

**STUDY ON LOAN AND ADVANCES
OF
COMMERCIAL BANKS**
*(With Special Reference to Nepal Investment Bank Ltd., Everest Bank
Ltd. & Nepal Industrial and Commercial Bank Ltd.)*

A THESIS

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VIVA – VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

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DECLARATION

I hereby declare that the thesis work entitled "**STUDY ON LOAN AND ADVANCES OF COMMERCIAL BANKS**", submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work for the partial fulfillment of the requirements for the Master's Degree in Business Studies (MBS) under the guidance and supervision of Mr. Surya Devkota and Mr. Laxman Regmi, Lecturers, Nepal Commerce Campus.

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LIST OF ABBREVIATIONS

ABBS	-	Anywhere Branch Banking System
ADB	-	Agriculture Development Bank
AMC	-	Asset Management Committee
ATM	-	Automated Teller Machine
C.I.	-	Credit Information
CIB	-	Credit Information Bureau
C.V.	-	Coefficient of Variation
EBL	-	Everest Bank Limited
Govt.	-	Government
HBL	-	Himalayan Bank Limited
IFC	-	International Finance Corporation
ISO	-	International Standard Organization
JVBS	-	Joint Venture Banks
LC	-	Letter of Credit
MIS	-	Management Information System
NABIL	-	Nepal Arab Bank Limited
NIBL	-	Nepal Investment Bank Limited
NIC	-	Nepal Industrial and Commerce Bank Limited
NGO	-	Non Governmental Organization
NPA	-	Non Performing Assets
NRB	-	Nepal Rastra Bank
RBB	-	Rastriya Banijya Bank
SCBNL	-	Standard Chartered Bank Nepal Limited
SD	-	Standard Deviation
SMS	-	Short Messaging Service
UAE	-	United Arab Emirates
UK	-	United Kingdom

CHAPTER I

INTRODUCTION

1.1 General Introduction

Financial system is a base for development of every country. Financial system includes banks, financial institutions, stock markets, insurance companies, foreign exchange markets, mutual funds, provident funds etc. A financial system mobilizes savings, improves resources allocation and transforms terms of financial assets. It attracts funds from surplus entities with limited investment opportunities and gathers and analyzes information on alternative investment projects and allocates funds to project with high yields. It mediates between the short-term perspective of investors by transforming the size, maturity and the risk characteristics of assets. A financial system, thus, enhances economic growth, both by increasing the saving ratio and reducing the capital output ratio by reducing the cost of transaction and by facilitating trade, leading to specialization in production. Financial system provides sufficient amount of capital to utilize the resources available in country in a productive way to enhance the economic success.

The economy of the country largely depends upon the utilization of its resources and mobilization of capital. The lack of its proper utilization results the country to be backward over as Nepal is facing now. The mobilization of the capital is an important tool to utilize the resources and hence it affects the overall economy directly, indirectly. The financial institutions contribute the national economy by accumulating the capital funds to meet the financial needs of the different productive sectors. They actively participate in the development of the country and mobilization of financial resources.

A financial institution is concerned with the process, institutions, market and instructions involved in the transfer of money among and between individuals, business and government. Commercial banks play a vital role for such development by carrying out financial activities. Generally an institution established by law, which deals with money and credit, in common sense involving monetary transaction is called bank. The history of financial and monetary development in Nepal is not very old. "It was in September 15, 1937 the first commercial bank (Nepal Bank Limited) was established in Nepal with 51% Government equity." Nepal Bank Limited was only one commercial bank and it was not sufficient to provide adequate banking facility. Therefore, it was felt

for another bank that content Rastriya Banijya Bank was established in January 24, 1966 as the second commercial bank of the country. Now there are altogether 29 licensed commercial banks and besides commercial bank, there are 83 development banks, 79 finance companies, 19 microcredit development banks, 16 Savings and Credit Co-operatives, 1 stock exchange, 1 employees' provident fund, 45 micro finance NGO's (licensed by NRB) and 1 Citizen Investment Trust. 8 joint venture commercial banks are currently in operation in Nepal. Nepal Arab Bank Ltd (NABIL) is the first joint venture bank from the private sector. Accordingly, Nepal Investment Bank Ltd (1986) and Standard Chartered Bank Nepal Ltd (1987) are the second and third joint venture banks in Nepal from private sector respectively (NRB, 2011).

Table 1.1: List of commercial banks in Nepal

Class A: Commercial Banks				
S.N.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Million)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.3
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	9437.5
4	Nabil Bank Limited	1984/07/16	Kathmandu	2029.8
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2409.1
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	1398.5
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.0
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	1653.6
9	Nepal Bangladesh Bank Limited	1994/06/05	Kathmandu	1860.3
10	Everest Bank Limited	1994/10/18	Kathmandu	1079.6
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	1359.5
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupandehi	1399.6
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitawan	1294.5
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar, Morang	1311.5
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1627.2
16	Kumari Bank Limited	2001/04/03	Kathmandu	1306.0
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1613.5
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1561.0
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1473.4

20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1207.0
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	1210.0
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1625.0
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1500.0
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, Kathmandu	1920.9
25	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu	1651.6
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	2000.0
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	1400.0
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	1631.0
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	1400.0

Source: NRB, 2011

Commercial banks are the heart of the financial sectors. The major roles of the commercial banks are deposit collections, lending to commercial banks as well as productive sectors, foreign exchange business, remittance merchant banking and corresponded banking. Commercial banks play an important role in directing the affairs of the economy in various ways. They make funds available through their lending and investing activities to borrow individuals, business firms and government establishment. In doing so, they assist both the flow of goods and services from producers to consumers and financial activities of government. They provide a large proportion of the medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy.

The present study is focused mainly on the banking system of the country keeping aside other components of a financial system. A sound banking system is not only a key factor to achieve success in the present global market but also an important factor to lift the country to achieve highest economic prosperity.

There are altogether 29 licensed commercial banks in Nepal (Table 1) and out of them 8 joint venture commercial banks are currently operating in Nepal. For the purpose of study, 3 commercial banks are taken as the sample. They are as follows.

- (1) Nepal Investment Bank Limited (NIBL)
- (2) Everest Bank Limited (EBL)
- (3) Nepal Industrial & Commercial Bank Limited (NIC)

All these banks are the recipients of Bank of the Year Award by the world-renowned financial publication of The Financial Times, U.K.-The Banker.

1.2 Overview of the Sample Banks

1.2.1 Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking groups in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Baniya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding 15% of the Capital.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

The bank has adopted good corporate governance practices prescribed by the Nepal Rastra Bank as well as other relevant statutes such as Companies Act 2006 and Bank and Financial Institution Act 2006. Based on its outstanding performance, the bank has been honoured with the "Bank of the Year Award" four times in 2003, 2005, 2008 and 2010.

1.2.2 Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch

Banking System (ABBS), which enables customers for operational transactions from any branches. The share portion of this bank is as follows.

- 50 % of the shares are owned by the local promoters
- 20% by joint venture partner Punjab National Bank, India
- 30% of the shares are owned by the general public.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services. Recognizing the value of offerings a complete range of services, it has pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL is one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society. EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet. The bank has been awarded with the "Bank of the Year 2006-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker.

1.2.3 Nepal Industrial & Commercial Bank Limited (NIC)

Nepal Industrial & Commercial Bank Limited (NIC Bank) commenced its operation on 21 July 1998 from Biratnagar. The current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank has over 34,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about NPR 10,493 million.

The Bank has grown rapidly with 33 branches throughout the country NIC Bank was the first commercial bank in Nepal to have received ISO 9001:2000

certification for its Quality Management System standard in the year 2006. The Bank has recently been certified under the upgraded ISO 9001:2008 standards for the Bank's Quality System on Commercial Banking Activities for the first time in Nepal. Furthermore, NIC Bank became the 1st Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide.

To add to these achievements, the Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker.

The Bank provides financial services to its patrons by the means of efficient and cost effective service delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury divisions.

Consumer Banking comprises of consumer lending, retail credit products and banking services for individuals with dedicated teams. Consumer Banking services include home loans, auto loans, personal loans, education loans, travel loans, etc.

