many number of times the assets flow through a firm's operations and into sales. Asset management ratio measures the proportion of various assets and liabilities in balance sheets. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. So, greater rate of this ratio indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios examined under this heading are as follows:

i) Loan and Advances to total deposit ratio:

Loan and advances to total deposit ratio shows whether the banks are successful to utilize the outsiders fund (i.e. total deposits) for the profit generating purpose or not. Generally a high ratio reflects the higher efficiency to utilize outsiders fund and vice versa. The ratio can be calculated by sign following formula.

Loan & advances to total deposit ratio= $\dfrac{Loan\ \&\ Advances}{Total Deposits}$

ii) Loan and advances to total assets ratio:

It measures the ability in mobilizing total assets into loan and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assets of bank into loan and advances which create opportunity to earn more a more. It is calculated by the following formula.

Loan & advances to total assets ratio= $\dfrac{Loan\ \&\ Advances}{Total Assets}$

iii) Non-performing assets to total assets ratio:

It measures the strength and weakness of bank in relation to financial condition. Normally, the more the ratio the less profit bank earns. The ratio is calculated by following formula.

$$\text{NPA to total assets ratio} = \frac{Non Z Perfor \min gAssets}{TotalAssets}$$

iv) Total investment to total deposit ratio:

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non-financial companies. Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa.

$$\text{Total investment to total deposit ratio} = \frac{TotalInvestment}{TotalDeposits}$$

C) Profitability Ratio:

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a ling period of time. So, profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firms should be higher. The following ratios are calculated under the profitability ratios.

I) Return on loan and advances ratio:

This ratio measures the earning capacity of commercial banks through its fund mobilization as loan advances. Here, higher the ratio clear the indication that loan and advances are generating profit. The ratio is calculating by following formula.

$$\text{Return on loan and advances} = \frac{Net\,\Pr ofit}{Loan\,\&\,Advances}$$

ii) Return on total assets ratio:

The ratio calculates the relationship between the net profit and total assets. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice versa. In this study, net profit/ loss to total assets ratio is examined to measure the profitability of all the financial resources in bank assets and is calculated by applying the following formula.

$$\text{Return on total assets ratio} = \frac{Net\,\Pr ofit\,/\,Loss}{TotalAssets}$$

iii) Interest income to total loan and advances ratio:

It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. The higher the ratio shows the bank's profitability position.

$$\text{Interest income to total loan \& advances ratio} = \frac{InterestIncome}{TotalCredit\,\&\,Advances}$$

v) Earning per share (EPS):

It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profits to the common shareholders for every share held have earned. A company can decide whether to increase

or reduce the number of shares on issue. The higher the ratio the better a share earns. The ratio is calculated by the following formula.

Earning per share (EPS) = $\dfrac{Net\,\Pr ofitAfterTax}{No.ofequityShareholders}$

D) Lending Efficiency Ratio:

This ratio is also known as investment management and solvency ratio. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability. The following are the various types of lending efficiency ratios.

i) Loan loss provision to total loan and advances ratio:

The ratio measures the total loan and its provision. Increase in loan loss provisions decrease in profit result to decrease in dividends but it's positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan and advances.

Loan loss provision to total loan & advances = $\dfrac{LoanLoss\,\Pr ovision}{TotalLoan\,\&\,Advances}$

ii) Non-performing loans to total loan and advances ratio:

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts.

Non-performing loans to total loan & advances = $\dfrac{LoanLoss\,\Pr ovision}{TotalLoan\,\&\,Advances}$

3.8.2 Statistical Tools:

Some important tools are used to achieve the objective of this study. In this study statistical tools such as mean standard deviation, coefficient of variance and coefficient of correlation, trend analysis have been used.

i) Arithmetic Mean ($\overline{X}$)

Arithmetic mean represents the entire data by a single value. Arithmetic means of given set of observation is their sum divided by the number of observation. In general x_1, x_2, x_3............. x_n are the given number of observation, their arithmetic mean can be derived in this way.

$$X \ X \frac{X_1 \ \Gamma \ X_2 \ \Gamma \ X_3 .... \Gamma \ X_n}{N}$$

Where,

X= Variables

X= Arithmetic Mean

N= Number of observation

So, out of the various central tendencies a mean is one of the useful tools to find out the average value of the given data. Furthermore it is very much useful with respect of financial analysis and it is also easy to calculate.

ii) Standard Deviation (S.D):

Standard deviation is also one of the tools to analyze the data. This tools help to find out the fluctuation and consistency of the specified variables. Actually it measures the level of variation from the mean of variables. Or in other words, standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D or   .

$$= \sqrt{\frac{X^2}{N} Z \frac{(\ X)^2}{N}}$$

Where,

= Standard Deviation

$$\frac{X^2}{N} = \text{Sum of squares of observations}$$

$$\frac{(X)^2}{N} = \text{Sum of square of mean}$$

iii) Coefficient of Variation (C.V.):

Coefficient of variation (C.V) is defined as the ratio of the standard deviation to the mean expressed in percentage. So, it checks the consistency of given data. The less the C.V. the more consistence the value is and vice versa. The C.V. is calculated by the following formula:

$$\text{C.V.} = \frac{}{\overline{X}} \times 100\%$$

Where,

= Standard Deviation

$\overline{X}$ = Mean

iv) Correlation Coefficient (r):

Out of the several mathematical method of measuring correlation the Karl Person popularity known as Pearson's Coefficient of correlation widely used in practice to measure the degree of relationship between two variables. These variables are said to be correlated when the change in the value of are results change in another variable. Three are three types of correlation: simple, partial and multiple correlations. Correlation can never be more than +1 or less than -1. Similarly correlation can be classified as linear or non-linear. It is measured by the following formula:

$$r = \frac{N \; X_1 X_2 \; Z(\; X_1)(\; X_2)}{\sqrt{N \; X_1^2 \; Z(\; X_1)^2} \sqrt{N \; X_2^2 \; Z(\; X)^2}}$$

Where,

r= coefficient of correlation

N X_1X_2 = No. Of product observation and sum of product X₁ and X₂

X_1 X_2 = sum of product X₁ and sum of product X₂

v) Probable Error (P.E.):

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

$$P.E. = \frac{1\,Z\,r^2}{\sqrt{N}}$$

Where,

r= correlation coefficient

N = Number of pairs of observations.

If the value of 'r' is less than the probable error, there is no evidence of correlation, but if the value of 'r' is more than six times of probable error, the coefficient of correlation is practically certain, i.e. value of 'r' is significant.

3.8.3 Trend Analysis:

Trend analysis is the tools that are used to show grandly increase and decrease of variable in a period of time is known as trend analysis. With the help of trend analysis the tendency of variable over the period can be seen clearly.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter efforts have been made to present and analyze the collected data. Thus, the collected data through primary as well as secondary sources have been presented in the suitable format using different arithmetical and statistical tools.

This study includes not only the NPA but also other factors that affect the profitability of the bank. So the study revolves around the programme and the procedures initiated for the management of NPA and other factors.

4.2 Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

Thus, the main objective of this study is the proper management of NPA in RBB and the joint venture banks.

i. Loan and advances to total deposit ratio:

Loan and advances to total deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose or not. Generally, a high ratio reflects higher efficiency to utilize outsiders fund and vice versa. The ratio can be calculated by using following formula.

$$\text{Loan and advances to total deposit ratio} = \frac{TotalLoan\ \&\ Advances}{TotalDeposits}$$

Table 4.2.1

Loan and advances to total deposit ratio of RBB

Rs in Million

Year	Loan and advances	Total Deposits	Ratio %
2002/03	26608	39402	67.53
2003/04	25106	40867	61.43
2004/05	27001	43016	62.77
2005/06	23103	46195	50.01
2006/07	25395	50346	50.44

Average= 58.44

The above table shows the real figure of Rastriya Banijya Bank (RBB) on loan and advances to total deposits ratio of last five fiscal years. In the fiscal year 2002/03, the ratio is the highest i.e. 67.53% but in the year 2005/06 the ratio is the lowest, i.e. 50.01%. On an average the ratio remained at 58.44% over the study period. This can be shown in the following bar diagram.

Figure: 1

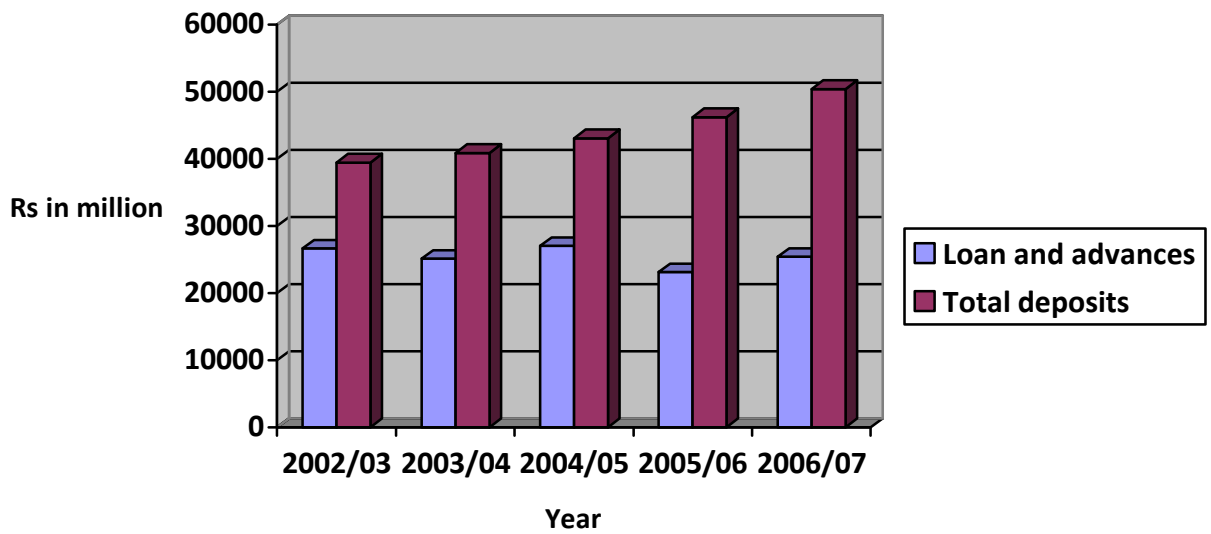**Loan and advances to total deposits ratio of RBB**

Table 4.2.2

Loan and advances to total deposits ratio of HBL

Rs in Million

Year	Loan and advances	Total Deposits	Ratio %
2002/03	10894.20	21002.8	51.87
2003/04	11951	22010.3	54.30
2004/05	12424	24814	50.07
2005/06	14642	26490.8	55.27
2006/07	16998	30048.4	56.57

Average= 53.62

The above table shows the ratio of HBL on loan and advances to total deposits for the last five fiscal years. During the period, the ratio is the highest in the year 2006/07 i.e. 56.57% and the ratio is the lowest in the fiscal year 2004/05 i.e. 50.07%. On an average the ratio remains at 53.62 %. This can be shown in the following bar diagram.

Figure: 2

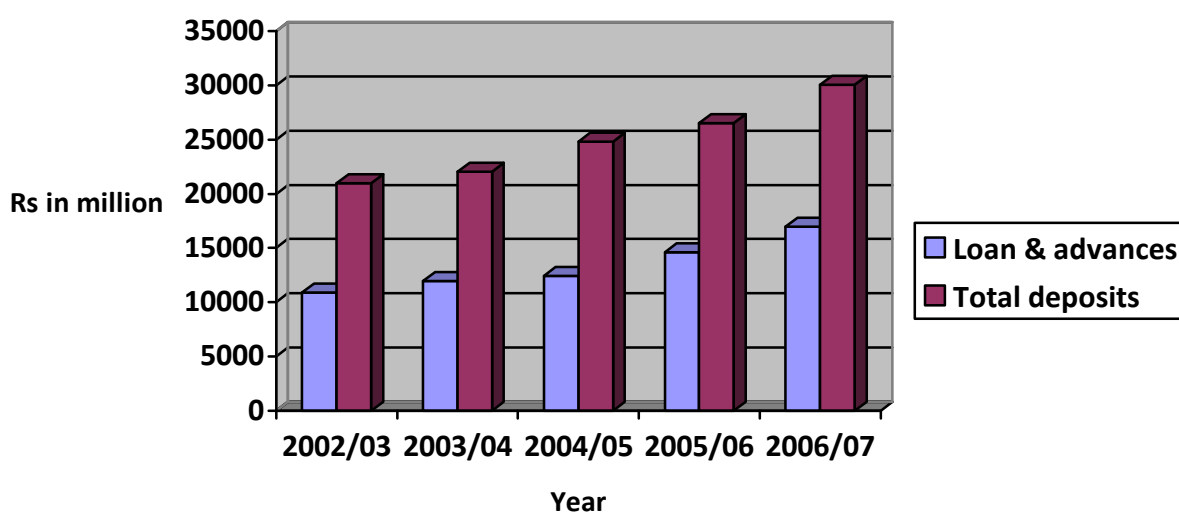## Loan and advances to total deposits ratio of HB

Table 4.2.3

Loan and advances to total deposits ratio of SCBNL

Rs in Million

Year	Loan and advances	Total Deposits	Ratio %
2002/03	5695.80	18755.50	30.37
2003/04	6410.20	21161.40	30.29
2004/05	8143.20	19344	42.03
2005/06	8935.40	23050.50	38.76
2006/07	10502.60	24640.30	42.62

Average= 36.81

The above table shows the ratio of Standard Chartered Bank Nepal Limited on loan and advances to total deposits for the last five fiscal years. In the fiscal year 2006/07, the ratio is the highest, i.e. 42.62 % but in the year 2003/04, the ratio is the lowest i.e. 30.29%. On an average the ratio remains at 36.81% over the study period. This can be shown in the following bar diagram.

Figure: 3

Loan and advances to total deposits ratio of SCBNL
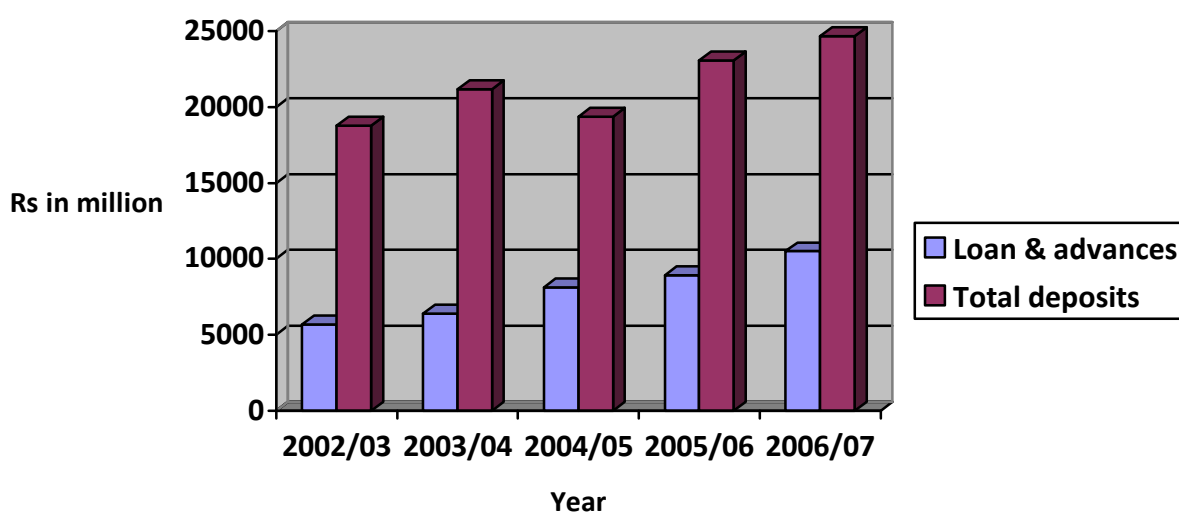
Comparison

In comparison among the Rastriya Banijya Bank (RBB), Himalayan Bank Limited (HBL) and the Standard Chartered Bank Nepal Limited (SCBNL), the loan and advances as well as deposits trend is high with RBB than other two banks. That's why, this shows that the HBL and SCBNL couldn't able to collect and invest the fund properly in profit generating sector than RBB.

ii. NPA to Total Loan and Advances Ratio

NPA, non-performing assets to total loan and advances ratio shows the actual figure of NPA over the total lending of bank. It is the base ratio to measure efficiency of lending department. Here, lower ratio reflects higher efficiency to provide good lending and vice-versa. The ratio is calculated by using following formula.

