The role of any financial institution in the growth and development of economy has always been very crucial and important. Though all levels of financial institutions cater to different segments and requirements of the society, the focus of banking system mainly covers general public constituting major part of the society. It accepts deposit from the public and also lends for meeting their requirements. The income of the bank is generated through difference in the rate at which deposits are accepted and the rate at which funds are lent.

The objectives for which funds are lent may vary for different purposes such as personal loan, purchase of asset, commercial loan, etc. and therefore they are inherited with different levels of risk and hence different rates as well. The income of bank is more if the amount is lent for riskier purpose. The banks, therefore, with a motive to earn higher income prefer to skew their loan portfolio in favour of riskier assets. This practice in fact, makes banks prone to risk of having Non performing assets in their balance sheets. Keeping in view the role of banks and the practice generally adopted by them, various committees have been set up by Reserve Bank of India to suggest proper mechanism of regulating the functioning of banks without impairing their objective of serving social masses. Despite various guidelines issued by different committees such as Narsimham Committee, BASEL committee, etc., the problem of Non performing assets still looms large over the public sector banks. Various studies have been done in the past to examine and study different issues related to Non Performing Assets, their causes and concluded with suggestions to overcome the problem of Non Performing Assets. Keeping in view the efforts being undertaken by various regulatory authorities and different banks also, this topic of study has been chosen so that the important factors leading to Non performing assets (during the period 2002 to 2013), their interrelationship with various macro economic factors and
operational level of banks can be examined in detail besides other related issues. The study also aims to examine the impact of economic activity in Alwar on the Non performing assets in the banks operating in Alwar district. Both the sources of information, Primary as well as Secondary, have been used for obtaining relevant information. Different sets of questionnaires intended to be responded to by bankers and customers have been developed and finally information has been collected through them on random sample basis.

The secondary sources of information have mainly been Reserve Bank of India Annual reports for different years. The data collected under the study has been subjected to different statistical and econometric tests using SPSS software package, to draw meaningful inferences. The study concluded that the size of NPAs in Public Sector Banks significantly increased during the period 2007 onwards and the same has been substantiated and proved through various indicators of NPA used in the study. Among the various categories of banks, old private sector banks were observed to have lowest NPAs. This can be attributed to the fact that they are not required to undertake the loan approvals with social objective as one of the major objectives as in case of Public Sector banks.

Further, in case of Private sector banks the positions of Chairman and Managing Director are held by different individuals as compared to Public sector banks, where apart from State Bank of India, in all cases, the positions of Chairman and Managing Director are held by the same individual. The strategies and concern towards reducing and controlling NPAs has proved to be effective as observed from various indicators of NPAs in the sample period. The Gross NPA percentage as well as Net NPA percentage was observed to be at relatively higher level in the beginning and at the end of the sample period i.e. 2002 to 2012. The interrelationship of various NPA indicators – Gross NPA as percentage of gross advance , Gross NPA as percentage of total assets, Net NPA as percentage of gross advance , Net NPA as percentage of total assets and economic indicators GDP, Industrial production and inflation , when measured through multiple regression analysis, was found to be statistically significant in case of
Scheduled Commercial Banks, Public Sector Banks, New private sector banks and Old private sector banks except, two instances where inflation was not statistically significant for Net NPA as % of net advances of public sector banks and new private sector banks.