Liability Marketing & Transaction Banking comprises of institutional and personal deposit products and transaction banking services including debit cards, ATMs, safe deposit lockers, payment services, drafts, remittance, SMS Banking, Travelers' Cheques, etc.

Business banking group comprises of corporate banking business including credit products and other banking services. It also includes corporate transaction banking, trade finance services, foreign exchange and corporate financing solutions including project & infrastructure finance, working capital & term loan credit, structured financing, syndication, cash management and advisory services.

Special Assets Management division is responsible for managing non-performing and restructured loans.

Treasury is responsible for management of liquidity and exposure to market risk, mobilization of resources, balance sheet management, pricing, investor relations and international operation. The Bank's treasury division offers a full range of Risk Management and Cash Management products and provides effective Treasury advisory services.

Further, Treasury also leverages its strong relationships with financial institutions to provide a wide range of banking services.

1.3 Statement of the Problem

Keeping pace with today's growing economy itself is a hazardous task. Not only this, commercial banks are facing tough competition too. At the same time, the present situation of Nepal has made the investments insecure to high extent. As a result, investments are being very challenging today. Commercial banks have to look for secure and productive investment opportunity which definitely is tough job. In the context of Nepal, of the total loan flown around, 30% is non-performing. In sound banking condition it should be below 5%. The huge amount of non-performing loan of two state owned commercial banks affects the overall system. The non-performing loan of Rastriya Banijya Bank and Nepal Bank Ltd., the banks covering approximately 50% of total banking sector, is around 60%. It is not only the state owned banks which are facing problems, but the problems have also crept into private banks due to lack of strict adherence to rules and regulations. NRB has recently declared Gorkha Development Bank as a "Troubled Bank" due to poor governance (Republica Vol II No.329; March 25, 2011). The bank has been issuing loans highly overvaluing the worth of collateral. According to a source, the executive chairman of the bank had issued Rs. 900 million loan for the collateral worth hardly over Rs 300 million. Establishment of Loan Management Company to decrease the volume of non-performing loan is urgent as the overdue loan has already reached over 30000 million rupees. It is tough job itself to exist in now-a-days growing economy. In addition, competition with other banks and finance companies and the problem of non-performing asset has added much more problem in operation of the commercial banks. Non-performing assets or loans mean those loans which banks are unable to recover at scheduled time.

The lending practice is never guided by its principle. The result of all these maladies is that Nepal is paying a huge cost in the form of foreign technical and management service. It is well known to all, banks having disciplined and strict management have low non-performing loan volume and making huge profit. Another reason for increment in non-performing loan is situational problems like unstable political conditions, violence etc. These problems are even worsening the condition of successful business companies.

While the international standard level of non-performing assets is 5 %, in Nepal, the average level of non-performing asset (NPA) stands at 30 percent. But this stands at whopping 52 % and 62 % in Rastriya Banijya Bank and Nepal Bank limited respectively.

In case of private commercial banks the non-performing assets average around 10 % of total loan.

A bank makes income in two ways - interest earning and fee/commission earning. Between the two, the first one is considered to be more risky because high investment has to be made in the form of loans and advance where considerable amount of risk is involved. Loan and advance is the crucial aspect of every financial institution. Success or failure of the financial institution depends on the quality of the loan granted. In the past decade, number of banks increased so rapidly that they are facing tough competition and in this scenario banks are providing unsecured and unproductive loans easily and swiftly to clients which has resulted in the rapid increment of non-performing loans.

Along with this, the liquidity of banks is increasing as unfavorable economic condition makes investment in trade and industry risky. Investment in unsecured and unproductive loan may lead the bank to liquidation process. If the basement of the economy collapses then the situation of national economy is out of imagination.

The economic crises led by the present political problems, which adversely affects the financial system, have made commercial banks to be more serious. The collapse of 56 finance companies out of 58 in Indonesia and liquidation of 12 commercial banks in Thailand have threatened the Nepalese commercial banks as well. These are few examples of evils due to unfavorable banking environment, which are not the problems to be solved in present study, but are the basic reasons that led the analysis of commercial banks more seriously.

1.4 Objectives of the Study

The major objective of the study is focused mainly on the analysis of loan and advance of commercial banks in Nepal. The general objectives of this study are as follows.

- To examine the present situation of loans and advances made by commercial banks under study.
- To evaluate facts regarding the lending and recovery of loans.
- To analyze the lending capacity of the banks.

1.5 Importance of the Study

Research is systematic investigation and study of facts to locate and analyze the problem and formulate the corrective steps to solve that problem. This statement describes the importance of research. A research reveals the cause of problem, its effect and remedies for it.

Researches made on the banking system are in very few numbers which are in fact inadequate to reform the overall system. Most researches on commercial banks are targeted in performance appraisal. Studies made on loans and advance of commercial banks are not sufficient enough to bring a revolutionary reform in the banking system. Loan being the life and blood of the banking system, an accurate and quality research is to be done.

Lending is the function having significant importance where whole banking system is based. Thus, a study on the loan advance of joint venture commercial banks having different status in the banking sector carries great significance to bankers, shareholders, stakeholders, banking professionals, teachers and students of banking & commerce.

1.6 Limitations of the Study

A research is a vast study investigating the subject matter for solving perceived research problems. Each and every study has its own limitations. Followings are some of the limitations of the present study.

- This study is limited only to 5 years (i.e. from 2060/61 to 2065/66) data of concerned banks. Thus the analysis made reveals that period only.
- The whole study is based on the secondary data collected from concerned banks and other sources.
- The study is conducted among the three banks only, thus, it will not reveal real status of commercial banks neither represents the total banking system of Nepal.
- Statistical tools are used for analysis. Hence, the drawbacks and weakness of those tools may affect the outcome of the study.

1.7 Organization of the Study

The study has been organized into five chapters. Each chapter deals with some important factors of loan and advance of banks which are given below.

Chapter 1: Introduction

Chapter one concentrates on introductory part of the study and explains general background of the study, statement of the problem, objectives, importance and limitations of the study.

Chapter 2: Review of Literature

In this chapter, review of books, articles, past research and studies are made. This is conducted in two part i.e. conceptual review and review of related studies.

Chapter 3: Research Methodology

It explains research design, sample size, method and procedure of data collection, gathering and method of analysis.

Chapter 4: Presentation and Analysis of Data

This chapter represents the presentation and analysis of data through a definite course of appropriate methodology. Collected data will be analyzed in this chapter to draw conclusions. Collected secondary data will be tabulated analyzed and evaluated. Major findings of the research will be discussed eventually.

Chapter 5: Summary, Conclusion and Recommendation

This part of the study includes summary, conclusion of the study and recommendations as per the findings and conclusions.

CHAPTER II

LITERATURE REVIEW

In this chapter, the review of books, articles, past research and studies are made. The purpose of the chapter is to know the findings of past studies on the topic and to get idea and knowledge. The review of literature is conducted in two part Conceptual review and Review of related studies.

2.1 Commercial Bank

“A bank is an organization established to perform the financial transactions specified in section 47(1) of this act.” (Bank and Financial Institution’s Act; 2063 B.S.: 2). "Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must make to understand that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and the bankers cannot afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore the bankers have to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity." (Radhaswamy, 1979).

The commercial bank is simply a business corporation organized for the purpose of maximizing the value of shareholder's wealth invested in the bank at an accepted level of risk. Commercial banks play important role in encouraging people to save from their income and investing that saving in productive sector for mutual benefit.

Beside the commercial banks, many other non-banking financial institutions formed the institutional dimension in financial sector, but the financial system is dominated by the banking with the commercial banks constituting around 80 percent of the total banking transaction. The existence of the commercial banking system regularizes the scattered fund from public and lends it to productive sector to reduce the idle saving of the country. What role a bank can play to assist the economic development is the main issue as economic liberalization has posed more responsibility and challenges on

commercial banks. The existence of commercial banks in country like Nepal is not easy task as its role ranges from contribution to farmer to purchase a buffalo to establish the foundation of trade and industry.