NPA to total loan and advances ratio = $\dfrac{Non\,\text{Z}\,Perfor\min gAssets}{TotalLoan\,\&\,Advances}$

Table 4.2.4

Non-performing Assets to Total Loan and Advances Ratio of RBB

Rs in Million

Year	Non-Performing Assets	Total Loan and Advances	Ratio %
2002/03	16110	26608	60.54
2003/04	14527	25106	57.86
2004/05	13877	27001	51.39
2005/06	8384	23103	36.29
2006/07	7725	25395	30.42

Average= 47.3

The above table shows the non-performing assets to total loan and advances ratio of RBB over the five fiscal year. The ratios are 60.54%, 57.86%, 51.39%, 36.29% and 30.42% respectively in the fiscal year 2002/03 to 2006/07 respectively. In comparison, the highest

ratio is 60.54% in the fiscal year 2002/03 and the lowest ratio is 30.42% in the fiscal year 2006/07, in an average the ratio is 47.3%. This can be shown in the following bar diagram.

Figure: 4

Non-performing Assets to Total Loan and Advances Ratio of RBB

Table 4.2.5

Non-performing Assets to Total Loan and Advances Ratio of HBL

Rs in Million

Year	Non-Performing Assets	Total Loan and Advances	Ratio %
2002/03	1090	10984.20	9.92
2003/04	1158	11951	9.69
2004/05	1033	12424	8.31
2005/06	1062	14642	7.25
2006/07	654	16998	3.85

Average= 7.80

The above table reflects the non-performing assets to total loan and advances ratio of HBL over the five fiscal years. The ratio are 9.92%, 9.69%, 8.31%, 7.25% and 3.85% respectively in the fiscal years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. In comparison the higher ratio is 9.92% in the fiscal year 2002/03 and the

lowest ratio is 3.85% in the fiscal year 2006/07, on an average the ratio is 7.80%. This can be shown in the following bar diagram.

Figure: 5

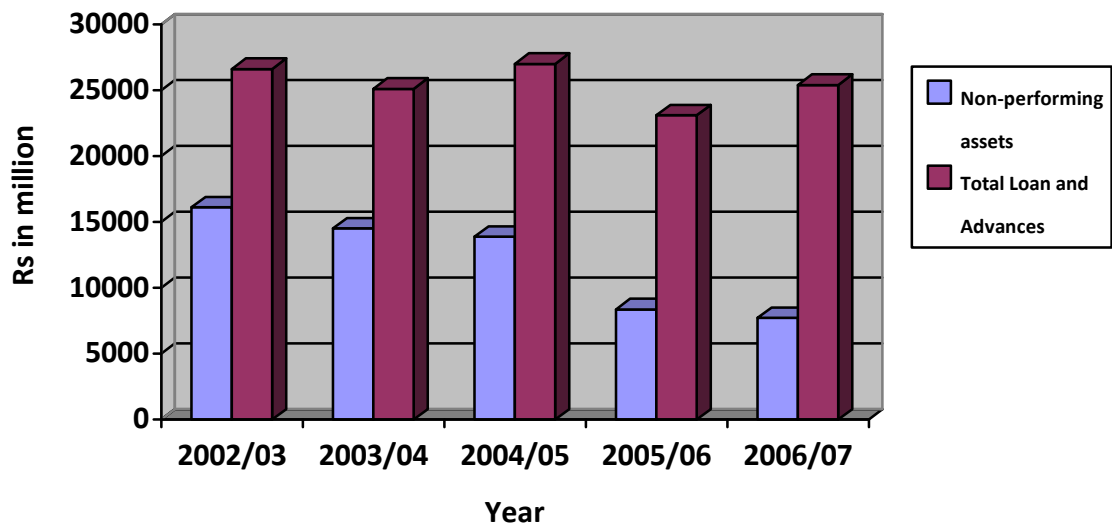**Non-performing Assets to Total Loan and Advances Ratio of HBL**

Table 4.2.6

Non-performing Assets to Total Loan and Advances Ratio of SCBNL

Rs in Million

Year	Non-Performing Assets	Total Loan and Advances	Ratio %
2002/03	247.9	5695.8	4.35
2003/04	252.2	6410.2	3.93
2004/05	226	8143.2	2.78
2005/06	196	8935.4	2.19
2006/07	197	10502.6	1.88

Average= 3.03

The above table reflects the Non-Performing assets to Total Loan and Advances ratio of SCBNL over the five fiscal years. The ratios are 4.35%, 3.93%, 2.78%, 2.19% and 1.88% respectively in the fiscal year 2002/03 to 2006/07 respectively. In comparison the highest

ratio is 4.35% in the fiscal year 2002/03 and the lowest ratio is 1.88% in the year 2006/07. On an average the ratio is 3.03%. This can be shown in the following bar diagram.

Figure: 6

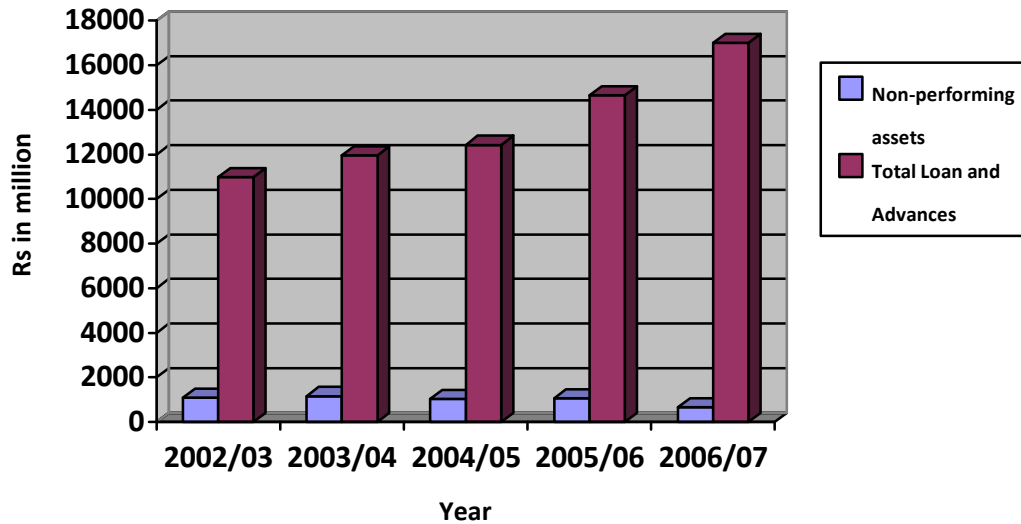**Non-performing Assets to Total Loan and Advances Ratio of HBL**
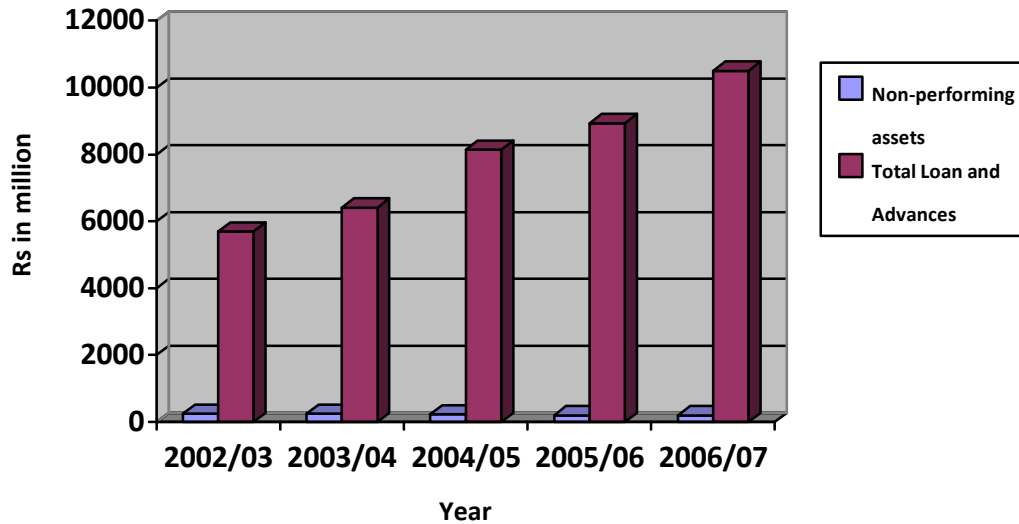
Comparison:

In comparison, the non-performing assets to total loan and advances ratio are in decreasing trend for all the three sample banks in the subsequent years of study period. First in the case of Rastriya Banijya Bank it decreased up to 30.42% from 60.54%. Similarly, the ratio decrease up to 3.85% from 9.92% in the case of HBL. Finally, we can say that SCBNL is conscious on recovery process of loan and advances because its decreasing trend is up to 1.88% from 25.21%. So, this decreasing trend of NPA to total loan and advances is due to efficient management as well as the low evaluation of collateral e.t.c.

iii. NPA to Total Assets Ratio:

Non-Performing assets to total assets ratio shows the total default loan out of total assets. It measures the strength and weakness of bank in relation to financial condition. Normally, lower ratio reflects more efficiency in granting loan and advances and vice versa. The ratio is calculated as following formula.

NPA to total assets ratio = $\dfrac{Non\text{-}Performing\,Assets}{Total\,Assets}$

Table 4.2.7

Non-performing Assets to Total Assets Ratio of RBB

Rs in Million

Year	Non-Performing Assets	Total Assets	Ratio %
2002/03	16110	43172	37.32
2003/04	14527	45056	32.24
2004/05	13877	56822	24.42
2005/06	8384	49010	17.11
2006/07	7725	47911	16.12

Average= 25.44

The above table shows the non-performing assets ratio of RBB. The ratios are 37.32%, 32.24%, 24.42%, 17.11% and 16.12% respectively from the fiscal year 2002/03 to 2006/07 respectively. The highest ratio is 37.32% in the year 2002/03 and the lowest ratio is 16.12% in the year 2006/07. On an average the ratio remain at 25.44%.

Figure: 7

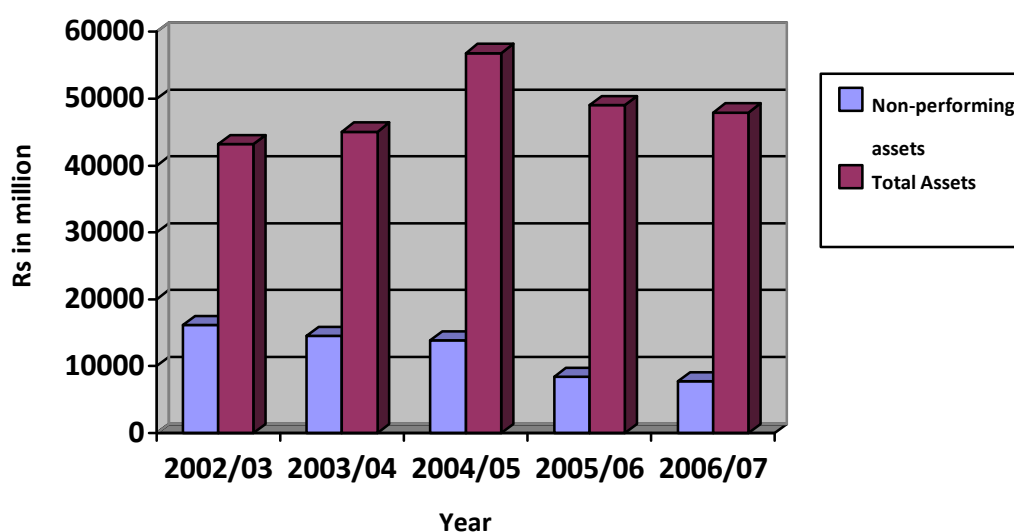**Non-performing Assets to Total Assets Ratio of RBB**

Table 4.2.8

Non-performing Assets to Total Assets Ratio of HBL

Rs in Million

Year	Non-Performing Assets	Total Assets	Ratio %
2002/03	1090	23355	4.67
2003/04	1158	24817	4.67
2004/05	1033	27845	3.71
2005/06	1062	29460	3.60
2006/07	654	33519	1.95

Average= 3.72

Table no. 4.1.8 presents the non-performing assets to total assets ratio of Himalayan Bank Limited for the study period of 2002/03 to 2006/07. The ratios for the five years are 4.67%, 4.67%, 3.71%, 3.60% and 1.95% respectively. Accordingly the average (mean) ratio is 3.72% of the total assets. According to Nepal Rastra Bank directives, non-performing assets should be 10% or below the total assets. This means the bank is able to maintain the non-performing assets to total assets ratio according to the directives. In the fiscal year 2004/05 to 2006/07 the ratio is less than average ratio while the previous two years ratios

52

are higher than the main ratio. The total assets is in increasing trend while the non-performing assets has decreased in the fiscal year 2006/07, it may be because of recovering some of the non-performing loans through bringing new rules and regulations.

Figure: 8

Non-performing Assets to Total Assets Ratio of HBL
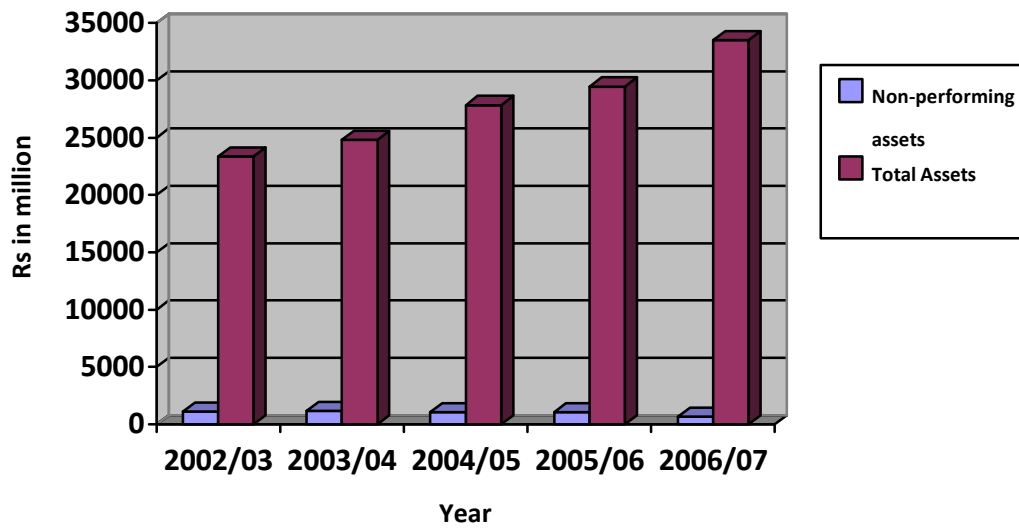
Table 4.2.9

Non-performing Assets to Total Assets Ratio of SCBNL

Rs in Million

Year	Non-Performing Assets	Total Assets	Ratio %
2002/03	247.9	20911	1.18
2003/04	252.2	23642	1.07
2004/05	226	21782	1.04
2005/06	196	25767	0.76
2006/07	197	28597	0.69

Average= 0.95

Table no. 4.1.9 presents the non-performing assets to totals ratio of SCBNL for the study period of 2002/03 to 2006/07.The ratios for the five years are 1.18%, 1.07%, 1.04%, 0.76 % and 0.69% respectively. The average ratio is 0.95% of the total assets. According to the

Nepal Rastra Bank directives, non-performing assets should be 10% or below the total assets. This means the bank is also to maintain the NPA to total assets ratio according to directives. In the fiscal year 2005/06 and 2006/07 the ratio are less than the average ratio while the previous three years ratio are higher than the average ratio.