In Nepal, Commercial banks are guided and supervised by Nepal Rastra Bank as the central bank of the country. Nepalese Commercial banks use to carry out their operations according to Commercial Bank Act 2031 BS before promulgation of the Bank and Financial Institution Ordinance 2060 on 2060 Magh 21st. Nepal Rastra Bank supervises and regulates the commercial banks on the basis of the directives issued by it. Supervision and regulation mainly focuses on the following.

- Capital Structure
- Deposits
- Minimum Liquidity requirement
- Loan and Advances

The prime focus of Commercial bank is also to earn profit and uplift the economic situation of a country, by investing its available funds in profitable sectors. Commercial banks provide different facilities to the people engaged in trade, commerce and industry. Commercial banks function in many different ways such as accepting deposits, advancing loan, credit creation, financing foreign trade, agency function, collection and payment of cheques, bills of exchange, provide locker facilities and underwrites share and debenture. Speaking more precisely, bank collects money from those who have it to spare or who are saving it out of their income and lend his money out against goods or securities to those who require it. So, they are cause for economic development.

“The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then it provides money to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. Thus, the primary function of a commercial banker is that of a broker and a dealer in money. By discharging this function efficiently, a commercial bank renders a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development” (Shekhar, 2000).

Deposits

As the primary function banks collect funds from general public in the form of deposits paying certain stipulated interest. Banks collect mainly three types of deposit viz. fixed deposit, Saving deposit and Current deposit. Even deposit collection is the main function of banks to operate its other regular function there is certain limitations in deposit collection. In Nepal, Nepal Rastra Bank as the central bank has issued directives and regarding those directives banks had to collect deposits. According to directives issued by NRB, Nepalese commercial banks can collect 20 times of their core capital as deposit.

Lending

Lending as the fundamental function of bank is the cause of the origin of the banking. In the past, commercial banks used to finance for short-term, however, banks lending operation have changed considerably over the years. They have started advancing loan to industrial, agricultural and priority sectors too. In addition to deposit services and financing activities, banks provide some additional services to their customers. Along with the change in time the primary function of lending is change to other portfolios like credit cards, merchant banking, traveler cheques etc.

“The term Loan means the disbursement of amount; direct or indirect guarantee and right to recover the loan against its interest or other charges; refinancing against the collateral given for loan or investment; renew or restructure of loan; and guarantee issued or commitment made for clearance of loan. It also denotes any kind of credit.” (Bank and Financial Institution’s Act; 2063 B.S.: 5)

"Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit" (Crosse, 1963).

This definition emphasizes the need of sound lending policies for effective lending to minimize the risk involved, for this management must be careful and well knowledge.

“The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments and the techniques used in performing these functions” (Bhattacharya, 1998).

The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of the country (Shrestha, 1995).

"Investment is any vehicle into which funds can be placed with, the expectation that will preserve or increase in value and generate positive returns" (Gitman, 1990). Lending has its different forms. It can be divided in to fund based and non-fund based Lending. Cash credit, Overdrafts, Bills discounting, Term loans, Export packing credit, Project finance, Consortium finance, Loan syndication, bridge financing etc come under fund based Lending. Similarly, guarantees and bill co-acceptance facility etc. falls under the category of non-fund based Lending.

"A sound investment policy of a bank as such that its funds are distributed in different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand, moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, usually its problem springs from significant amounts of loan that have become un-collectable due to poor management, illegal manipulation of loan, misguided leading policy or unexpected economic downturn. Therefore, the bank's investment policy must be such that it ensures that it is sound and prudent in order to protect public funds" (Baidhya, 1997).

The irony of this decade was the competition coexisted with control. In order to withstand competition in the face of control, attempts were made to circumvent it by cartelization and subsidiarization on one hand, and dilution of credit standards on the other. The latter was possible because in most of the banks, whether they were global giants of country banks a well-documented loan policy did not exist. The next decade of banking, beginning 1970 had to suffer from the follies of the past (Bhattacharya, 1998). Investment in its broader sense means the sacrifice of current dollars for future dollars.

Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and its magnitude as generally uncertain (Sharpe, 1998).

In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may, also be pointed out that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's fund maximization. An investment will add to the shareholder's wealth if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital (Pandey, 1999).

Every commercial bank has their own procedure to grant loans. When client applies for loan banks investigate in detail about him and his business. If bank was satisfied and gets confidence on client, then only it disburse loan against the sufficient collateral provided by client. Good collateral is essential for the quality of loan. The quality of loan, quality of borrower and quality of securities determines the health of any financial institution. The efficiency of commercial banks lies in how it multiplies the deposits of its depositors. Hence, some basic principles and practices should accompany lending. No commercial banks would be willing to give loan unless it has sufficient confidence in the borrower that it will not be necessary to seek the help of court for recovery.

2.2 Principles of Good Lending

As already stated lending is the major income generating function of the commercial banks, the loans and advances made must be sound and safe and lending procedure must be proper and cautious. In this context below mentioned points are to be seriously considered for good loan practice.

2.2.1 Purpose

Why is a customer in need of loan? This is very important question for any banker. Lending purpose of banks should be productive so that it could be beneficial for customer, bank and nation as well. If borrower misuses the loan granted by the bank, they

can never repay and bank will possess bad debts. Detailed information about the scheme of the project or activities should be examined before lending.

2.2.2 Safety

Bank should ensure that loan advanced by it is safe. Bank should be careful while lending so that the investment are not subject to any undue risk of being unproductive or due to dishonesty of the borrowers. If little bit of attention is given at the time of investment then it will be safe throughout the loan period.

2.2.3 Liquidity

It is well known that bank lent the money, deposited by public with confidence that the bank will pay back their money with interest when it matures or when needed, as loan. So, it is not sufficient that the lent money will come back but bank should also ensure that it would be returned in time to meet the short term obligations of the depositors.

2.2.4 Security

The primary objective of commercial banks is not to lend against security. It should lend on the basis of character, capacity and capital of the borrower. However, security is considered as insurance or a cushion to fall back upon in case of failure to repay the loan and interest dues by the borrower due to various reasons.

2.2.5 Profitability

A commercial bank can maximize its volume of wealth through maximization of return on their investment and lending, so they must invest their funds where they gain maximum profit. The profit of the commercial banks mainly depends on the interest rate, volume of loan, its time period and nature of investment on different securities.

2.2.6 Diversification

"One should not put all its eggs on the same basket." this saying is very important to the bank. Bank should adopt diversified lending strategy to minimize the risk of loss due to failure of certain sector. Diversification of loan helps to sustain loss according to the law average as if one sector fails then others may succeed.

2.3 Criteria for Providing Loan

There must be certain criterion on basis of which a bank can provide a secure loan. Before lending money to borrower detailed investigation should be made so bank have not to bear a loss of bad debt and provisioning for it. In this topic 6 C's as the criteria for lending a secure loan are discussed.

2.3.1 Character

The Character of the borrower is the most important thing for every bank to flow a loan. Banker should have ability to judge the character of the borrower whether he will pay backs the installments in time or not, whether his intention is to cheat the bank. The willingness to repay due debt is ranked all other considerations. Information about the character of the client can be gathered from his working place, references, neighbors and other places he is associated with. This job is tedious but should be carried out for secure investment.

2.3.2 Capacity

Capacity of the borrower regarding the payment of the loan installment is to be inquired during lending process. The gross income, expenses and net income of the borrower should be analyzed whether the borrower lives on salary/wages or any other forms of income source. Whether the borrower has some extra income source other than salary/wages; any other source of income that can be used to repay the scheduled installments should be considered. Along with this the legal capability of the borrower is also to be checked whether he is legally fit for the contract or not. While discussing the capacity of the borrower the qualification and experience of the borrower about project or business should also be analyzed.

2.3.3 Capital

Capital invested by the owner is basis for the bank to grant loan. Capital provides a cushion to absorb operating and asset losses that might otherwise impair debt repayment. This, in fact, is the insurance against the loans granted to the borrower. Loan demanded by borrower should be matched with his investment in the business. If the investment of borrower in the business is less or inferior to the amount demanded then the

proposal should be rejected. This means the financial condition or the capital invested by borrower should be stronger than the amount demanded.

2.3.4 Collateral

Collateral is the secondary factor for granting loan as compare to purpose of loan and character of borrower, but this doesn't mean to neglect the collateral. Sufficiency of collateral is necessary to ensure the recovery of loan. In case of default, by any cause, the collateral kept should have value enough to recover the loan granted and interest borne by it. It is recommended that only 50% of the value of collateral should grant as loan. But considering other factors like character of borrower and his credit worthiness, this percentage can be made flexible.

2.3.5 Credit Information

Now a day the number of non-performing loans is increasing rapidly. Two major reasons behind this are failure of the business and the fraud by the customers. To avoid this problem bank should collect detailed information about the customer i.e. Credit Information.

Credit information includes information about following headings.

- **Personal details:** - This part includes the bio-data of the customer like, address, marital status, age, experience, income sources, payment habits, references etc.
- **Business details:** - In this part, nature of the business, market scope of the product, cost & benefit of the business, investment-required etc are analyzed. Along this stakeholders of the business are also inquired to gather the information about the business.
- **Financial information:** - Usually in this part balance sheet, profit/loss account, cash flow statement, income statement and auditor's report are analyzed to access the position, trend and flow of applicant's business.
- **Credit information bureau:** - In this part information about the customer regarding the use of loan from other financial institutions, payment of loan installments and

especially whether he is blacklisted or not etc are collected. In Nepal, Credit Information Bureau Limited is performing the duty of credit bureau

2.3.6 Conditions

Except the above-mentioned criterion the external environment of the business, on which the customer exercise the little or no control, like position of competitors, market condition, legal aspects etc. are the points to be observed under this. Bank should analyze the success or failure of the business at the external conditions of loan period which are mentioned below.

2.3.6.1 Non-Performing Loan

Non-performing assets or loans mean those loans which banks are unable to recover at scheduled time. Non-performing loans comprises of the principal due for more than 3 installments and interest due for more than 3 months. The most important and sensitive area, which affects the profitability of any bank, is the portion of its non-performing assets. Non-performing assets indicate the substandard, doubtful and bad loans in which a bank has invested. As per the rule imposed by the regulatory authority, i.e. Nepal Rastra Bank, 25% of substandard, 50% of doubtful and 100% of bad loan is to be kept aside from profit as Loan Loss Provision on the non-performing assets. This will decrease the lending capacity of the bank, as single borrower limit of the bank is determined on the basis of core capital it has.

International standard of non-performing loan is 5% of total loan and advances, while the average non-performing loan of commercial banks in Nepal is around 30%. But this stands at whopping 52 % and 62 % in the Rastriya Baniya Bank and the Nepal Bank limited respectively. In case of private commercial banks the non-performing assets average around 10 % of total loan.

2.3.6.2 Loan Loss Provision

Loan loss provision is the amount kept as reserve from the profit to cover the non-performing loan. Loan Loss Provision, in fact, is the cushion against future contingency created by the default of the borrowers. Loan Loss Provision shows the figure that is the summation of provision made against all types of loans as per the NRB directives. The

NRB directives directs to make the provision of 1%, 25%, 50% and 100% for good loans, sub-standard loans, doubtful loans and bad loans respectively. This Loan Loss Provision occupies the larger share in the total provision presented in the Profit & Loss Account and definitely decreases the profit. The more the Loan Loss Provision, it suggests two definite things, more of total loan and or more of bad loan. Since, according to the NRB directives, 1% provision is to be provided for all good loans too, it does acquire a huge portion of the total Loan Loss Provision.

2.3.6.3 Interest Suspense

Interest Suspense refers to that portion of interest, which is due but not collected. NRB directives do not allow showing due unpaid interest as income. The interest income from loan should be collected in corresponding quarter in cash basis; if the amount could not be collected in that period then that amount is kept as interest suspense. Such interest is shown in liability side of Balance Sheet under the heading “Other Liabilities and Provisions”. This means interest suspense is the reserve or provision kept for interest could not be collected in stipulated time. Interest suspense directly affects the profit of the bank. Thus, increase in this Interest Suspense decreases the profit of the company. If bank has to keep interest suspense then the amount has to be deducted from the income and kept as provision till the amount is collected.

2.3.6.4 Recovery

Recovery of the loan as another part of the lending function is much important and much tedious job a bank has to perform. Lending is the most crucial function of bank, precisely the position and status of commercial banks is read via Loans and Advances it has mobilized. But a profound thought highlight that only giving out Loans and Advances to the maximum extends is not the only important thing. The more crucial part is the recovery of loans.

Success of the commercial banks depends on the success they get in recovery of the loan and advances. The commercial bank should regularly watch the repayment of each and every loan it has mobilized. It should be best tried that none of the borrowers miss their single scheduled repayments. Reminding each borrower prior about the upcoming due date should be made the regular function of the respective department in the bank. The function continues as sending reminder letter at different time intervals as

the requirement, as according to the regulations of the bank. This is very crucial section and thus, it should be well observed and inspected. The bank should try all possible legal techniques to collect the repayments. Even using the possible techniques if bank could not recover the loan, as the ultimate option of recovery bank should liquidate the collateral, which is too much tedious job to be performed. So banks should always play safe-side while lending a loan.

2.4 Review of Articles

"Astounding level of NPA of the banking system, which stands at 30 percent, has caused anxiety and has become a matter of concern. The situation is even worse in case of the two banks RBB (52% NPA) and NBL (62% NPA) which together account for 37 percent of the total deposits of some Rs.200 billion and 40 percent of the total loan outstanding of Rs.125 billion of the banking system in the country. Besides, some of the private banks also do not seem to be doing well. This deplorable situation along with the need to make our financial players competent enough to take on the financial players of international repute in the gradually evolving competitive environment, prompted us to go ahead with the reform measures.

In light of crisis that struck different economies at different periods of time and the measures adopted to overcome the problems there, we in Nepal have decided to make a frontal attack in a comprehensive manner on problems of varied nature and magnitude that the financial sector of Nepal is riddled with. Management of the two ailing banks has been handed over to two teams consisting of experts from within and outside of Nepal.

Financial sector reform measures can be broadly grouped under three heads.

- Restructuring of RBB and NBL
- Reengineering of NRB and
- Capacity building in the financial sector.

The enactment of new Nepal Rastra Bank Act, 2002 and enforcement of inspection and supervision manual based on the recommendation of the Basel Committee are important achievement. Further, with a view to strengthen the legal framework and consolidate the financial sector an umbrella act - Banks and Financial Institutions Act is in the process of approval. Debt Recovery Act has been approved and the Debt Recovery

Tribunal has been constituted. Asset Management Company Act is in the process of being approved. NRB now has decided to concentrate only on core functions and therefore is shedding non-core activities and reducing the number of non-professional staff, which has been effected through voluntary retirement scheme.

Financial institutions in Nepal suffer from unclear role and responsibilities of managerial bodies, boards, shareholders and other stakeholders. Further, in view of the absence of a code of conduct for employees, managerial bodies, board members and other stakeholders, and rampant irregularities financial sector, NRB has initiated different measures to improve corporate governance in the financial sector.

Some of these include

- Rising paid up capital for national level commercial banks from Rs. 500 million to Rs.1 billion.
- Increase in share capital participation in a national bank by a foreign bank to 67 percent from 50 percent.
- Setting of minimum qualification requirement for promoters interested in opening financial institutions.
- Issuing of directives in regard to capital adequacy, loan classification and loan loss provision.
- Establishing code of conduct for governing bodies of banks, defining the duties and responsibilities for the Board of Directors and establishing qualification for the appointment of Chief Executive Officer." (Rawal, 2003)

Timilsina (2003) in his article about AMC has wrote "Following an understanding reached between the central bank and private sector financial institutions, the much-touted Asset Management Company (AMC), an independent financial institution aimed at reducing huge volume of non-performing assets (NPA) in the financial system, is likely to be established with revised investment pattern on the capital structure soon.

The main focus of the proposed company would be on the management of the non-performing assets of four financial institutions that include Nepal Bank Limited, Rastriya Banijya Bank, Agricultural Development Bank and Nepal Industrial Development Corporation.