Figure: 9

Non-performing Assets to Total Assets Ratio of SCBNL
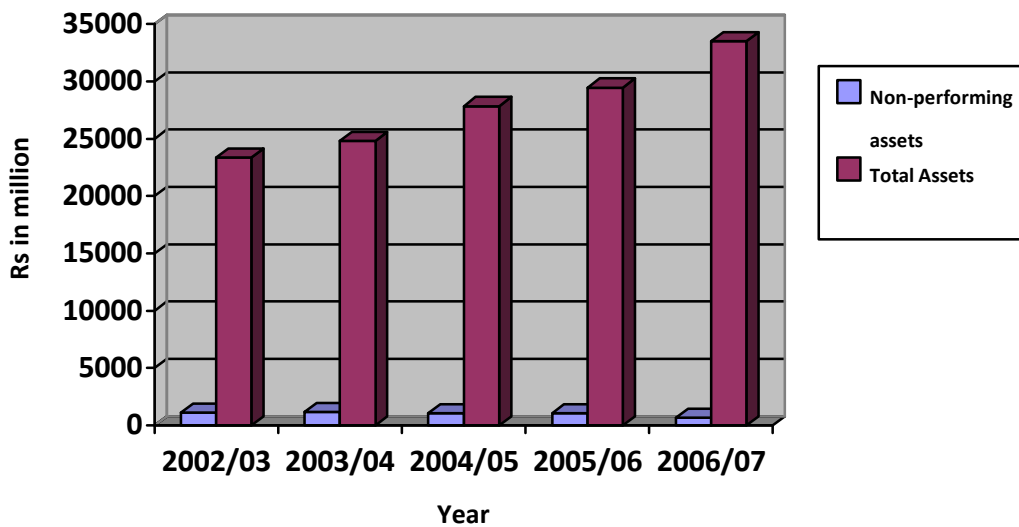
Comparison:

In comparison, the non-performing assets to total assets ratio of three sample banks are in decreasing trend in the subsequent years of the study period. First, in case of RBB, it decreased up to 16.12% from 37.32%. Similarly the ratio decreased up to 1.95% from 4.67% in case of HBL. Finally, the SCBNL became it's decreasing trend is up to 0.69% from 1.18%, it is only due to the bringing new rules and regulation by the bank and it is the positive achievement of the new management.

iv. Loan Loss Provision to NPA Ratio:

Loan loss provision to non-performing assets ratio shows the provision made for future loss so that the bank can remove from worst condition and could operate it as smoothly. In other words, the provision helps to overcome the unnecessary burden of non-performing

assets. Here, higher ratio reflects the effective in relation to future loss but it directly affected in profitability and vice versa.

NPA to total assets ratio = $\dfrac{LoanLoss\,\mathrm{Pr}\,ovision}{Non\,\mathrm{Z}\,Perfor\min gAssets}$

Table 4.2.10

Loan Loss Provision to Non-Performing Assets Ratio of RBB

Rs in Million

Year	Loan Loss provision	Non-Performing Assets	Ratio %
2002/03	12217	16110	75.83
2003/04	12785	14527	88.00
2004/05	12731	13877	91.74
2005/06	7561	8384	90.18
2006/07	6804	7725	88.08

Average= 86.77

The above table represents the loan loss provision to non-performing assets of RBB. The ratio is in increasing trend in the first three fiscal years of study period and then it started to decrease. The highest ratio is 91.74% in the fiscal year 2004/05 and the lowest ratio is 75.83% in the fiscal year 2002/03. On an average the ratio remains at 86.77%. This can be shown in the following bar diagram.

Figure: 10

Loan Loss Provision to Non-performing Assets Ratio of RBB

Table 4.2.11

Loan Loss Provision to Non-Performing Assets Ratio of HBL

Rs in Million

Year	Loan Loss provision	Non-Performing Assets	Ratio %
2002/03	202	1090	18.53
2003/04	186	1158	16.06
2004/05	147	1033	14.23
2005/06	88	1062	8.29
2006/07	90	654	13.76

Average= 14.17

The table no. 4.1.11 presents the loan loss provision to non-performing assets of HBL. The ratio is in decreasing trend in the first four years of the study period and then it started to increase. The highest ratio is 18.53% in the fiscal year 2002/03 and the lowest ratio is 8.29% in the fiscal year 2005/06, on an average the ratio remains at 14.17%. This can be shown in the following bar diagram.

Figure: 11

Loan Loss Provision to Non-performing Assets Ratio of HBL

Table 4.2.12

Loan Loss Provision to Non-Performing Assets Ratio of SCBNL

Rs in Million

Year	Loan Loss provision	Non-Performing Assets	Ratio %
2002/03	304.3	247.9	122.75
2003/04	283.6	252.2	112.45
2004/05	277.7	226	100.75
2005/06	270.8	196	138.16
2006/07	287.5	197	145.94

Average= 124.01

The above table represents the loan loss provision to non-performing assets ratio of SCBNL. In the study period of 2002/03 to 2006/07 the ratio are fluctuated from 122.75% to 145.94%. The highest ratio is 145.94% in the fiscal year 2006/07 and the lowest ratio is 100.75% in the fiscal year 2004/05. This show, the ratios are in fluctuating trend. On an average the ratio remains at 124.01%. This can be shown in the following bar diagram.

Figure: 12

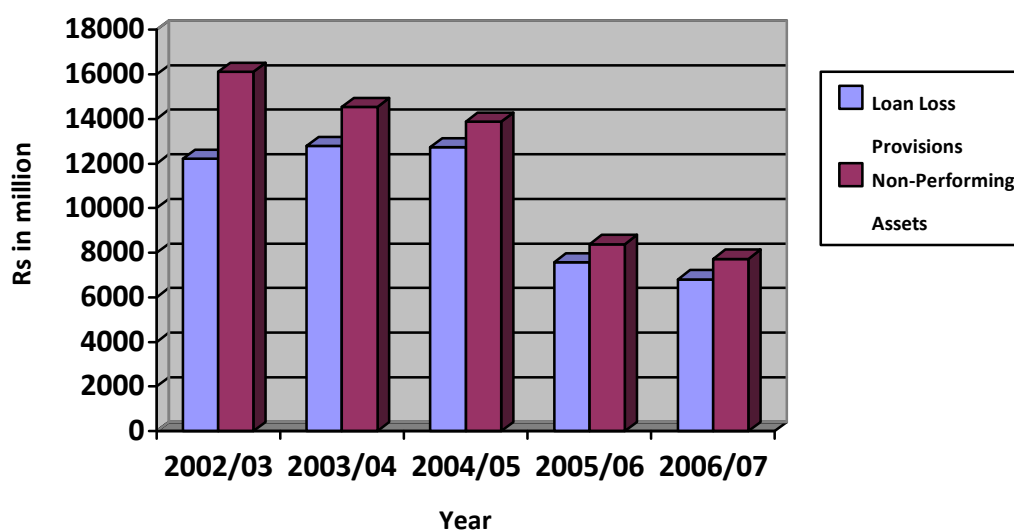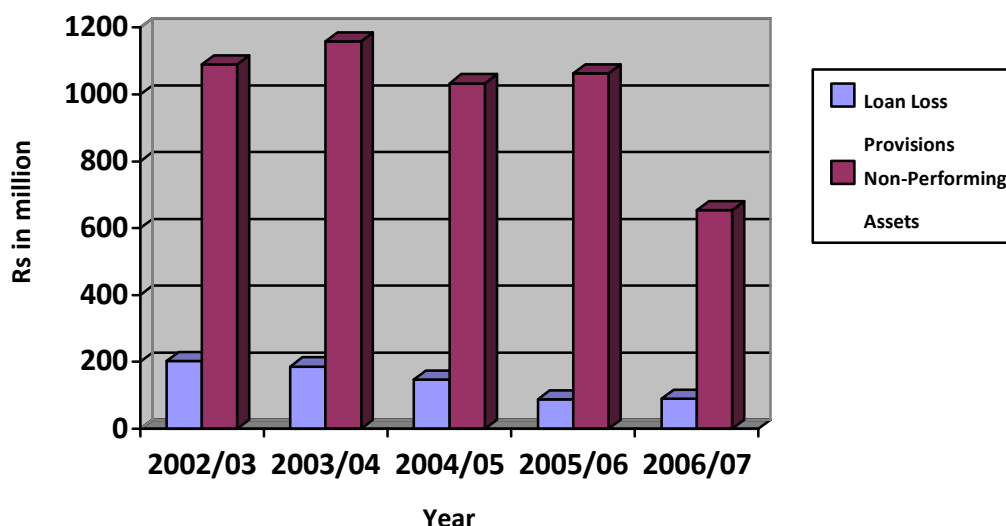**Loan Loss Provision to Non-performing Assets Ratio of SCBNL**
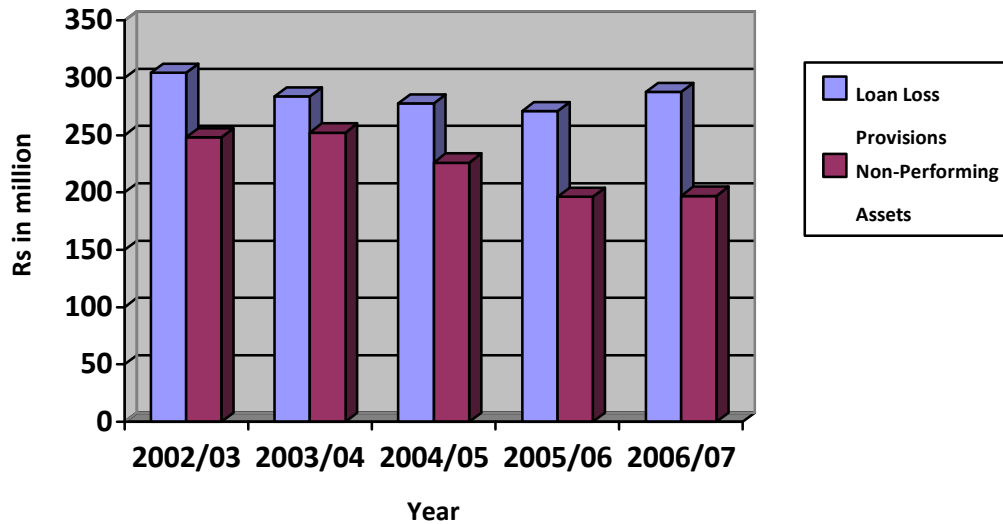
Comparison:

In comparison, all mostly all three sample banks loan loss provision is in decreasing trend in the subsequent fiscal years of the study period. In comparatively, we can say that the HBL has operated the lower loss provision that than the other two banks. In case of RBB, loan loss provision is in increasing trend in the first two fiscal years of the study period and then it started decrease. But the loan loss provisions continuously in decreasing trend except the recent year in the case of HBL and the SCBNL.

v) Return on Total Assets (ROA) Ratio:

This ratio measures the profitability with respect to total assets. This ratio is examined to measure the profitability of all financial resources invested in the bank assets. The ratio is calculated by using following formula.

$$\text{Return on total assets} = \frac{Net\,\Pr ofit}{TotalAssets}$$

Table 4.2.13

Return on Total Assets Ratio of RBB

Rs in Million

Year	Net Profit	Total Assets	Ratio %
2002/03	4840	43172	-11
2003/04	1040	45056	2.31
2004/05	1323	56822	2.33
2005/06	1592	49010	3.25
2006/07	1682	47911	3.51

Average= 0.08

Table no. 4.1.13 presents the comparative analysis of return on total assets of RBB for the study period of 2002/03 to 2006/07. Because of the poor performance in terms of profitability, the bank was in loss in the fiscal year 2002/03. This indicates that the bank hasn't been able to generate profit in the fiscal year 2002/03 similarly; the bank is not being able to manage the assets in the efficient way. In this study period the highest ratio is 3.51% in the year 2006/07 and the lowest ratio is -11% in the fiscal year 2002/03. On an average the ratio remains at 0.08%. This can be shown in the following bar diagram.

Figure: 13

Return on Total Assets Ratio of RBB
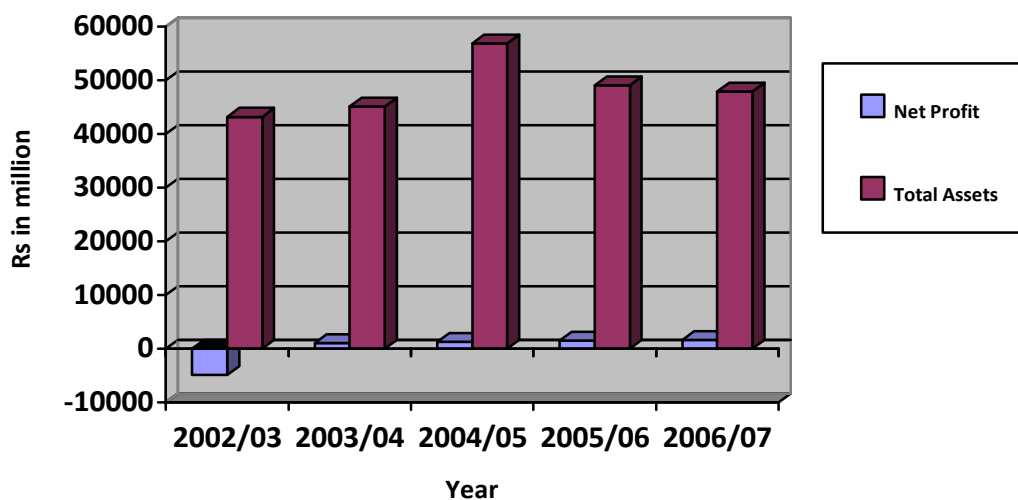
Table 4.2.14

Return on Total Assets Ratio of HBL

Rs in Million

Year	Net Profit	Total Assets	Ratio %
2002/03	212.1	2335	0.91
2003/04	263.1	24817	1.06
2004/05	308.2	27845	1.11
2005/06	457.4	29460	1.55
2006/07	491.8	33519	1.47

Average= 1.22

Table no. 4.1.14 presents the comparative analysis of return on total assets of HBL for the study period of 2002/03 to 2006/07. Here, the total assets as well as the net profit, both are in increasing trend. This all is possible only by the good management of the bank. So, we can say that the bank management has shown a promising start by earning profit it can be said encouraging. In the study period the highest ratio is 1.55% in the fiscal year 2005/06 and lowest ratio is 0.91% in the fiscal year 2002/03. On an average the ratio remains at 1.22%. This can be shown in the following bar diagram.

Figure: 14

Return on Total Assets Ratio of HBL
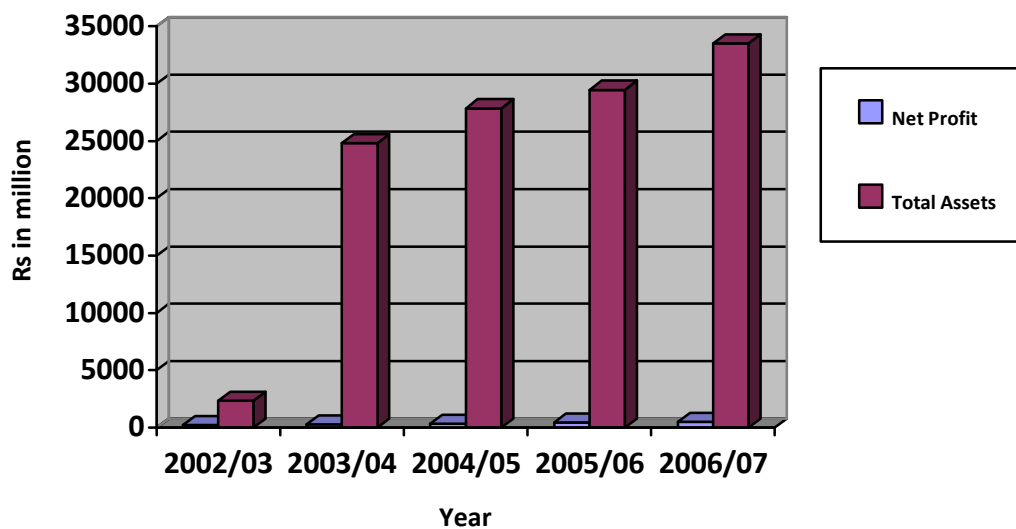
Table 4.2.15

Return on Total Assets Ratio of SCBNL

Rs in Million

Year	Net Profit	Total Assets	Ratio %
2002/03	506.9	20911	2.42
2003/04	537.8	23642	2.27
2004/05	536.2	21782	2.46
2005/06	658.8	25767	2.56
2006/07	691.7	28597	2.42

Average= 2.43

Table no. 4.1.15 presents the comparative analysis of return on total asset of SCBNL for the study period of 2002/03 to 2006/07. The ratios are 2.42%, 2.27%, 2.46%, 2.56% and 2.42% respectively. The highest ratio is 2.56% in the fiscal year 2005/06 and the lowest ratio is 2.27% in the year 2003/04. On an average the ratio remains at 2.43%. This can be shown in the following bar diagram.