According to the guidelines set by the central bank, the company would re-value the collateral and loans at the current market price. The company then will take charge of such loans. The concerned financial institutions would be provided with government-backed AMC bonds of equal value to the recalculated value of bad assets. The Asset Management Company can manage such assets by either re-operating or by selling. The concerned financial institutions and the AMC would settle the deal jointly.

Huge volume of non-performing assets in the financial system has been endemic in the Nepali financial system. According to a latest estimate, a loan of around 11 billion rupees, which is more than 25 per cent of the assets of the government owned commercial banks, is non-performing. And such bad debt in the private sector banks is around 10 per cent of total loans."

Shrestha (2056) in his article 'Modus Operandi of Risk Appraisal and in Bank Lending' states, "Effective credit risk management allows a bank to reduce risks and potential NPAs. It also offers other benefits. Once banks understand their risks and their costs, they will be able to determine their most profitable businesses and, thus, price products according to the risks. Therefore, the banks must have an explicit credit -risk strategy supported by organizational changes, risk measurement technique and fresh credit processes and systems. There are five crucial areas that credit risk management should focus on.

- Credit sanctioning and monitoring process.
- Approach to collateral.
- Credit risks arise from new business opportunities.
- Credit exposures relative to capital or total advances.
- Concentration on correlated risk factors.

Apart from these, the bank management should regularly review all asset quality issues including portfolio composition, big borrower exposures and development in credit management policy and process. Improving risk management will not be easy or quick. However, Nepalese bankers have little choice. Hopefully, the banks adopt good risk management practices and will be able to reap both strategic and operational benefits. "Shrestha (2055) in his article on the "Portfolio management in commercial bank, theory and practice" has highlighted that portfolio management is the most important thing for

both individuals and as well as institutional investors. All the investor would like to select a best mix of investment assets subject to following aspect.

- Higher return than other alternative opportunities, which is available according to the same risk classes to the investors.
- High liquidity with adequate safety and profitability of investment
- Maximum concession of tax
- Certain capital gain
- Economic, efficient and effective investment mix
- Flexibility of investment
- Some strategies are adopted which are as follows:
 - Do not put all the eggs in the same basket, i.e. do not hold any single securities and do not invest in only one sectors, try to have a portfolio of different securities.
 - Diversify the investment for adequate safety, liquidity and profitability.
 - Decide such a portfolio of securities, which ensures maximum return with minimum risk of lower of return but added objective of wealth maximization.

Shrestha (2055) has also presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture and bond and other money and capital market instruments. He suggested that banks having international network could also offer access to global financial markets. He has pointed out the requirement of skilled manpower researcher and analysis teams and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence.

Finally, he concluded that survival of every bank depends upon the own financial wealth and various activities. To develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standards and give their clients the benefits of global strengths, local insights and prudent philosophy.

The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client base and to contribute in national economy.

2.5 Review of Thesis

Pandey (1999) had conducted a thesis on “An evaluation of loan disbursement and collection of Agriculture Development Bank”. In order to carry out the thesis he had used primary and secondary data. Primary data were collected from farmers of Chitwan district and secondary data were collected from annual reports. For the analysis of data descriptive analysis and statistical analysis method like correlation and hypothesis were used.

The major findings of the study are as follows:

- The targeted loan collection of the bank is increasing at declining rate. The relation between targeted loan disbursement and collection was significant.
- The growth rate of the disbursement is found fluctuated and achievement of collection is found increasing. The actual loan outstanding is also increasing.
- The analysis of the primary data shows that the majority of the farmers are satisfied with the lending policy of ADB/N. In view of farmers the interest rate, commitment and service charges are high.
- Most of the loans taken by farmers are properly utilized.

On the basis of above findings he had recommended as follows:

The bank was recommended to discard such assumption for loan collection that the variance between targeted loans collection and disbursement will be minimal.

The bank was recommended to give certain consciousness towards the loan disbursement and the collection by giving rebate, discount to possible extent as almost all sector of loan had increasing outstanding.

The bank was recommended to identify the true borrowers who really need the short-term and medium-term loan and are able to pay on time and to supervise the long-term loan timely.

At the time of targeting loan disbursement and collection, the bank must take loan outstanding into consideration, as the targeted loan disbursement and collection are not according to outstanding. (Pandey, 1999)

In the thesis conducted by Pandey (1999), study was done only on the loan disbursement and collection of ADB/N with respect to various aspects like, purpose wise, term wise, development region wise. The study does not concern the other aspects of loan & advances, here other aspects of loan refers to volume of loan, portion of non-performing loan, amount of loan loss provision and interest suspense or the study does not deals with quality of loan & advances made and its relation with factors effecting it. The study was focused on recovering of outstanding loan of ADB/N.

Shahi (1999) had conducted a thesis on “Investment Policies of Commercial Banks in Nepal”. In order to carry out the thesis he has collected data from secondary sources such as annual reports and financial statements, official records, periodicals journals and bulletins of commercial banks, various published reports and relevant unpublished Masters Thesis. Besides this, personal contacts with the, bank personnel has also been made.

The procedure of analysis has been divided into two chapters’ i.e. financial analysis and statistical analysis. Under financial analysis, various financial ratios related to the investment function of CBS i.e. liquidity ratio, profitability ratio, asset management ratio, risk ratio growth ratios have been analyzed and interpreted comparatively. Under statistical analysis some of the relevant statistical tools, like co-efficient of correlation, trend analysis, test of hypothesis have been used. This analysis gives clear picture of the comparative performance of the commercial banks with regard to the investment operation.

The major findings of the study are as follows:

The liquidity position of NBL is comparatively better than others but was not stable. It can also be concluded that NBL has more positions of current asset as loan and advance but less portion as investment on Govt. securities.

NBL is comparatively less successful in On-balance sheet as well as Off-balance sheet operations. It has not followed any definite policy with regard to the management of its assets.

Profitability position of NBL is comparatively not better than others. It indicates that NBL must maintain its high profit margin in future.

There is comparatively higher risk in NBL than that of the JVBs regarding various aspects of the banking function.

NBL has not been more successful to increase its sources of funds and its mobilization. Similarly, it seems to have failed to maintain high growth rate of profit in comparison to others.

There is significant relationship between deposits and loan & advances as well as deposit and total investment (negative) but not between profit and outside assets.

NBL has higher trend values of loan & advances and deposit and lower trend values of net profit and total investment in comparison to the JVBs.

The basic findings of the study on commercial banks he concludes,

- Higher portion of cash and bank balance in NBL shows its negligence and inefficiency in its best utilization. It has not considered the cost of fund and its opportunity costs.
- The analysis of asset management ratio reveals that NBL has not made any definite policy for the management of its assets, not been successful in OBS operations, not good in profit position. It is the result of several factors i.e. higher costs, less productive management and poor quality of loans.
- NBL seems to have failed to maintain high growth rate of sources of funds and their mobilization and failed to increase its net profit.
- Higher percentage of loan loss ratio shows that NBL is weak in credit collection and lacks sound and innovative credit collection policy, proper project appraisal, collateral evaluation, regular supervision, and entrepreneurship attitude. (Shahi, 1999)

In the thesis conducted by Shahi (1999), study was done on the investment policy of the bank, thus it deals with the overall outflow of fund, i.e. loan & advances, investment and other income generating activities. The thesis was not conducted with viewpoint to focus on loan and advances. The thesis was done to analyze to check the

liquidity position, portion of loan & advances and investment in various factors of balance sheet and effect of investment policy decision on profitability.

Ojha (2002) has conducted a thesis on "Lending practices of commercial banks in Nepal with special reference to SCBNL & NBL". In the thesis he had used secondary data obtained from the annual reports of the concerned banks, NRB reports, various publications and various articles published in newspaper. To carry out the analysis he had used financial ratios viz. liquidity ratio, asset/liability management ratio, activity ratio and profitability ratio and statistical tools viz. standard deviation, coefficient of variation, correlation and time series.

The major findings of the study are as follows:

- The mean current ratio of all three banks is not widely varied as all the banks are capable in discharging their current liability by current assets.
- The total liability to total assets of SCBNL is highest; this is due to high volume of shareholders equity. Loans & advances to total assets ratio was highly deviated due to SCBNL's tendency to invest in government securities and increment in loan of HBL and Nabil.
- The mean ratio of investment to investment and loan & advances among the banks does not deviate significantly. Nabil has deployed the large portion of deposits in loan & advances than HBL and SCBNL.
- The mean volume of net assets of SCBNL is highest. The contribution of Nabil in loan & advances is greatest; however the contribution of HBL in priority sector loan is appreciable. The volume of loan loss provision of Nabil is the highest.
- The portfolio analysis has revealed that the flow of loan & advances in agriculture sector is the lowest. The lending in commercial purpose is highly deviated from the combined mean among the banks.
- The loan loss provision to loan and advances has high degree of variation among these banks. The contribution of interest income in total income of HBL is greatest.

- The ratio of interest suspense to interest from loan & advances among these banks is of varying nature. There is a high degree of similarity in Nabil and HBL. The interest income from investment of SCBNL is highest.

On the basis of above findings he had made following conclusions and recommendations.

The ratio of Loans and Advance to Total Assets, Investment to Investment and Loans and Advances, and Loans and Advances to shareholder's equity indicate the superior performance of HBL. However, Loans, Advances, and Investments to deposits ratio have upgraded the performance of Nabil.

Keeping the productivity of Loans and Advances and its contribution in national economy, the performance of HBL is the best and appreciable as its contribution in agricultural and industrial sector is the highest. Overall decrease in economy, increasing failure of industrial sector in generating profit, increasing tendency of becoming the industrial loan to bad etc. has put the SCBNL's unproductive sector credit in safer side than Nabil and HBL.

As the propensity of Growth in deposits is higher than loans and investing activities, the liquidity position of these three banks likely to increase in the coming future and the liquidity caused by flow of new deposits would caused the great damage in profitability. Looking upon the assets management ratio the performance of HBL seems the best in the area of lending. However, the lowest loan loss provision ratio and interest suspense ratio is the indicative of SCBNL better performance than other two banks. (Ojha, 2002).

The thesis conducted by Ojha (2002) was focused on the lending activity of the bank but he had analyzed the loan and advances of the banks in general. Even he had analyzed the factors affecting the loan & advances and performance of bank, viz. non-performing loan, loan loss provision, interest suspense, the study was done on surface.

2.6 Review of Relevant Act

The act has significant impact on the commercial banks establishment, their mobilization and utilization of resources. Before implementation of Bank & Financial

Institution's Act 2063, all the commercial banks have to conform to the act, provisions specified in the Commercial Bank Act 2031 and the rules and regulations formulated to facilitate the smooth running of commercial bank. Now all commercial banks and financial institutions have to work under Bank & Financial Institution's Act 2063, implanted with view point to reform the banking system and for efficient operation of banking system.

2.6.1 Unified Directives Issued by Nepal Rastra Bank to Banks and Financial Institutions

Central Bank NRB has establish a legal frame work by formulating various rules and regulations to mobilize or invest the deposit of the bank in different sectors of the different parts of the nation, to prevent them from the financial problems. These directives must have direct or indirect impact while making decisions. Those rules and regulation are discuss which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CCR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment. Commercial bank is directly related to the fact that how much fund must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch and counters. But we discuss only those which are related to lending function of the commercial bank.

2.6.2 Loan Classification and Loan Loss Provision

As per the authority given by Nepal Rastra Bank Act 2058, Nepal Rastra Bank has issued following directive regarding the classification of loan & advances and provisioning for possible loan loss to the licensed financial institutions.

2.6.2.1 Classification of Loan & Advances

- Pass: Loan & advances, having no overdue principal or having overdue principal for 3 months only, are to be included in this category.
- Sub-standard: Loan & advances having overdue principal for more than 3 months and within 6 months, are to be included in this category.

- Doubtful: Loan & advances, having overdue principal for more than 6 months and within 1 year, are to be included in this category.
- Loss: Loan & advances having overdue principal of more than 1 year are to be included in this category.

Note:

- Financial institutions can categorize the upper category loan to lower category. For e.g. sub-standard loan can be categorized as doubtful loan or bad loan.
- Bills purchased and discounted are also to be considered as loan & advances.

2.6.2.2 Additional Arrangement for Pass Loan

Loan against gold and silver, fixed deposit card, credit card loan and loan against Government security-bond and Nepal Rastra Bank bond are to be included in pass loan category. But, if loan & advances is disbursed against the additional collateral of the fixed deposit card, Government security bond or Nepal Rastra Bank bond, then those loans are to be categorized as other.

Only working capital loan having tenure of one year shall be categorized as pass loan after the renewal. If the interest on working capital loan is irregular then it should be categorized as per the due period.

2.6.2.3 Additional Arrangement for Bad Loan

Any kind of loans overdue or regular having following remarks shall be categorized as bad loan.

- Insufficiency of the collateral.
- Bankruptcy of the customer.
- If customer is out of contact or untraced.
- If within ninety days, the expired bills purchased or discounted and loans and advances turned from the off balance sheet facilities like LC and guarantee, are not repaid.
- Misuse of loan & advances.

Clarification

Here misuse of loan refers to the use of loan in other purpose rather than stipulated, non-operation of the project, income from project/business is used in other purpose rather than repay of loan, during the inspection if inspector or auditor found the misuse of loan.

- After six months of start of auction process for the recovery of loan or in the process of recovery if case is running in court.
- In cases of loan disburse to blacklisted customer by Credit Information Bureau.
- If project/business is not in condition of operation or not in operation
- If Credit Card loan is not written-off within 90 days of maturity.

2.6.2.4 Additional Arrangement for Term Loan

In case of term loans with repayment in installments, if principal/interest is overdue, total outstanding shall be categorized as per the principal/interest overdue installment period. Here, Term loan refers to loan & advances having tenure of more than one year.

2.6.2.5 Restriction to Recover Principal and Interest beyond the Overdraft Limit

Principal and interest of loan couldn't be recovered by overdrawing the customer's current account beyond the overdraft limit. But, this arrangement doesn't obstruct to recover principal and interest of loan by debiting the customer's account balance. If the customer's account is overdrawn to recover principal and interest, as per the arrangement of debiting the customer's account to recover loan, and the amount is not paid within one month then the loans recovered should be categorized one step lower than categorized adding the amount overdrawn into outstanding loan. Directive no. 4/061/62 regarding the arrangement of interest income should be followed while posting the interest income.

2.6.2.6 Letter of Credit and Guarantee

If LC or guarantee or other non-fund based liabilities are paid changing it to fund based liability, then those credit facilities should be classified as good loan for first ninety days and after that if not collected should be treated as bad loan.

2.6.2.7 Reschedule and Restructure of Loans

- a) Financial institutions can reschedule or restructure the loan if it is satisfied on following aspects of the written plan submitted by the customer. Reschedule means the extension of tenure of loan or facility. Restructure means amendment in nature, terms and condition, limitations or time period of the loan or facility. Clear basis of loan reschedule or restructure should be enclosed in loan file.
 - If the sufficiency of loan documents and collateral is justified.
 - If the financial institution believes that the rescheduled or restructured loan will be recovered.

- b) To reschedule or restructure the loan as per above section minimum 25% of to date interest should be cleared along with submission of written plan and program.
- c) If loan of the industries recommended by sick industry primary investigation and recommendation committee of the Nepal Government is to be rescheduled or restructured completing necessary procedures and paying minimum 12% interest, then it should be provisioned minimum 25% for loan loss. But if interest is paid less than 12% then it should be provisioned as per former due period.
- d) Separate record of the loan rescheduled and restructured as per sub-section 7(a) and (c) is to be kept.