Figure: 15

Return on Total Assets Ratio of SCBNL
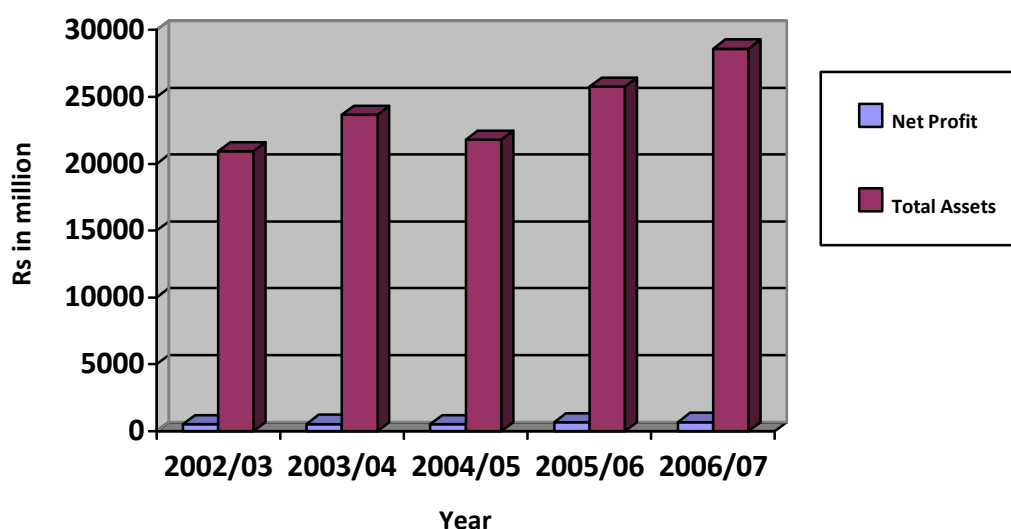
Comparison:

In comparison, the entire three sample banks return on total assets ratio are in increasing trend. Although, The RBB has net loss in the first fiscal year 2002/03, then after it started to increase up to 3.51% which is the highest ratio than the other banks i.e. HBL and SCBNL. In case of HBL, the ratio is continuously increasing for the first four fiscal years of the study period and then it slidely decreased in the last year (i.e. 2006/07) than the previous year. Similarly, in case of SCBNL, the ratio is increased in the first fiscal year than decreased in the second fiscal year of the study period and than after continuously increased except the last fiscal year of the study period.

vi.   Return on Shareholder's Equity (ROE) Ratio:

A return on shareholder's equity is calculated to see the profitability of owner's investment. The shareholder's equity includes paid-up share capital, share premium and reserves and surplus less accumulated losses. The ratio is calculated by using following formula.

$$\text{Return on shareholder's equity} = \frac{Net\,Pr\,ofit\,after\,Tax}{Total\,Shareholder's\,Equity}$$

Table 4.2.16

Return on Shareholder's Equity Ratio of RBB

Rs in Million

Year	Net Profit	Shareholder's Equity	Ratio %
2002/03	-4840	-22396	21.61
2003/04	1040	-21438	-4.85
2004/05	1323	-20200	-6.55
2005/06	1592	-18719	-8.50
2006/07	1682	-17213	-9.77

Average= -8.06

The above table shows the return on equity ratio of RBB over the five fiscal years of the study period from 2002/03 to 2006/07. During that period the ratio are 21.61%, -4.85%, -

6.55%, -8.50% and -9.77% respectively. The highest ratio is 21.61% in the first fiscal year i.e. 2002/03 and the lowest ratio is -9.77% in the year 2006/07. On an average the ratio remains at -8.06%. This can be shown in the following bar diagram.

Figure: 16

Return on Shareholder's Equity Ratio of RBB
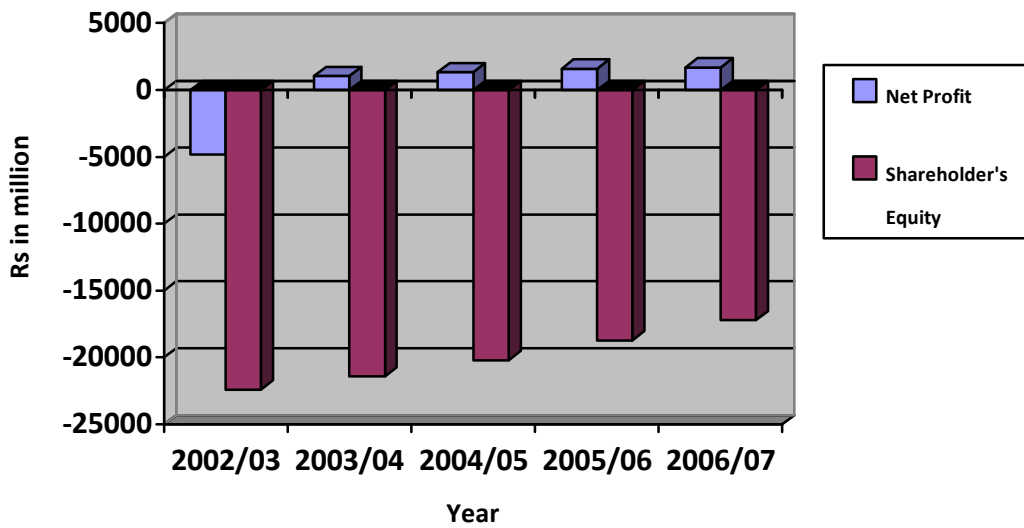
Table 4.2.17

Return on Shareholder's Equity Ratio of HBL

Rs in Million

Year	Net Profit	Shareholder's Equity	Ratio %
2002/03	212.1	1905	11.13
2003/04	263.1	2292	11.48
2004/05	308.2	2568	12.00
2005/06	457.4	2885	15.85
2006/07	491.8	2942	16.72

Average= 13.44

Above table shows the return on equity ratio of HBL over the five fiscal year of the study period from 2002/03 to 2006/07. During that period the ratio are 11.13%, 11.48%, 12%, 15.85% and 16.72% respectively. The highest ratio is 16.72% in the fiscal year 2006/07

and the lowest is 11.13% in the fiscal year 2002/03. On an average the ratio remains at 13.44%. This can be shown in the following bar diagram.

Figure: 17

Return on Shareholder's Equity Ratio of HBL
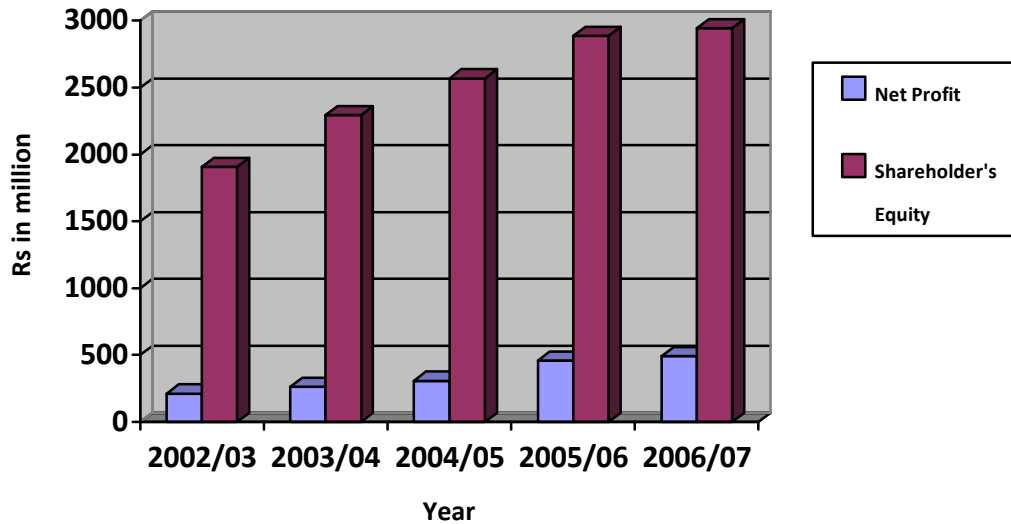
Table 4.2.18

Return on Shareholder's Equity Ratio of SCBNL

Rs in Million

Year	Net Profit	Shareholder's Equity	Ratio %
2002/03	506.9	1368	37.05
2003/04	537.8	1495	35.97
2004/05	536.2	1582	33.89
2005/06	658.8	1754	37.56
2006/07	691.7	2116	32.69

Average= 35.43

Above table shows the return on equity ratio of SCBNL over the five fiscal year of the study period from 2002/03 to 2006/07. During that period the ratio are 37.05%, 35.97%, 33.89%, 37.56% and 32.69% respectively. The highest ratio is 37.56% in the year 2005/06

and the lowest ratio is 32.69% in the year 2006/07. On an average the ratio remains at 35.43%. This can be shown in the following bar diagram.

Figure: 18

Return on Shareholder's Equity Ratio of SCBNL
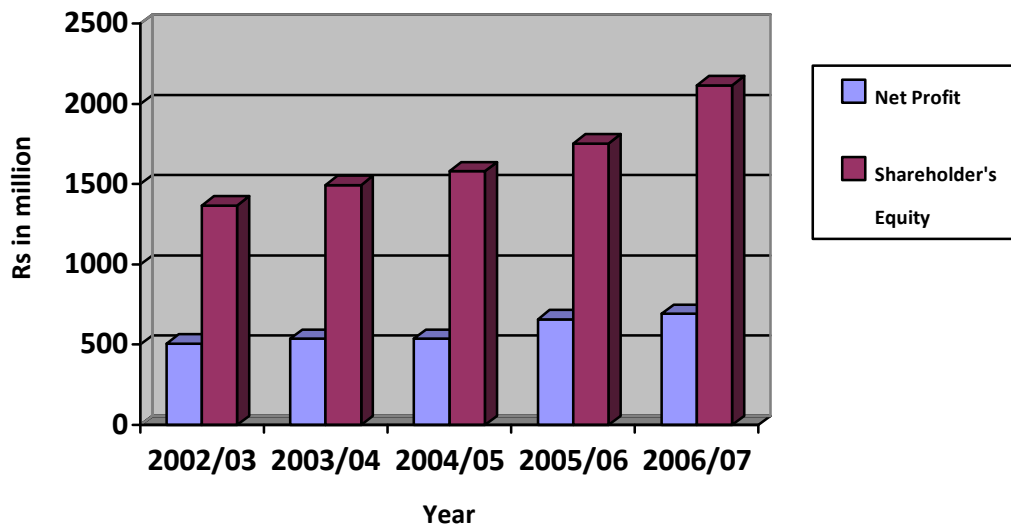
Comparison:

In comparison, the return of shareholder's equity ratio of HBL is so much stronger than the other two sample banks. The shareholder's equity ratio of HBL is continuously in upward trend during all the fiscal year of the study period due to the proper management and profit generating investment. Similarly, in case of SCBNL, the ratio is in fluctuating trend. But in case of RBB, the ratio is not only decreasing but also reach in the negative trend.

vii. NPA to Net Profit Ratio:

Non-performing assets to net profit ratio shows the impact of NPA over the profitability of bank. There is inverse relationship between NPA and profit. NPA increased, the profit decreased and if NPA decreased, profit is increased. Here, lower ratio reflects more efficiency to utilized outsides as well as insides fund in good lending and vice versa. The ratio is calculated by using following formula.

NPA to net profit ratio = $\dfrac{Non\text{-}performing\,Assets}{Net\,Profit}$

Table 4.2.19

Non-Performing Assets to Net Profit Ratio of RBB

Rs in Million

Year	Non-Performing Assets	Net Profit	Ratio %
2002/03	16110	-4840	-3.33
2003/04	14527	1040	13.97
2004/05	13877	1323	10.49
2005/06	8384	1592	5.26
2006/07	7725	1682	4.59

Average= 6.20

The above table shows the non-performing assets to net profit ratio of RBB over the five fiscal years of the study period. The ratios are -3.33 times, 13.97 times, 10.49 times, 5.26 times and 4.59 times respectively from the fiscal year 2002/03 to 2006/07. The highest ratio is 13.97 in the year 2003/04 and the lowest ratio is -3.33 in the year 2002/03. On an average the ratio remains at 6.20 times. This can be shown in the following bar diagram.

Figure: 19

Non-Performing Assets to Net Profit Ratio of RBB
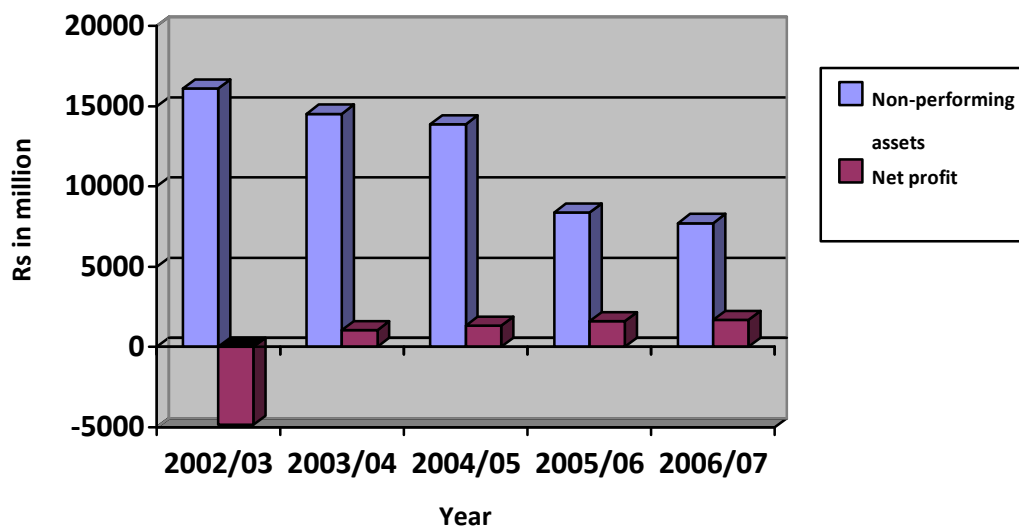
Table 4.2.20

Non-Performing Assets to Net Profit Ratio of HBL

Rs in Million

Year	Non-Performing Assets	Net Profit	Ratio %
2002/03	1090	212.1	5.14
2003/04	1158	263.1	4.40
2004/05	1033	308.2	3.35
2005/06	1062	457.4	2.32
2006/07	654	491.8	1.33

Average= 3.31

The above table shows the non-performing assets to net profit ratio of HBL over the five fiscal years of the study period. The ratios are 5.14 times, 4.40 times, 3.35 times, 2.32 times and 1.33 times respectively from the fiscal year 2002/03 to 2006/07. The highest ratio is 5.14 times in the fiscal year 2002/03 and the lowest ratio is 1.33 times in the fiscal year 2006/07. Here the ratios are in decreasing trend. This shows that the bank has good management in lending policy. On an average the ratio remains at 3.31 times. This can be shown in the following bar diagram.

Figure: 20

Non-Performing Assets to Net Profit Ratio of HBL

67
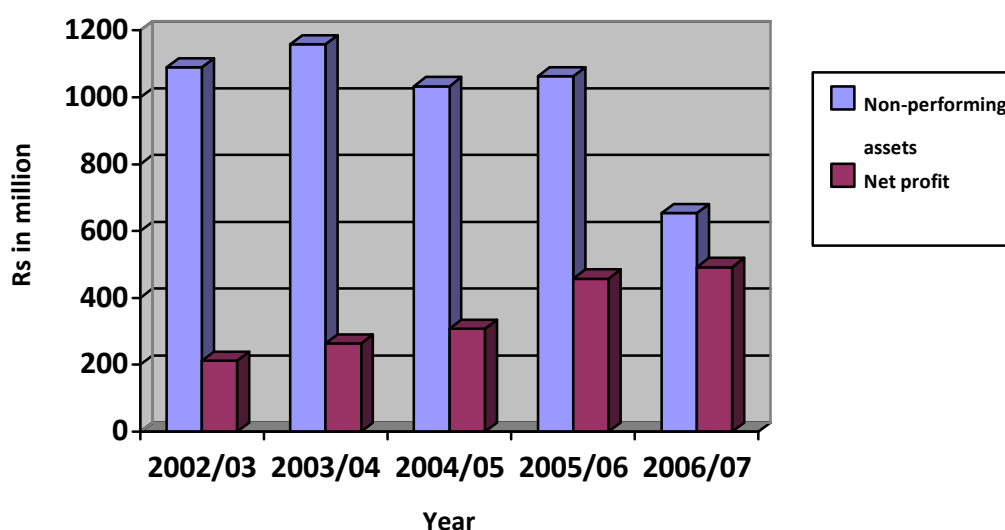
Table 4.2.21

Non-Performing Assets to Net Profit Ratio of SCBNL

Rs in Million

Year	Non-Performing Assets	Net Profit	Ratio %
2002/03	247.9	506.9	0.49
2003/04	252.2	537.8	0.47
2004/05	226	536.2	0.42
2005/06	196	658.8	0.29
2006/07	197	691.7	0.28

Average= 0.39

The above table shows the non-performing assets to net profit ratio of SCBNL over the five fiscal years of the study period. The ratios are 0.49 times, 0.47 times, 0.42 times, 0.29 times and 0.28 times respectively from the fiscal year 2002/03 to 2006/07. The highest ratio is 0.49 times in the fiscal year 2002/03 and the lowest ratio is 0.28 times in the fiscal year 2006/07. Here, the ratios are in decreasing trend which shows the banks improvement in the lending policy. On an average the ratio remains are 0.39 times. This can be shown in the following bar diagram.

**Figure: 21**

Non-Performing Assets to Net Profit Ratio of SCBNL
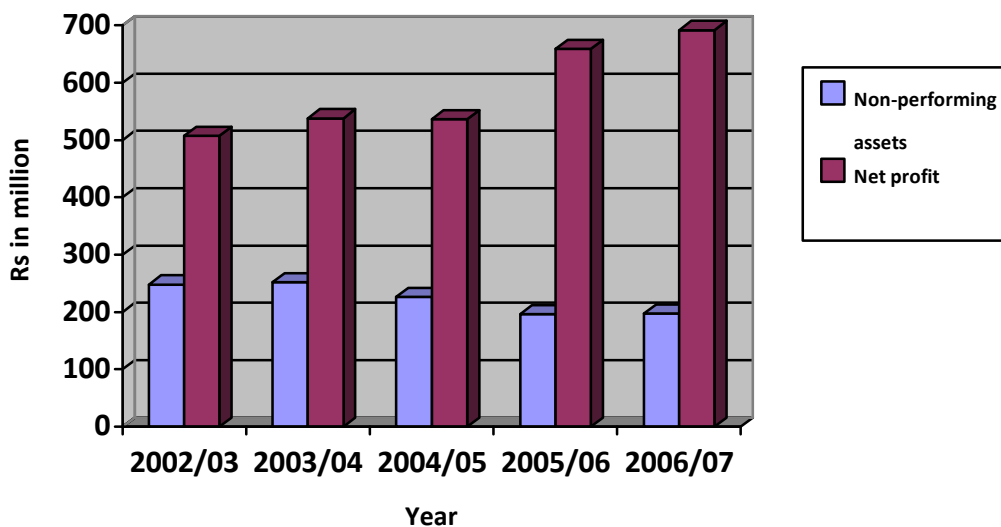
Comparison:

In comparison, the non-performing assets to net profit ratio of RBB are not only high but also fluctuated during the study period than the two other joint venture banks (i.e. HBL and SCBNL). Although the net profit of the RBB is in increasing trend it is due to higher non-performing assets than the lower non-performing assets of the other two banks.

viii.   NPA to Interest Suspense Ratio:

There is a direct relationship between NPA and Interest Suspense. If NPA is increased, that obviously increases the interest suspense amount. The ratio is calculated by the following formula.

$$\text{NPA to Interest Suspense ratio} = \frac{Interest Suspense}{Non \, \text{Ⅎ} Perfor \min g Assets}$$

Table 4.2.22

Non-Performing Assets to Interest Suspense Ratio of RBB

Rs in Million

Year	Non-Performing Assets	Interest Suspense	Ratio %
2002/03	16110	15365.9	95.38
2003/04	14527	19200.3	132.17
2004/05	13877	21633	155.89
2005/06	8384	16702.9	199.22
2006/07	7725	17240.70	223.18

Average= 131.36

The above table reflects the NPA to interest suspense ratio of RBB. The ratios are 95.38%, 132.17%, 155.89%, 199.22% and 233.18% from the fiscal year 2002/03 to 2006/07. The highest ratio is 223.18% in the fiscal year 2006/07 and the lowest ratio is 95.38% in the fiscal year 2002/03. On an average the ratio remains at 131.36%. This can be shown in the following bar diagram.

Figure: 22

Non-Performing Assets to Interest Suspense Ratio of RBB

Table 4.2.23

Non-Performing Assets to Interest Suspense Ratio of HBL

Rs in Million

Year	Non-Performing Assets	Interest Suspense	Ratio %
2002/03	1090	402.4	36.92
2003/04	1158	417.5	36.05
2004/05	1033	426.5	41.29
2005/06	1062	487.9	45.94
2006/07	654	336.7	51.48

Average= 42.34

The above table reflects the non-performing assets to interest suspense ratio of HBL. The ratios are 36.92%, 36.05%, 41.29%, 45.94% and 51.48% respectively in the fiscal year 2002/03 to 2006/07 respectively. The highest ratio is 51.48% in the fiscal year 2006/07 and the lowest ratio is 36.05% in the fiscal year 2003/04. On an average the ratio remains at 42.34%. This can be shown in the following bar diagram.

Non-Performing Assets to Interest Suspense Ratio of HBL
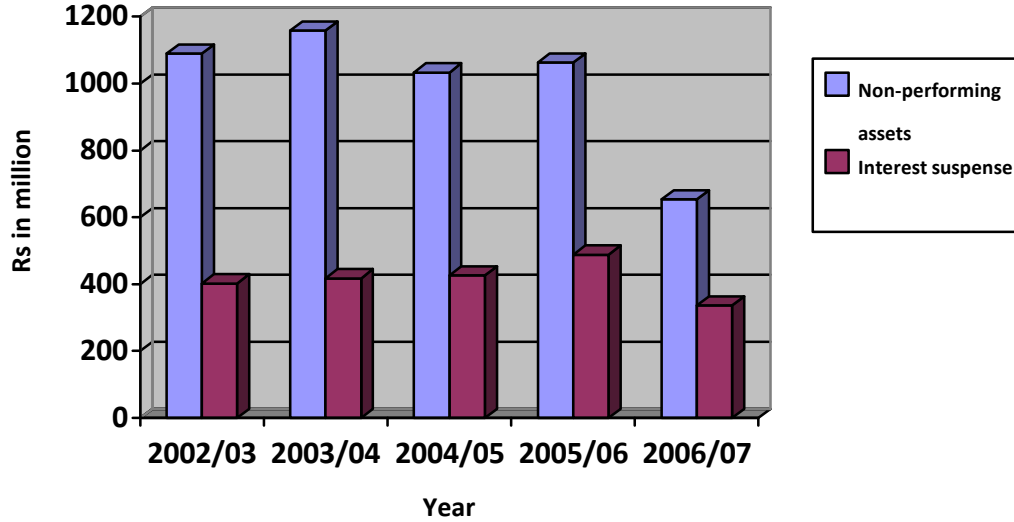
Table 4.2.24

Non-Performing Assets to Interest Suspense Ratio of SCBNL

Rs in Million

Year	Non-Performing Assets	Interest Suspense	Ratio %
2002/03	247.9	121.6	49.05
2003/04	252.2	146.6	58.13
2004/05	226	133.4	59.03
2005/06	196	160.7	81.99
2006/07	197	182.4	92.59

Average= 68.16

The above table reflects the non-performing assets to interest suspense ratio of SCBNL for the study period of 2002/03 to 2006/07. The ratios are 49.05%, 58.13%, 59.03%, 81.99% and 92.59% respectively in the fiscal year 2002/03 to 2006/07 respectively. The highest ratio is 92.59% in the fiscal year 2006/07 and the lowest ratio is 49.05% in the fiscal year 2002/03. On an average the ratio remains at 68.16%. This can be shown in the following bar diagram.

Figure: 24

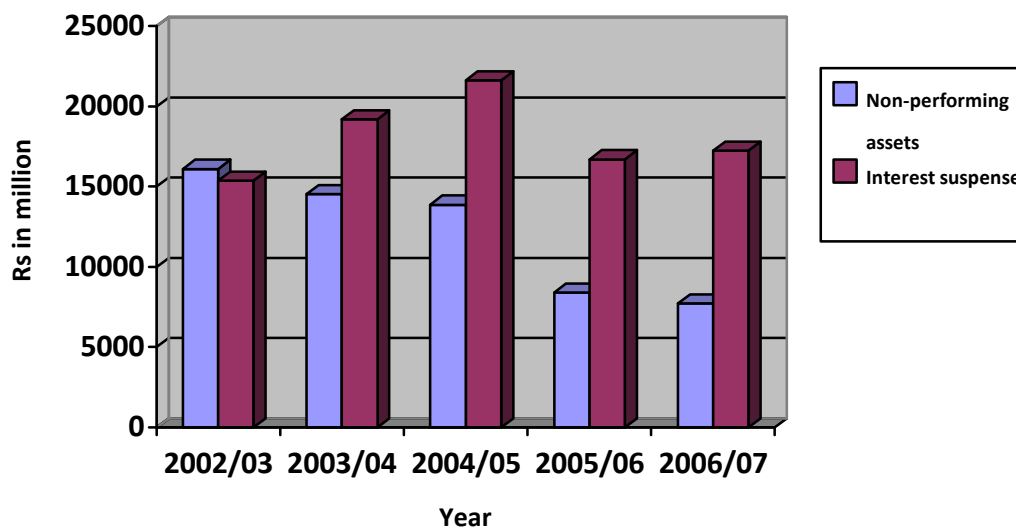**Non-Performing Assets to Interest Suspense Ratio of SCBNL**
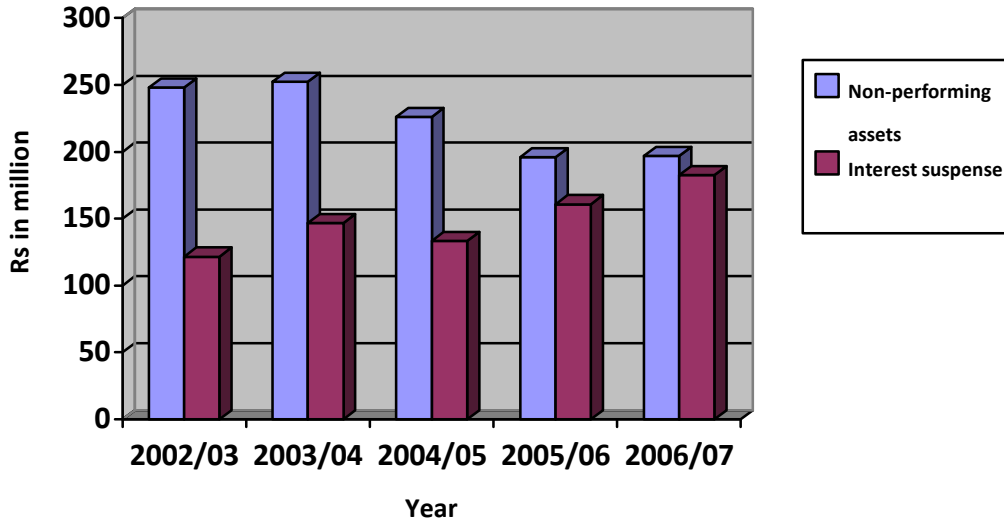
Comparison:

In comparison, among the RBB, HBL and the SCBNL, non-performing assets to interest suspense ratio of RBB is higher than the other two joint venture banks. It shows that RBB's NPA is greater than the other two banks which increased the interest suspense amount.

ix.   Non-Performing Assets to Non-Banking Assets Ratio:

It shows that, how much of the auction assets that the bank accept as in their own name. Here the lower ratio reflects the recovering of loan on time. The ratio is calculated by using following formula.

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

Table 4.2.25

Non-Performing Assets to Non-Banking Assets Ratio of RBB

Rs in Million

Year	Non-Performing Assets	Non-Banking Assets	Ratio %
2002/03	16110	106	0.66
2003/04	14527	56.2	0.39
2004/05	13877	188.5	1.36
2005/06	8384	336.9	4.02
2006/07	7725	320.1	4.14

Average= 2.11

The above table shows the non-performing assets to non-banking assets ratio of RBB over five fiscal years. The ratios are 0.66%, 0.39%, 1.36%, 4.02% and 4.14% respectively in the fiscal year 2002/03 to 2006/07 respectively. In comparison, the highest ratio is 4.14% in the fiscal year 2006/07 and the lowest ratio is 0.39% in the fiscal year 2003/04. On an average the ratio remains at 2.11%. This can be shown in the following bar diagram.

**Figure: 25**

Non-Performing Assets to Non-Banking Ratio of RBB
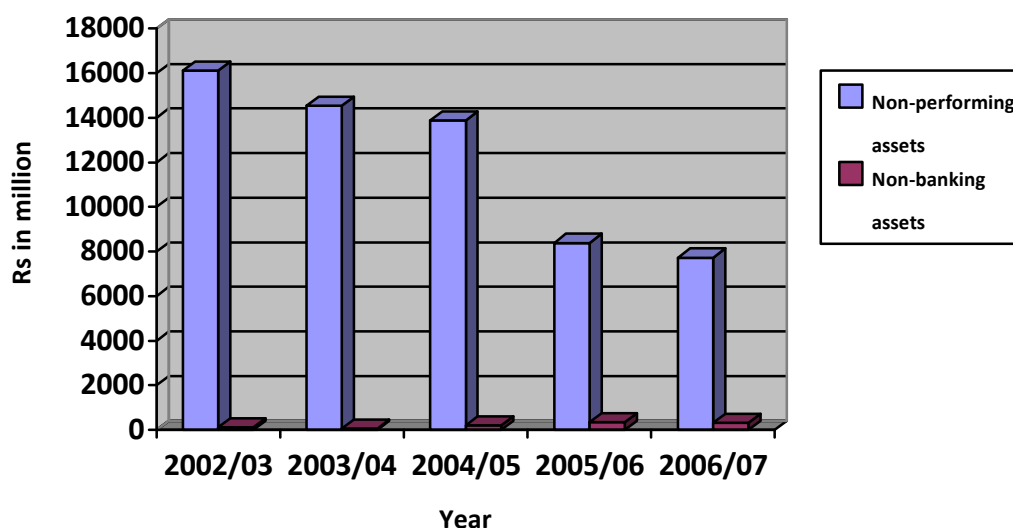
Table 4.2.26

Non-Performing Assets to Non-Banking Assets Ratio of HBL

Rs in Million

Year	Non-Performing Assets	Non-Banking Assets	Ratio %
2002/03	1090	36.4	3.34
2003/04	1158	10.9	0.94
2004/05	1033	31.9	3.09
2005/06	1062	21.7	2.04
2006/07	654	12.7	1.94

Average= 2.27

The above table shows the non-performing assets to non-banking assets ratio of HBL over the five fiscal years. The ratios are 3.34%, 0.94%, 3.09%, 2.04% and 1.94% respectively in the fiscal year 2002/03 to 2006/07 respectively. In comparison, the highest ratio is 3.34% in the fiscal year 2002/03 and the lowest ratio is 0.94% in the fiscal year 2003/04. On an average the ratio remain at 2.27%. This can be shown in the following bar diagram.