2.6.2.8 Provision to be maintained for Possible Loan Loss

- a) Loan and bills purchased classified as per this directives should be provisioned for possible losses as following:
- Good 1%
 - Substandard 25%
 - Doubtful 50%
 - Bad 100%
- b) Rescheduled and restructured loan should be provisioned as following:
- Minimum 12.5% loan loss provision is to be maintained for reschedule or restructured loan.
 - If deprived sector loan and insured priority sector loan are rescheduled and restructured, then only 25% of loan loss provision mentioned in part (i) is to be maintained.
 - Rescheduled and restructured loan could be converted to good loan in condition of regular repayment of principal and interest installment for 2 years.
- c) Uninsured priority sector loan, deprived sector loan and small and medium industry loan is to be provisioned as per section 8(a). But incase of insured loan, 25% of provision rate specified in section 8(a) is to be maintained for loan loss provision. The required provisioning for insured priority sector credit/ deprived sector credit is as follows:
- Pass 0.25%
 - Sub-Standard 5%
 - Doubtful 12.5%
 - Bad 25%
- d) For the loan against the personal or institutional guarantee, a statement of the assets/property not claimable by others, equivalent to the amount of the personal guarantee is compulsory. Loan against the personal or institutional guarantee should be classified as above. The loan classified under good, substandard and

doubtful is to be provisioned 20% extra in addition to specified rate for the class i.e., 21%, 45% and 70% for pass, sub-standard and doubtful loans respectively. If the loan is flowed taking personal or institutional guarantee as additional collateral being physical property insufficient, in that case also provision is to be maintained for additional loan as mentioned above. The separate classification report for these loans is to be prepared.

2.6.2.9 Conditions to Write Back Loan Loss Provision

In following conditions only loan loss provision could be wrote back.

- a) If loan is wrote off.
- b) In case loan installment or partial loan is repaid, while calculating loan loss provision as per new classification the loan loss provision maintained for the repaid loan could be wrote back.
- c) If the installment and interest of the loan rescheduled or restructured is paid regularly for 2 years then loan loss provision for such loan could be wrote back. Showing the provision wrote back amount in profit, dividend and bonus share could not be distributed.

2.7 Directives Regarding Credit Information and Black-List

2.7.1 The Customer Information is to send to Credit Information Bureau

Commercial Banks and financial institutions must send information about the customer, who is sanctioned Rs. 25 lakhs or more loans, once as per the C.I. Form no. 1 within 15 days of month end and quarterly report as per C.I. Form no. 2 within 15 days of quarter end till loan was active.

2.7.2 Compulsory to Acquire Credit Information

Commercial banks and financial institution must acquire credit information about the customer from C.I.B. to provide new loan, renew, restructuring or rescheduling a loan of Rs.10 lakhs or more.

2.7.3 Conditions for Black Listing

Customer using loan facility of Rs.25 lakhs or more will be black listed under following condition(s).

- If principal or any installment of principal or interest was due for 9 months.
- If misuse of loan was proved.
- If collateral pledge for the loan was depreciated to value not enough to cover loan or collateral was destroyed.
- If misuse of collateral pledge was proved.
- If customer disappears.
- If customer was bankrupts.
- If loan was not recovered even after auction notice was published or if bank suit case against customer.
- If court declare guilty of using fraud cheque, draft, foreign currency, credit card and bill to cheat other.
- If a person, firm, company or organization was found involved in financial crime.

2.7.4 Procedure for Black Listing

If the condition of customer meets the above mentioned directions, banks and financial institution must refer for black listing. Commercial banks and financial institutions are restricted to provide new or additional loan, to renew loan, to person or firm black listed as per this directives. But the existing loan could be rescheduled or restructured within limitations or NRB's directives.

During the review of previous studies, the study made on loan and advances was rare and on non-performing loan was even rare. Studies made on outflow of fund of banks were mostly based on overall investment policy of the bank. There was only countable studies were done on loan and advances and almost of them were done in general. The studies made on loan and advances are of comparative nature between various banks. In this study the subjected banks were chosen on the basis of their age to analyze lending activity and factors related to loan & advances as per aging of the banks.

In this context, this study is focused on the non-performing loans of the banks along with the analysis of situation of the loans and advances. Loan & advances is the life-blood of the bank and non-performing loan is disease for it, so the study is made to

analyze the effect of non-performing loan on the loan and advances and performance of the bank.

The focus of the study is detailed study of various factors related with loan and advances i.e. non performing loan, loan loss provision, interest suspense etc. and their relation with loan and advances. The study even analyzes the composition of non-performing loan and loan loss provision which was not covered by previous studies. In this study analysis is made on the relation of loan and advances with various factors of the balance sheet as well.

CHAPTER III

RESEARCH METHODOLOGY

Each research has its own specific purpose. The main purpose of it is to find out the truth through the scientific method which is hidden and which has not been discovered yet. Hence, this research has been conducted without any formal research design. This research has been flexible and open to all possible ideas that might help to explore new ideas. Every study will have certain methodology to be followed, thus this study also have methodology, which are as follows.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions to control variance. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedure and technique, which guides the study and propounds ways or doing research. In this way, a descriptive and analytical research will be done. The justification for the choice of these methods is preferred because it includes reliable data and information covering a long time and avoids numerous complex variables.

The research covers the major commercial banks in Nepal, particularly in their practices of Lending. The research has its basic objective to figure out the problem therein and provide them with some recommendation. The literature has been reviewed specially from the past thesis conducted on the same aspects of the Commercial Banks. The data for the research are of secondary type.

3.2 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial banks (i.e., 29 in total) shall constitute the population of the data and three banks under the study constitute the sample. So, among the various Commercial banks under the banking industry, Nepal Investment Bank Ltd. (NIBL), Everest Bank Ltd. (EBL) and Nepal Industrial and Commercial Bank (NIC) are considered as a sample of the study. However, the performance of the development

banks, finance companies, co-operatives, etc is not considered in the calculation of the population in the study.

3.3 Source of Data

The data presented in this study are of secondary nature. The annual reports of the concerned banks are the major sources of the data for the study. However, besides the annual reports of the subjected banks the following sources of data shall also be used in the respective corner of the study:

- NRB reports
- Various publications dealing in the subject matter of the study
- Various Articles published in the News Papers
- Various information provide by concerned banks.
- Publications from Nepal Rastra Bank.
- Various websites relating to topic.

Besides these, any kind of other sources, such as assertions, interviews, remarks by the specialist of the subject, those who are capable of providing valuable data and conclusion are also considered in the study.

3.4 Data Collecting Procedures

The Annual Report of concerned banks was obtained from field visiting of these banks especially from their corporate office. NRB publications, such as Quarterly Economic Bulletin, Banking and Financial Statistics, Economic Report, Annual Report of NRB etc. has been collected from the personal visit of concerned department of NRB at Baluwatar. The data on some of aspects of these banks was obtained from the website of Nepal Stock Exchange. The reference of NRB directives has been executed from website of NRB and some parts of the annual report of subjected banks have been executed from their websites.

3.5. Analysis of Data

Analysis of data is an important part of any study. In another words analysis of data is almost a study itself. All the result of the study is obtained from the analysis part. In this study analysis of data is interpretation, evaluation and measurement of

performance of subjected banks via financial data available by them in annual reports. Following tools shall analyze the data presented in the study.

3.5.1 Financial Tools

3.5.1.1 Ratio Analysis

“The relationship between two accounting figure, expressed mathematically, is known as financial ratio or simply ratio (Pandey, 2000). As far as we are concerned about the financial ratio, a ratio between two relevant figures, which provide a certain relation, and have negative or positive correlation between them, will only be studied since comparing two incomparable figures and their ratios give no idea and judgment on analysis and it remains as an absurd figure only. This section has been divided into following sub-sections.

3.5.1.2 Analyzing the Absolute Data

In this part analysis of the absolute data of the subject banks related with study is made. The positions of loan & advances, non-performing loan, loan loss provision, interest suspense etc. are measured comparing it with previous years within the duration of the studied period. The purpose of the analysis is to analyze the trend.

3.5.1.3 Assessing the Loan & Advances

In this topic various aspects of loan & advances made by subjected banks are studied with help of various related ratios. The ratios will be more likely Asset/Liability Management Ratio, which measures the proportion of various assets and liabilities in Balance Sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts liabilities into assets by way of lending and investment functions. These ratios will measure efficiency of banks in multiplying various liabilities into performing assets.