Figure: 26

Non-Performing Assets to Non-Banking Ratio of HBL
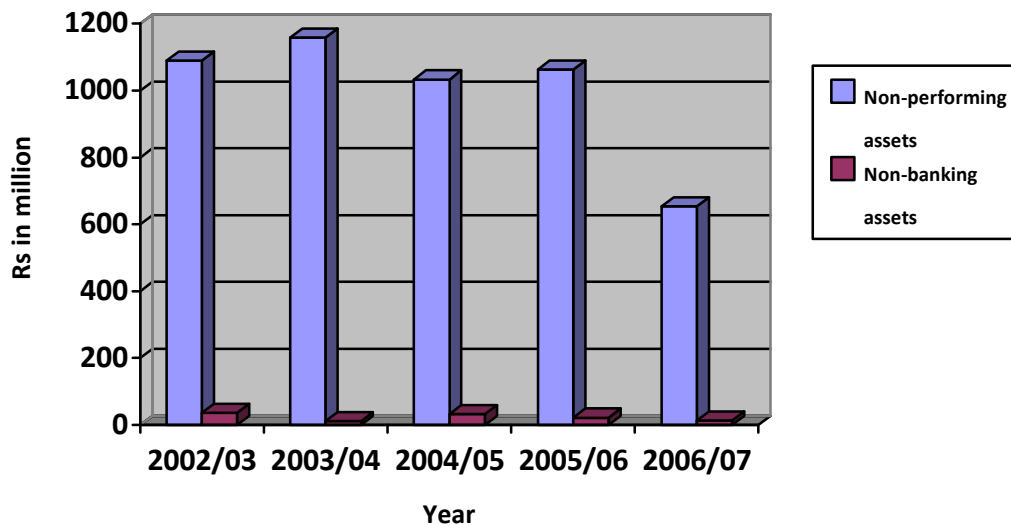
Non-Performing Assets to Non-Banking Assets Ratio of SCBNL

Because of the NIL (Zero) non-banking assets of the Standard Chartered Bank Nepal Limited, here we can't calculate the above mentioned ratio.

Comparison:

In comparison of the non-performing assets to non-banking assets of RBB and HBL, ratio is in increasing trend with RBB whereas the HBL has decreasing ratio. It shows that RBB has accepted much more auction assets as in their own name because of the overvaluation of the property.

4.3 Correlation Analysis

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. It is calculated as:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

N = Number of pairs of X and Y observed

X = Value of loan and advances

Y = Values of non-performing assets

r = Pearsonian correlation coefficient

Here, the correlation coefficient of loan and advances and non-performing assets are calculated to show the relationship of these variables. It helps to identify the trend of NPA and loan and advances.

Table 4.3.1

Computation of correlation coefficient between total loan and advances(x) and non-performing assets(y) of RBB

Year	Loan & Advances (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	26608	16110	26.6	16.1	707.56	259.21	428.26
2003/04	25106	14527	25.1	14.5	630.01	210.25	363.95
2004/05	27001	13877	27.0	13.8	729	190.44	372.6
2005/06	23103	8384	23.1	8.3	533.61	68.89	191.73
2006/07	25395	7725	25.3	7.7	640.09	59.29	194.81
N=5	127213	60623	127.1	60.4	3240.27	788.08	1551.35

Here, N=5,   X= 127.1,   Y= 60.4, X^2= 3240.27, Y^2= 788.08 and   XY= 1551.35

Now coefficient of correlation,

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2}\sqrt{N \sum Y^2 - (\sum Y)^2}}$$

r= 0.55

According to the above calculation, the Karl Pearson's Coefficient (r) between total loan and advances and non-performing assets of RBB is 0.55, which denotes that there is posative relationship between them. That means if one variable from them is increased that absolutely increased another variable in relation to 55%. But to find out the significant or insignificant relationship, here the researcher calculated probable error as following.

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

Here, r= correlation coefficient

   N= Number of pairs of observatios

P.E = 0.2104

6 times P.E = 1.2624

According to probable error test, there is insignificant relationship between non-performing assets and total loan and advances of RBB because the correlation coefficient is less than six times of probable error.

Table 4.3.2

Computation of correlation coefficient between total loan and advances(x) and non-performing assets(y) of HBL

Year	Loan & Advances (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	10984.2	1090	10.9	1.09	118.8	1.18	11.88
2003/04	11951	1158	11.9	1.16	141.6	1.34	13.80
2004/05	12424	1033	12.4	1.03	153.8	1.06	12.77
2005/06	14642	1065	14.6	1.06	213.2	1.12	15.48
2006/07	16998	654	16.9	0.65	285.6	0.42	10.98
N=5	66999.2	5000	66.7	4.99	913	5.13	64.91

Here, N=5,   X=66.7,   Y=4.99, X^2=913, Y^2=5.13 and   XY=64.91

Now coefficient of correlation,

$$r = \frac{N \; XY \; \text{Z}(\; X)(\; Y)}{\sqrt{N \; X^2 \; \text{Z}(\; X)^2} \sqrt{N \; Y^2 \; \text{Z}(\; Y)^2}}$$

r=-0.89

According to the above calculation, the Karl Pearson's Coefficient (r) of HBL between total loan and advances and non-performing assets is -0.89, which denotes that there is negative correlation between them. That means if one variable from them is decreased that affected another variable but in oppsite direction, i.e. in increased in relation to 89% and viceversa. To clarify the significant result, probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.0627

6 times P.E = 0.3762

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and total loan and advances to HBL.

Table 4.3.3

Computation of correlation coefficient between total loan and advances(x) and non-performing assets(y) of SCBNL

Year	Loan & Advances (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	5695.8	247.9	5.69	0.247	32.38	0.061	1.41
2003/04	6410.2	252.2	6.41	0.25	41.09	0.063	1.60
2004/05	8143.2	226	8.14	0.23	66.26	0.053	1.87
2005/06	8935.4	196	8.93	0.196	79.74	0.038	1.75
2006/07	10502.6	197	10.50	0.197	110.25	0.039	2.07
N=5	39681.2	1119.1	39.67	1.12	329.72	0.254	8.7

Here, N=5,   X= 39.67,   Y= 1.12, X^2= 329.72, Y^2= 0.254 and   XY= 8.7

Now coefficient of correlation,

$$r = \frac{N \ XY \ Z(\ X)(\ Y)}{\sqrt{N \ X^2 \ Z(\ X)^2} \sqrt{N \ Y^2 \ Z(\ Y)^2}}$$

r=-0.86

According to the above calculation, the Karl Pearson's Coefficient (r) of SCBNL between total loan and advances and non-performing assets is -0.86, which denotes that there is negative correlation between them. That means if one variable from them is decreased that affected another variable but in opposite direction, i.e. in increase in relation to 86% and vice versa. To test the significance probable error is calculated as the following method.

$$P.E = 0.6745 \times \frac{1Zr^2}{\sqrt{N}}$$

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.078

6 times P.E = 0.47

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and total loan and advances to SCBNL.

Table 4.3.4

Computation of correlation coefficient between total assets (x) and non-performing assets(y) of RBB

Year	Total Assets (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	43172	16110	43.1	16.1	1858	259.21	639.91
2003/04	45056	14527	45.0	14.5	2025	210.25	652.5
2004/05	56822	13877	56.8	13.8	3226	190.44	783.84
2005/06	49010	8384	49.0	8.3	2401	68.89	406.7
2006/07	47911	7725	47.9	7.7	2294	59.29	368.83
N=5	241971	60623	241.8	60.4	11804	788.08	2851.78

Here, N=5, X= 241.8, Y= 60.4, X^2= 11804, Y^2= 788.08 and XY= 2851.78

Now coefficient of correlation,

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

r= -0.86

According to the above calculation, the Karl Pearson's Coefficient (r) of RBB between total assets and non-performing assets is -0.86, which denotes that there is negative correlation between them. That means if one variable from them is decreased that affected another variable but in opposite direction, i.e. in increased in relation to 86% and vice versa. To clarify the significant result, probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.078
6 times P.E = 0.47

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and total assets to RBB.

Table 4.3.5

Computation of correlation coefficient between total assets (x) and non-performing assets(y) of HBL

Year	Total Assets (x)	NPA (y)	X	Y	X²	Y²	XY
2002/03	23355	1090	23.3	1.09	542.89	1.18	25.4
2003/04	24817	1158	24.8	1.16	615.04	1.34	28.8
2004/05	27845	1033	27.8	1.03	772.84	1.06	28.6
2005/06	29460	1062	29.4	1.06	864.36	1.12	31.2
2006/07	33519	654	33.5	0.65	1122.25	0.42	21.8
N=5	138996	4997	138.8	4.99	3917.38	5.12	135.8

Here, N=5,   X= 138.8,   Y= 4.99,   X²= 3917.38,   Y²= 5.128 and   XY= 135.8

Now coefficient of correlation,

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

r=-0.91

According to the above calculation, the Karl Pearson's Coefficient (r) of HBL between total assets and non-performing assets is -0.91, which denotes that there is negative correlation between them. That means if one variable from them is decreased that affected another variable but in opposite direction, i.e. in increased in relation to 91% and vice versa. To clarify the significant result, probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.052

81

6 times P.E = 0.31

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and total assets to HBL.

Table 4.3.6

Computation of correlation coefficient between total assets (x) and non-performing assets(y) of SCBNL

Year	Total Assets (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	20911	247.9	20.9	0.247	436.8	0.061	5.16
2003/04	23642	252.2	23.6	0.25	556.9	0.063	5.9
2004/05	21782	226	21.7	0.23	470.9	0.053	4.99
2005/06	25767	196	25.7	0.196	660.5	0.038	5.04
2006/07	28597	197	28.5	0.197	812.2	0.039	5.61
N=5	120702	1119.1	120.4	1.12	2937.3	0.254	26.7

Here, N=5,   X= 120.4,   Y= 1.12, X^2= 2937.3, Y^2= 0.254 and   XY= 26.7

Now coefficient of correlation,

$$r = \frac{N \; XY \; Z(\; X)(\; Y)}{\sqrt{N \; X^2 \; Z(\; X)^2} \sqrt{N \; Y^2 \; Z(\; Y)^2}}$$

r=-0.78

According to the above calculation, the Karl Pearson's Coefficient (r) of SCBNL between total assets and non-performing assets is -0.78, which denotes that there is negative correlation between them. That means if one variable from them is decreased that affected another variable but in opposite direction, i.e. in increased in relation to 78% and vice versa. To clarify the significant result, probable error is calculated as the following method.

P.E= $0.6745 \times \dfrac{1 Z r^2}{\sqrt{N}}$

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.12

6 times P.E = 0.72

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and total assets to SCBNL.

Table 4.3.7

Computation of correlation coefficient between Net Profit (x) and non-performing assets(y) of RBB

Year	Net Profit (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	-4840	16110	-4.84	16.1	23.43	259.21	-77.92
2003/04	1040	14527	1.04	14.5	1.08	210.25	15.08
2004/05	1323	13877	1.32	13.8	1.74	190.44	18.22
2005/06	1592	8384	1.6	8.3	2.56	68.89	13.28
2006/07	1682	7725	1.7	7.7	2.89	59.29	13.09
N=5			0.82	60.4	31.7	788.08	-18.25

Here, N=5,   X= 0.82,   Y= 60.4,   X^2= 31.7,   Y^2= 788.08 and   XY= -18.25

Now coefficient of correlation,

$$ r = \dfrac{N \; XY \, Z(\; X)(\; Y)}{\sqrt{N \; X^2 \, Z(\; X)^2}\sqrt{N \; Y^2 \, Z(\; Y)^2}} $$

r= -0.65

According to the above calculation, the Karl Pearson's Coefficient (r) of RBB between net profit and non-performing assets is -0.65, which denotes that there is negative correlation between them. That means if one variable from them is decreased that affected another variable but in opposite direction, i.e. in increased in relation to 65% and vice versa. To test the significance probable error is calculated as the following method.

$$P.E= 0.6745 \times \frac{1Zr^2}{\sqrt{N}}$$

Here, r= correlation coefficient

     N= Number of pairs of observatios

P.E = 0.17

6 times P.E = 1.04

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and net profit to RBB.

Table 4.3.8

Computation of correlation coefficient between Net Profit (x) and non-performing assets(y) of HBL

Year	Net Profit (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	212.1	1090	0.21	1.09	0.04	1.18	0.23
2003/04	263.1	1158	0.26	1.16	0.07	1.34	0.30
2004/05	308.2	1033	0.31	1.03	0.09	1.06	0.32
2005/06	457.4	1062	0.46	1.06	0.21	1.12	0.49
2006/07	491.8	654	0.49	0.65	0.24	0.42	0.32
N=5			1.73	4.99	0.65	5.12	1.66

Here, N=5,   X= 1.73,   Y= 4.99, X^2= 0.65, Y^2= 5.12 and   XY= 1.66

Now coefficient of correlation,

$$ r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} $$

r=-0.78

According to the above calculation, the Karl Pearson's Coefficient (r) of HBL between net profit and non-performing assets is -0.78, which denotes that there is negative correlation between them. That means if one variable from them is decreased that will affect another variable but in opposite direction, i.e. in increased in relation to 78% and vice versa. To clarify the significant result, probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.12
6 times P.E = 0.72

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and net profit to HBL.

Table 4.3.9

Computation of correlation coefficient between Net Profit (x) and non-performing assets(y) of SCBNL

Year	Net Profit (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	506.9	247.9	0.51	0.247	0.26	0.061	0.13
2003/04	537.8	252.2	0.537	0.25	0.29	0.063	0.13
2004/05	536.2	226	0.536	0.23	0.29	0.053	0.12
2005/06	658.8	196	0.659	0.196	0.43	0.038	0.13
2006/07	691.7	197	0.691	0.197	0.48	0.039	0.14
N=5		1119.1	2.933	1.12	1.75	0.254	0.65

Here, N=5,   X= 2.933,   Y= 1.12, X^2= 1.75, Y^2= 0.254 and   XY= 0.65

Now coefficient of correlation,

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2}\sqrt{N \sum Y^2 - (\sum Y)^2}}$$

r=-0.63

According to the above calculation, the Karl Pearson's Coefficient (r) of SCBNL between net profit and non-performing assets is -0.63, which denotes that there is negative correlation between them. That means if one variable from them is decreased that affected another variable but in opposite direction, i.e. in increased in relation to 63% and vice versa. To test the significance probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.18

6 times P.E = 1.09

Here, the correlation coefficient (r) is less than the six times probable error. That means there is not significant negative correlation between non-performing assets and net profit to SCBNL.

<div align="center">

Table 4.3.10

</div>

Computation of correlation coefficient between Loan Loss Provision (x) and non-performing assets(y) of RBB

Year	Loan Loss Provision (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	12217	16110	12.22	16.1	149.33	259.21	196.74
2003/04	12785	14527	12.78	14.5	163.33	210.25	185.31
2004/05	12731	13877	12.73	13.8	162.05	190.44	175.67
2005/06	7561	8384	7.56	8.3	57.15	68.89	62.75
2006/07	6804	7725	6.80	7.7	46.24	59.29	52.36
N=5			52.09	60.4	578.1	788.08	672.83

Here, N=5,   X= 52.09,   Y= 60.4, X^2= 578.1, Y^2= 788.08 and   XY= 672.83

Now coefficient of correlation,

$$r = \frac{N \; XY \; Z(\; X)(\; Y)}{\sqrt{N \; X^2 \; Z(\; X)^2} \; \sqrt{N \; Y^2 \; Z(\; Y)^2}}$$

r= 0.95

According to the above calculation, the Karl Pearson's Coefficient (r) of RBB between loan loss provisión and non-performing assets is 0.95. That means there is posative relationship between non-performing assets and loan loss provisión of RBB. It denotes that if one variable out of them is increased that absolutely increased another variable in relation of 95%. But to find out the level of significance probable error is calculated as the following method.

$$P.E = 0.6745 \times \frac{1Zr^2}{\sqrt{N}}$$

Here, r= correlation coefficient

    N= Number of pairs of observatios

P.E = 0.029

6 times P.E = 0.176

According to the probable error test, there is significant relationship between non-performing assets and loan loss provisión because the correlation coefficient (r) is more than six times of probable error.

Table 4.3.11

Computation of correlation coefficient between Loan Loss Provision (x) and non-performing assets(y) of HBL

Year	Loan Loss Provision (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	202	1090	0.20	1.09	0.04	1.18	0.22
2003/04	186	1158	0.18	1.16	0.03	1.34	0.21
2004/05	147	1033	0.14	1.03	0.02	1.06	0.14
2005/06	88	1062	0.08	1.06	0.006	1.12	0.08
2006/07	90	654	0.09	0.65	0.008	0.42	0.06
N=5			0.69	4.99	0.104	5.12	0.71

Here, N=5,   X= 0.69,   Y= 4.99,   X^2= 0.104,   Y^2= 5.12 and   XY= 0.71

Now coefficient of correlation,

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

r= 0.61

According to the above calculation, the Karl Pearson's Coefficient (r) of HBL between loan loss provisión and non-performing assets is 0.61. That means there is posative relationship between non-performing assets and loan loss provisión of HBL. It denotes that if one variable out of them is increased that absolutely increased another variable in relation of 61%. But to find out the level of significance probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.19

6 times P.E = 1.14

According to the probable error test, there is insignificant relationship between non-performing assets and loan loss provisión because the correlation coefficient (r) is less than six times of probable error.

Table 4.3.12

Computation of correlation coefficient between Loan Loss Provision (x) and non-performing assets(y) of SCBNL

Year	Loan Loss Provision (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	304.3	247.9	0.304	0.247	0.092	0.061	0.075
2003/04	283.6	252.2	0.283	0.25	0.080	0.063	0.071
2004/05	277.7	226	0.277	0.23	0.077	0.053	0.064
2005/06	270.8	196	0.271	0.196	0.073	0.038	0.053
2006/07	287.5	197	0.287	0.197	0.082	0.039	0.057
N=5			1.422	1.12	0.404	0.254	0.32

Here, N=5,   X= 1.422,   Y= 1.12,   X^2= 0.404,   Y^2= 0.254 and   XY= 0.32

Now coefficient of correlation,

$$r = \frac{N\ XY\ Z(\ X)(\ Y)}{\sqrt{N\ X^2\ Z(\ X)^2}\ \sqrt{N\ Y^2\ Z(\ Y)^2}}$$

r= 0.50

According to the above calculation, the Karl Pearson's Coefficient (r) of SCBNL between loan loss provisión and non-performing assets is 0.50. That means there is posative relationship between non-performing assets and loan loss provisión of SCBNL. It denotes that if one variable out of them is increased that absolutely increased another variable in relation of 50%. But to find out the level of significance probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.23

6 times P.E = 1.38

According to the probable error test, there is insignificant relationship between non-performing assets and loan loss provisión because the correlation coefficient (r) is less than six times of probable error.

Table 4.3.13

Computation of correlation coefficient between Interest Suspense (x) and non-performing assets(y) of RBB

Year	Interest Suspense (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	15365.9	16110	15.36	16.1	235.93	259.21	247.3
2003/04	19200.3	14527	19.20	14.5	368.64	210.25	278.4
2004/05	21633.0	13877	21.63	13.8	467.86	190.44	298.5
2005/06	16702.9	8384	16.70	8.3	278.89	68.89	138.6
2006/07	17240.7	7725	17.24	7.7	297.22	59.29	132.8
N=5			90.13	60.4	1648.54	788.08	1095.6

Here, N=5, X= 90.13, Y= 60.4, X^2= 1648.54, Y^2= 788.08 and XY= 1095.6

Now coefficient of correlation,

$$r = \frac{N\ XY\ Z(\ X)(\ Y)}{\sqrt{N\ X^2\ Z(\ X)^2}\sqrt{N\ Y^2\ Z(\ Y)^2}}$$

r= 0.18

According to the above calculation, the Karl Pearson's Coefficient (r) of RBB between interest suspense and non-performing assets is 0.18. That means there is posative relationship between non-performing assets and interest suspense of RBB. It denotes that if one variable out of them is increased that absolutely increased another variable in relation of 18%. But to find out the level of significance probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.29

6 times P.E = 1.75

According to the probable error test, there is insignificant relationship between non-performing assets and interest suspense of RBB because the correlation coefficient (r) is less than six times of probable error.

Table 4.3.14

Computation of correlation coefficient between Interest Suspense (x) and non-performing assets(y) of HBL

Year	Interest Suspense (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	402.4	1090	0.40	1.09	0.16	1.18	0.436
2003/04	417.5	1158	0.42	1.16	0.18	1.34	0.487
2004/05	426.5	1033	0.43	1.03	0.18	1.06	0.443
2005/06	487.9	1062	0.49	1.06	0.24	1.12	0.519
2006/07	336.7	654	0.34	0.65	0.12	0.42	0.221
N=5			2.08	4.99	0.88	5.12	2.106

Here, N=5,   X= 2.08,   Y= 4.99, X^2= 0.88, Y^2= 5.12 and   XY= 2.106

Now coefficient of correlation,

$$r = \frac{N\ XY\ Z(\ X)(\ Y)}{\sqrt{N\ X^2\ Z(\ X)^2}\sqrt{N\ Y^2\ Z(\ Y)^2}}$$

r= 0.66

According to the above calculation, the Karl Pearson's Coefficient (r) of HBL between interest suspense and non-performing assets is 0.66. That means there is posative relationship between non-performing assets and interest suspense of HBL. It denotes that if one variable out of them is increased that absolutely increased another variable in relation of 66%. But to find out the level of significance probable error is calculated as the following method.

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

Here, r= correlation coefficient

   N= Number of pairs of observatios

P.E = 0.1702

6 times P.E = 1.0215

According to the probable error test, there is insignificant relationship between non-performing assets and interest suspense of HBL because the correlation coefficient (r) is less than six times of probable error.

Table 4.3.15

Computation of correlation coefficient between Interest Suspense (x) and non-performing assets(y) of SCBNL

Year	Interest Suspense (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	121.6	247.9	0.122	0.247	0.015	0.061	0.030
2003/04	146.6	252.2	0.147	0.25	0.022	0.063	0.037
2004/05	133.4	226	0.133	0.23	0.018	0.053	0.031
2005/06	160.7	196	0.161	0.196	0.026	0.038	0.032
2006/07	182.4	197	0.197	0.197	0.033	0.039	0.036
N=5			0.745	1.12	0.114	0.254	0.166

Here, N=5,   X= 0.745,   Y= 1.12,   X^2= 0.114,   Y^2= 0.254 and   XY= 0.166

Now coefficient of correlation,

$$r = \frac{N \ XY \ Z(\ X)(\ Y)}{\sqrt{N \ X^2 \ Z(\ X)^2} \sqrt{N \ Y^2 \ Z(\ Y)^2}}$$

r= -0.29

According to the above calculation, the Karl Pearson's Correlation Coefficient (r) between non-performing assets and interest suspense of SCBNL is -0.29, which indicates that there is negative correlation between two variables. That means if one variable from them is decreased that affected another variable but in opposite direction i.e. in increased in relation to 29% and vice versa. To test the significance probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.28

6 times P.E = 1.66

Here, the correlation coefficient (r) is less than six times probable error. That means there is not significant negative correlation between non-performing assets and interest suspense to SCBNL.

<u>**Table 4.3.16**</u>

Computation of correlation coefficient between Non-Banking Assets (x) and non-performing assets(y) of RBB

Year	Non-Banking Assets (x)	NPA (y)	X	Y	X^2	Y^2	XY
2002/03	106	16110	0.106	16.1	0.011	259.21	1.707
2003/04	56.2	14527	0.056	14.5	0.003	210.25	0.812
2004/05	188.5	13877	0.188	13.8	0.035	190.44	2.594
2005/06	336.9	8384	0.336	8.3	0.113	68.89	2.789
2006/07	320.1	7725	0.320	7.7	0.102	59.29	2.464
N=5			1.006	60.4	0.264	788.08	10.366

Here, N=5,   X= 1.006,   Y= 60.4, X^2= 0.264, Y^2= 788.08 and   XY= 10.366

Now coefficient of correlation,

$$r = \frac{N \quad XY \, Z(\quad X)(\quad Y)}{\sqrt{N \quad X^2 \, Z(\quad X)^2} \sqrt{N \quad Y^2 \, Z(\quad Y)^2}}$$

r= -0.94

According to the above calculation, the Karl Pearson's Correlation Coefficient (r) between non-performing assets and non-banking assets of RBB is -0.94, which indicates that there is negative correlation between two variables. That means if one variable from them is decreased that affected another variable but in opposite direction i.e. in increased in relation to 94% and vice versa. To test the significance probable error is calculated as the following method.

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

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.035

6 times P.E = 0.211

Here, the correlation coefficient (r) is less than six times probable error. That means there is not significant negative correlation between non-performing assets and non-banking assets to RBB.

Table 4.3.17

Computation of correlation coefficient between Non-Banking Assets (x) and non-performing assets(y) of HBL

Year	Non-Banking Assets (x)	NPA (y)	X	Y	X²	Y²	XY
2002/03	36.4	1090	0.036	1.09	0.0013	1.18	0.039
2003/04	10.9	1158	0.011	1.16	0.0001	1.34	0.013
2004/05	31.9	1033	0.032	1.03	0.0010	1.06	0.033
2005/06	21.7	1062	0.022	1.06	0.0005	1.12	0.023
2006/07	12.7	654	0.013	0.65	0.0007	0.42	0.008
N=5			0.114	4.99	0.0036	5.12	0.116

Here, N=5, X= 0.114, Y= 4.99, X²= 0.0036, Y²= 5.12 and XY= 0.116

Now coefficient of correlation,

$$r = \frac{N \quad XY \, Z(\quad X)(\quad Y)}{\sqrt{N \quad X^2 \, Z(\quad X)^2} \sqrt{N \quad Y^2 \, Z(\quad Y)^2}}$$

r= 0.19

According to the above calculation, the Karl Pearson's Coefficient (r) of HBL between non-banking assets and non-performing assets is 0.19. That means there is posative relationship between non-performing assets and non-banking assets of HBL. It denotes that if one variable out of them is increased that absolutely increased another variable in relation of 19%. But to find out the level of significance probable error is calculated as the following method.

P.E= $0.6745 \times \dfrac{1Zr^2}{\sqrt{N}}$

Here, r= correlation coefficient

N= Number of pairs of observatios

P.E = 0.29

6 times P.E = 1.74

According to the probable error test, there is insignificant relationship between non-performing assets and non-banking assets of HBL because the correlation coefficient (r) is less than six times of probable error.

4.4 Comparison of Past Data

All the comercial Banks do have the different financial indicators, which represent the actual financial position of the bank in different aspects. Therefore, to find out the trend of different financial indicator of RBB, HBL and SCBNL five years financial summary is tried to analyze. So, we can say that, trend analysis is the tolos that are used to show grandly increase and decrease of variable in a period of time, is known as trend analysis. With the help of trend analysis, the tendency of variables over the period can be seen clearly. Here, trend analysis of deposits, loan and advances, non-performing assets and loan loss provisión has been conducted.

Table 4.4.1

Deposit trend of RBB, HBL and SCBNL

Rs in Million

Year	RBB	HBL	SCBNL
2002/03	39402	21002.8	18755.5
2003/04	40867	22010.3	21161.4
2004/05	43016	24814	19344
2005/06	46195	26490.8	23050.5
2006/07	50346	30048.4	24640.3

Above table presents the real figure of RBB, HBL and SCBNL about deposit growth trend over the five fiscal years of the study period. In the case of RBB, the deposits collection is in increasing trend year by year. It is Rs.39, 402, 000,000, Rs. 40,867,000,000, Rs. 43,016,000,000, Rs. 46,195,000,000, and Rs. 50,346,000,000 respectively in the fiscal year 2002/03 to 2006/07. Similarly, in the case of HBL, the deposit collection is in increasing trend year by year. It is Rs. 21,002,800,000, Rs. 22,010,300,000, Rs. 24,814,000,000, Rs. 26,490,800,000 and Rs. 30,048,400,000 respectively in the fiscal year 2002/03 to 2006/07. Whereas the deposit collection trend by SCBNL is in increasing trend except in the third fiscal year (i.e 2004/05) of the study period. The amounts are Rs. 18,755,500,000, Rs. 21,161,400,000, Rs. 19,344,000,000, Rs. 23,050,500,000 and Rs. 24,640,300,000 respectively in the fiscal year 2002/03 to 2006/07. This can be clarifying by the following diagram also.

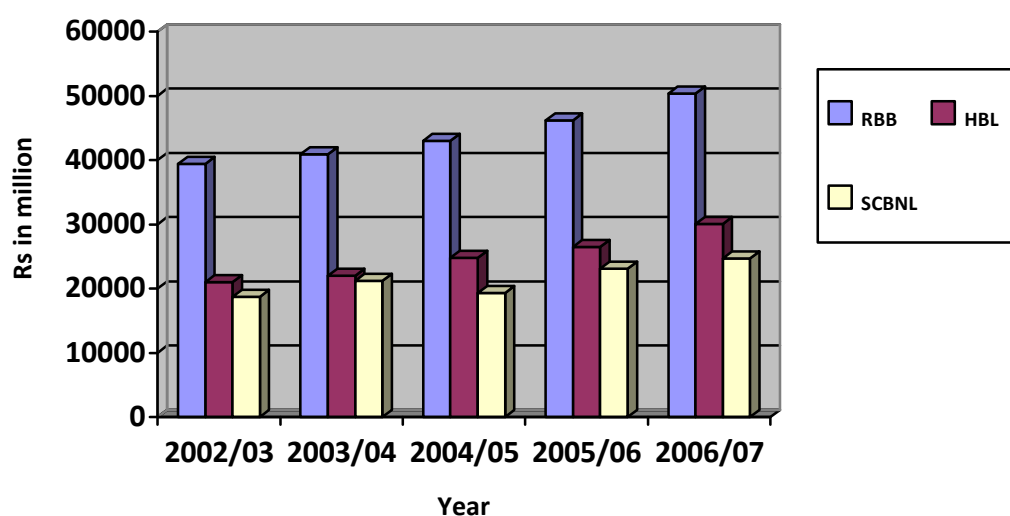**Figure: 27**

Deposit trend of RBB, HBL and SCBNL

Table 4.4.2

Loan and Advances Trend of RBB, HBL and SCBNL

Rs in Million

Year	RBB	HBL	SCBNL
2002/03	26608	10894.2	5695.8
2003/04	25106	11951	6410.2
2004/05	27001	12424	8143.2
2005/06	23103	14642	8935.4
2006/07	25395	16998	10502.6

The above table shows the loan and advances trend of RBB, HBL and SCBNL from the fiscal year 2002/03 to 2006/07. In the case of RBB, the loan and advances value is in fluctuating trend during the study period. First increased then decreased, again increased and than decreased trend of loan and advances of RBB. The amounts are Rs. 26,608,000,000, Rs. 25,106,000,000, Rs. 27,001,000,000, Rs. 23,103,000,000 and Rs. 25,395,000,000 respectively from the fiscal 2002/03 to 2006/07. But in case of HBL, the value of loan and advances are continuously in increasing trend. The amounts are Rs. 10,894,200,000, Rs. 11,951,000,000, Rs. 12,424,000,000, Rs. 14,642,000,000, and

16,998,000,000 respectively from the fiscal year 2002/03/ to 2006/07. Similarly, in case of SCBNL, the loan and advances value is in also increasing trend. The amount are Rs. 5,695,800,000, Rs. 6,410,200,000, Rs. 8,143,200,000, Rs. 8,935,400,000 and Rs. 10,502,600,000 respectively from the fiscal year 2002/03 to 2006/07. This can be clarifying by the following diagram also.

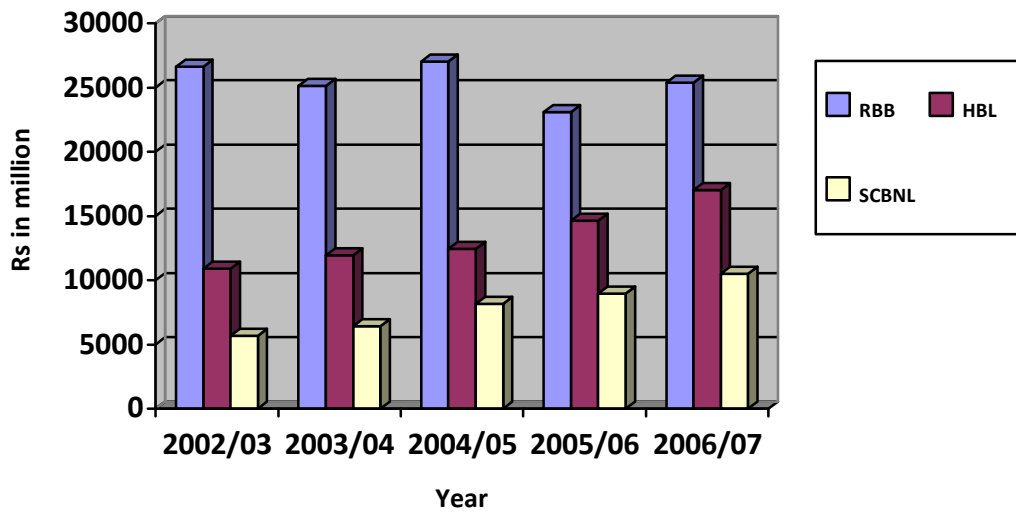**Figure: 28**

Loan and Advances trend of RBB, HBL and SCBNL

Table 4.4.3

Non-Performing Assets Trend of RBB, HBL and SCBNL

Rs in Million

Year	RBB	HBL	SCBNL
2002/03	16110	1090	247.9
2003/04	14527	1158	252.2
2004/05	13877	1033	226
2005/06	8384	1062	196
2006/07	7725	654	197

The above table reflects the non-performing assets trend of RBB, HBL and SCBNL from the fiscal year 2002/03 to 2006/07. In the case of RBB, the value of NPA is in decreasing trend. The amounts are Rs. 16110 million, Rs. 14527 million, Rs. 13877 million, Rs. 8384 million and Rs. 7725 million respectively from the fiscal year 2002/03 to 2006/07. In case of the HBL, the value of NPA is in fluctuating trend during the study period. First decreased then increased, again decreased and then increased trend of NPA of HBL but in the last year 2006/07 the NPA is highly decreased than the previous year. The amounts are Rs.1090 million, Rs. 1158 million, Rs. 1033 million, Rs. 1062 million and Rs. 654 million respectively from the fiscal year 2002/03 to 2006/07. Similarly, incase of SCBNL, the value of NPA is in fluctuating trend. The amounts are Rs. 247.9 million, Rs. 252.2 million, Rs. 226 million, Rs. 196 million and Rs. 197 million respectively from the fiscal year 2002/03 to 2006/07. This can be clarifying by the following diagram also.

Figure: 29

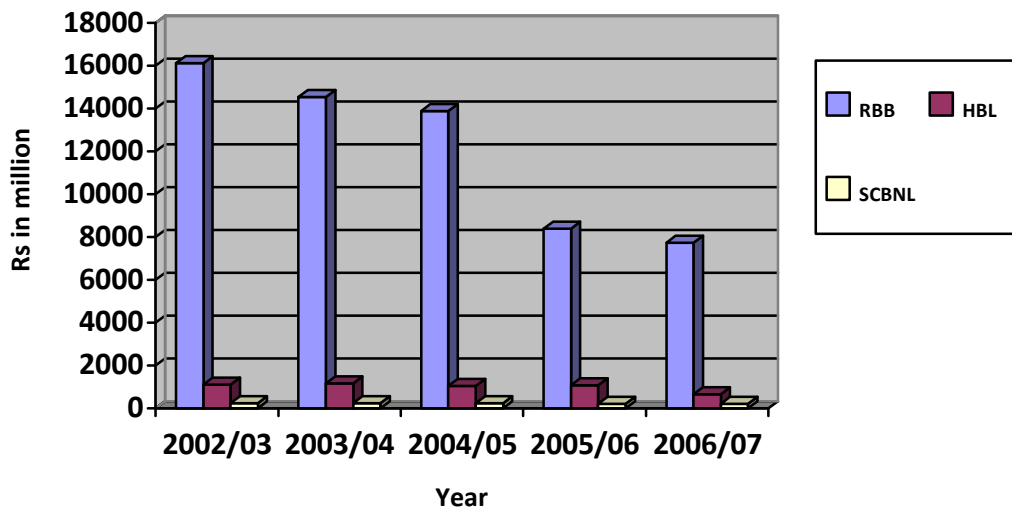**Non-Performing Assets Trend of RBB, HBL and SCBNL**

Table 4.4.4

Loan Loss Provision Trend of RBB, HBL and SCBNL

Rs in Million

Year	RBB	HBL	SCBNL
2002/03	12217	202	304.3
2003/04	12785	186	283.6
2004/05	12731	147	277.7
2005/06	7561	88	270.8
2006/07	6804	90	287.5

The above table shows the loan loss provisión trend of RBB, HBL and SCBNL from the fiscal year 2002/03 to 2006/07. In case of RBB, the value is in fluctuating trend up to the year 2004/05 and then it started to decrease. The amount are Rs. 12217 million, Rs. 12785 million, Rs. 12731 million, Rs. 7561 million and Rs. 6804 million respectively from the fiscal year 2002/03 to 2006/07. In case of HBL, the value of loan loss provisión is in decreasing trend. The amount are Rs. 202 million, Rs.186 million, Rs. 147 million, Rs. 88 million and Rs. 90 million respectively from the fiscal year 2002/03 to 2006/07. But in case of SCBNL, the value of loan loss provisión is in decreasing trend. The amount are Rs.304.3 million, Rs. 283.6 million, Rs. 277.7 million, Rs. 270.8 million and Rs. 287.5 million respectively from the fiscal year 2002/03 to 2006/07. This can be clarifying by the following diagram also.

Figure: 30

Loan Loss Provision Trend of RBB, HBL and SCBNL
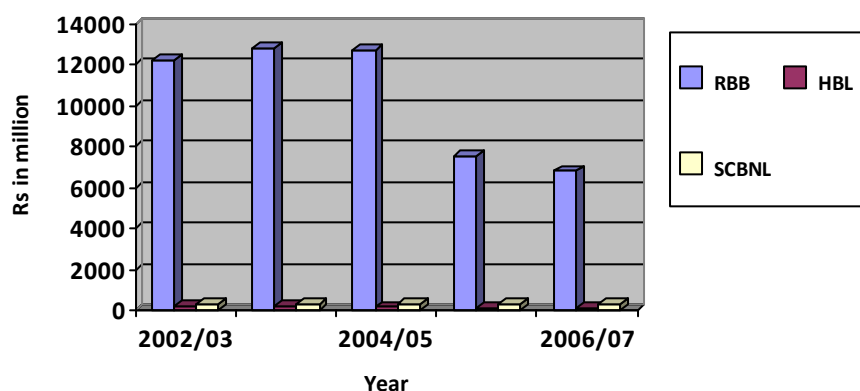
CHAPTER V
SUMMARY, CONCLUSION & RECOMENDATION

5.1 SUMMARY

Present chapter attempts to summarize the major findings of the earlier analysis and results. Researcher also attempted to draw some conclusión base don those findings. This chapter is the composition of the study that's why it is expected that those findings are very much useful for the academicians and practitioners as well as the management of the bank and concerned persons. On the basis of summary and conclusión of the study, researcher also attempted to identify some strategies of management for NPA and its impacto n the financial position on banking sector.

The first chapter consists of framework of the study as well as profile of selected government owned bank i.e. RBB, joint venture bank i.e. HBL and the Nepal largest international bank i.e. SCBNL. Similarly second chapter is good review of the issues related with abstracts of NPA. The possible valid used of ratios and mechanics, financial and statistical tools and techniques are briefly reviewed in chapter three research methodology. Finally, fourth chapter consists of analytical framework of data and findings that is considered as the important part revealing the performance of selected simple banks.

For the analysis of relationship with NPA growth and expansion of credit it has been found that there is some relationship between credit expansión and increment of NPA. NBA is created due to having NPA. But it is not certain that NPA always creates NBA, as on some occasion bank may not auction the property or the auctioned property after acceptence of the some in the name of the bank is disposed off. Sometime banks might have been sold some portion of NBA too.

In regard to the creation of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. In other words bank has to be careful about the repayment of loan and interest before giving loan. If a bank is too timid it may fail to obtain the adequate return on the fund. Similarly if the bank is too liberal, it may easily impair his profits by bad debts. Therefore, banks should not forget the reality that most of the bank failures in the world due to shrinkage in the value of the loan and advances.

After the analysis it was found that bad intension, weak monitoring and mismanagement are the most responsible factor for NPA growth. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan in to bad. Some factors such as lack of portfolio analysis, not being effective credit policy and shortfall on security were also identified as factors affecting in NPA growth.

Beside this, the major findings are summarized mainly based on presentation, interpretation and analysis of data which are as follows.

- The average loan and advances to total deposit ratio of RBB, HBL and SCBNL are 58.44%, 53.62% and 36.81% respectively.
- The average non-performing asset to total loan and advances ratio of RBB, HBL and SCBNL are 47.3%, 7.80% and 3.03% respectively.
- The average non-performing assets to total assets ratio of RBB, HBL and SCBNL are 25.44%, 3.42%, and 0.95% respectively.
- The average loan loss provisión to non-performing assets ratio of RBB, HBL and SCBNL are 86.77%, 14.17% and 124.01%.
- The average return on total assets ratio of RBB, HBL and SCBNL are 0.08%, 1.22% and 2.43% respectively.
- The average return on shareholders equity of RBB, HBL and SCBNL are 8.06%, 13.44% and 35.43% respectively.
- The average non-performing assets to net profit ratio of RBB, HBL and SCBNL are 6.20 times, 3.31 times and 3.09 times respectively.
- The correlation coefficient between total loan and advances and non-performing asssets of RBB is 0.55 where the six times probable error is 1.2624.
- The correlation coefficient between total loan and advances and non-performing asssets of HBL is -0.89 where the six times probable error is 0.3762.
- The correlation coefficient between total loan and advances and non-performing asssets of SCBNL is -0.86 where the six times probable error is 0.47.
- The total deposits of RBB, HBL as well as the SCBNL are in increasing trend in the following year.
- The total loan and advances of RBB is in fluctuating trend where as the other two banks are in increasing trend.

) The non-performing asset of RBB is in decreasing trend but in case of HBL and SCBNL, both are in fluctuating trend.

) The loan loss provisión of RBB is in fluctuating trend up to 2004/05 and then started to decrease. But in case of HBL and SCBNL both are in decreasing trend except in the last fiscal year 2006/07.

5.2 Conclusion

The growth and increasing integration of the world's economy has been related to the expansion of global banking activities. So the focus should be given to decrease the non-performing assets. To do this all the non-performing loans should be recovered. The management should show strong will to penalize the wilful defaulters. Government should support the bank in its endeavour to recover all bad debts. This study particularly deals with conclusion about "The position of non-performing assets on profitability with respect to Rastriya Banijya Bank, Himalayan Bank Limited and Standard Chartered Bank Nepal Limited". The analysis of NPA is very significant for investment which is the heart function of the commercial banks. Now-a-days, commercial banks are operating with better technology and new efficient method in banking sector. But this study has been undertaken only for commercial and joint venture banks to examine and evaluate the NPA condition. Besides, latest financial statement of five years from 2002/03 to 2006/07 has been conferred for the purpose of the study. This study has been mainly conducted on the basis of secondary data that are processed and analyzed.

Among the three banks, RBB has the satisfactory ratio of total loan and advances to total deposits. In case of RBB, the aggregate ratio is more than 58%, which is the good than other two banks. In case of HBL and SCBNL, both banks are not able to utilize the total deposits collected from its depositors in full phase because of the economic condition of the country as well as low investment opportunities. They could lend only the 53% and 36% of total deposits although theirs ratio are in increasing trend.

Non-performing assets to total loan and advances of three sample banks are in decreasing trend because non-performing assets are in decreasing trend whereas the total loan and advances are in increasing trend. It is due to good lending. But RBB has the highest ratio in comparison with HBL and SCBNL.

SCBNL has the lowest non-performing assets to total assets ratio i.e. 0.95% which denotes that SCBNL invest on profitable sector only. Similarly the HBL has also the satisfactory ratio. The ratio is in decreasing trend due to decrease in NPA and increase in total assets. Although, the ratio of RBB is in decreasing trend, its ratio is highest among the three sample banks due to the fluctuating trend of total assets.

Although the SCBNL has low value of NPA and put the low value of loan loss provision on it's provision fund, it's ratio is highest than the other two banks. In case of RBB it has the high value of NPA as well as the high value of loan loss provision. Loan loss provision even reduce the default risk, it directly affected on the profitability of the banks.

In an average, SCBNL has the quite satisfactory return on total assets ratio than the other two sample banks. Although the RBB has negative net profit trend in the first year of the study period it went up to 3.51% from 11% which seem that in the least day it manage well in lending policy and recovery process.

Among three sample banks, SCBNL has the satisfactory ratio of return on shareholders equity even its ratio is fluctuating trend. But in case of HBL, the ratio is continuously in increasing trend. But RBB has rapidly decreasing trend of return on shareholders equity. It decreases from 21.16% to negative ratio during the five years. It seems it is not managing well and latest day, public are not believing it.

There is a inverse relation between non-performing assets and net profit ratio of three sample banks, in case of RBB and SCBNL, NPA are in decreasing year by year but yet profit is in increasing year by year. But in case of HBL, NPA is in fluctuating trend where as the net profit is in increasing trend.

Karl Parson's correlation coefficient shows that there is negative relationship between non-performing assets and total loan and advances of HBL and SCBNL. That means increase in total loan and advances decreases non-performing assets and decrease in total loan and advances increases the non-performing assets in relation to 89% and 86% respectively of HBL and SCBNL or they are inversely interrelated with each other. But in case of RBB, there is positive relationship between total loan and advances and NPA that

means increase in total loan and advances also increase the NPA and decrease in total loan and advances also decrease the NPA in relation to 55% of RBB or they are directly interrelated with each other.

All three sample banks have increasing trend of total deposits. Similarly both HBL and SCBNL have increasing trend of loan and advances where as the RBB has fluctuating trend of loan and advances.

RBB has the decreasing trend of non-performing assets but except in the fiscal year 2005/06 of the study period, HBL has decreasing trend of NPA similarly, except the fiscal year 2003/04 SCBNL has also decreasing trend of NPA.

RBB, HBL and SCBNL have put nearly 87%, 14.17% and 124.01% respectively provision in aggregate for its loan loss.

Finally we conclude that the levels of NPA in sample banks are not so alarming. The situation is quite satisfactory. The commercial banks should give full attention towards supervising their lending and towards recovering their bad loans perfectly.

5.3 Recommendations

High level of non-performing assets not only decreases the profitability of the banks but also affect the entire financial as well as operational health of organization. If the NPA does not control immediately, it will be proved it as a curse for the banks in future. Therefore, based on the above discussion and conclusion present research recommend few major solutions to the authority, academician, practitioners and bankers. Following are the recommendation to minimize the NPA level in sample banks that may support to overcome NPA problems.

-) Loan is given if the banker is satisfied that the borrower can repay money from the cash flow generated from operating activities. However the 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 be able to recover its principle and interest amount in case of being unable to repay by the borrower.

) There should be strong follow-up system in commercial banks for the recovery of due loans. Strict monitoring and control system should be there for timely recovery of their loan. It is required to have general practice of follow-up before the loan term into bad loans. Banks should have the proper attention towards the business position of the borrower while floating loan.

) In commercial banks there should be approach of portfolio management. Lending towards the single sector of economy may create higher level of risk thus it is recommended that the credit should be floated to the different sectors of economy. If there is recession to the any specific sectors remaining sectors of economy may function well and there may not be serve impacts, on the whole lending part of the RBB, HBL and SCBNL.

) There is direct effect of NPA on profitability but inversely that means increase in NPA decreases the profitability and decrease in NPA increases the profitability of the banks because of loan loss provision. Therefore, all banks should minimize its NPA level so that they are able to increase in their profitability.

) In case of RBB, Its total loan and advances ratio is higher than the other two banks but its net profit ratio is lower in comparison that's why RBB should invest in less risky investment sector and more profit generating sectors i.e. in productive sectors where as the HBL and SCBNL should minimizes its existing level of excess liquidity by inverting in more profitable sectors.

) Lack of proper financial analysis of the borrowers by the bank, management inefficiency and the most important thing overvaluation of the collateral assets are the major cause behind increasing NBA of RBB. So RBB in recommended to do the right valuation over the borrower's property specially in granting loans to customers.

Therefore, banks should reduce their level of NPA to increase the ROE and ROA. Last but not least, it is wrong to say NPA should be reduced to maintain sound financial health of the bank.

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