3.5.1.4 Single Borrower Limit

Single borrower limit is the capacity of banks to disburse a loan to a single party. Here single party could be a person, firm or a company and all persons related to them. Single borrower limit for a bank is 25% of its core capital.

3.5.1.5 Analyzing the Situation of Non-Performing Loan (Activity Ratio)

Activity ratio measures the performance efficiency of an organization from various angles of its operation. These ratios indicate the efficiency, quality and position of activity in subjected function and its contribution.

3.5.1.6 Analyzing the Contribution of Loan in Total Income (Profitability Ratio)

Profit is the difference between the revenues and the expenditures over a period. Profit is the main element that makes an organization to survive. The profit, in other hand, measures the management ability regarding how well they have utilized their funds to generate surplus.

3.5.2 Statistical Tools

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individuals or groups of observations from a single individual. The figures provide detailed description and tabulate as well as analyze data without subjectivity, but only objectivity. The results can be presented in brief and precise language and complex and complicated problems can be studied in a very simple way. It becomes possible to convert abstract problems into figures and complex data in the form of tables. The various statistical tools used in this study to analyze the collected data are as follows.

3.5.2.1 Standard Deviation

Standard deviation is the most popular and most useful measure of dispersion and gives uniform, correct and stable results. The chief characteristics of standard deviation are that it is based on mean, which gives uniform and dependable results. Further more, a standard deviation is always a positive number and is superior to the mean deviation, quartile deviation and the range because it is used for further mathematical treatment.

Karl Pearson introduced the concept of Standard Deviation in 1823 and this is denoted by the small Greek letter σ (read as sigma). The formula for calculating standard deviation is:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

Where, X= variables

\bar{X} = mean

N= number of observation

3.5.2.2 Coefficient of Variation

The percentage measure of coefficient of Standard Deviation is called Coefficient of Variation (C.V.). The Standard Deviation calculated in the above formulae gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on Standard Deviation only. The Coefficient of Variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability.

$$\text{Coefficient of Variation (CV)} = \frac{\delta}{\bar{X}} \times 100$$

Where, δ = standard deviation

\bar{X} = mean

3.5.2.3 Correlation

Correlation is the measure of relationship between two or more characteristics of a population or a sample. It simply measures the changes between the phenomena. The correlation coefficient between two variables describes the degree of relationship between those two variables. It measures the increase or decrease in one variable due to increase or decrease in another variable. In this study correlation coefficient between various variables related with the topic will be measured to assess their inter-relation.

3.5.2.4 Time Series

When a series of data pertaining to a series of continuing periods should be studied, its characteristics and its future direction is best estimated by the time series.

Time series analyses a series of data keeping in mind the various short term and long term fluctuations.

The Least Square Method of trend analysis has been adopted to measure the trend behaviors of the subjected banks in this study as the method is widely used in practices. The straight line trend of a series of data is represented by the following formula;

$$Y_c = a + bX$$

where, X= Dependent variable

Yc = Independent variable

3.5.3 Descriptive Analysis

In this part of analysis impact of non-performing loan and recovery of loan will be discussed. This analysis has been built under the grounds of data collected from informal interview meeting made. Impact of non-performing loan in performance of lending activity is to be studied, so that the lending function could be made efficient. Recovery is very important part of lending practices. Due to the reason that no quantitative data regarding recovery of Loans and Advances was available, qualitative analysis is done on the segment.

CHAPTER IV

DATA PRESENTATION, ANALYSIS & FINDINGS

Under this heading calculated financial ratios are analyzed and evaluated after their interpretations are made. The collected secondary data have been analyzed and presented in table form. For this purpose analysis and interpretations are categorized into following headings.

- Analysis of Absolute Data
- Analysis of Financial Ratios
- Statistical Analysis
- Theoretical Analysis
- Major Findings

4.1 Analysis of Absolute Data

Loan and advances is an important aspect of any bank. If proper track is not kept on its functions and performance, it can lead to a very critical situation. In fact, it shows the situation of a bank and evaluates its performance. Whether the bank is lending in accordance with the deposits or not, whether it is collecting an investment made by the shareholders or not should be analyzed regularly. Any idle deposit is a loss to the bank. Under this topic, an attempt is made to analyze the situation of loans and advances of the banks under study.

4.1.1 Loans and Advances

The major function carried by banks for its existence is credit creation. As discussed above loans and advances is crucial aspect of banking business, which may lead to liquidation, if not maintain in optimal amount. Loan & advances is the major sources of income and at the same is most risky asset of the bank. In this part of study on loans and advances, absolute position of subjected banks will be analyzed. Bills purchased and discounted are also considered as loan & advances in the study.

Table 4.1 Total Loan and Advances

Rs. In Million

Year	Nepal Investment Bank		Everest Bank		Nepal Industrial & Commercial Bank	
	Amount	%Change	Amount	%Change	Amount	%Change
2062/63	13178		10136.25		6902.12	
2063/64	17769	34.84	14082.69	38.93	9128.65	37.15
2064/65	27529	54.93	18836.43	33.75	11465.3	25.6
2065/66	36827	33.78	24469.6	29.91	13916	21.37
2066/67	40948	11.19	28156.4	15.07	12929	-7.09
Mean	27250.2		19136.27		10868.21	

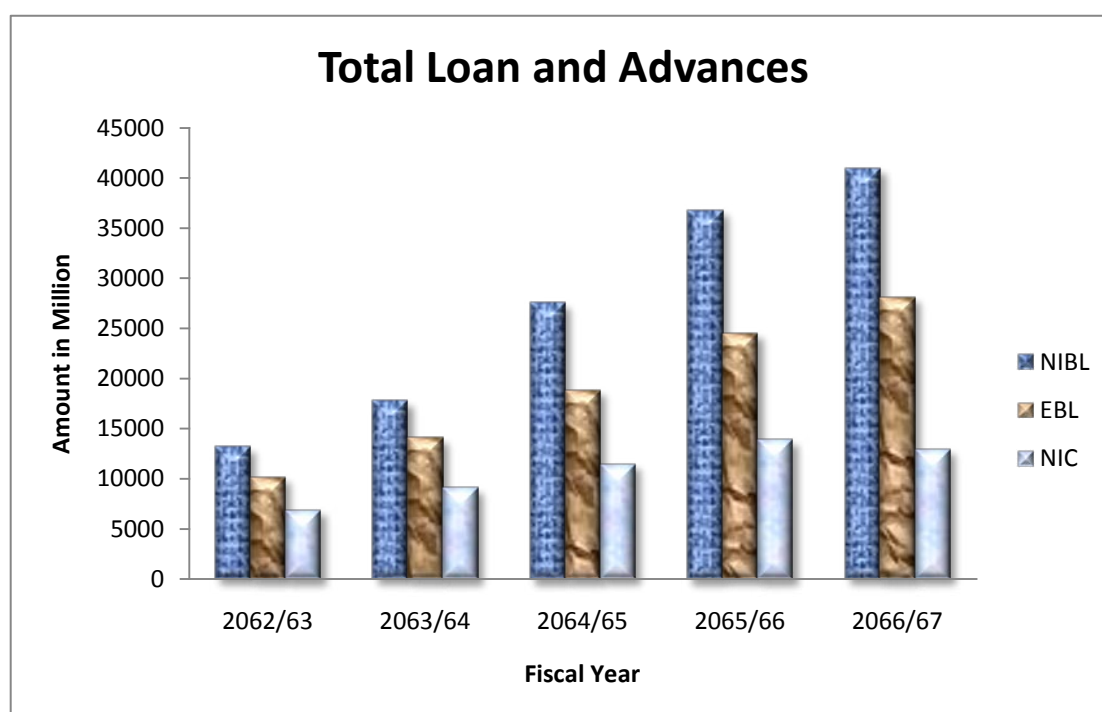


Chart 4.1 Total Loan and Advances

Table 4.1 and chart 4.1 shows the position of loan & advances made by the banks in absolute figure, which are in increasing trend, however the increasing trend was not regular. The incremental rate of loan and advances of NIBL was the highest at 54.93% in 2064/65 i.e. about 27529 million. The trend of loan & advances in fourth and fifth year

were in decreasing rates. In case of EBL, loan & advances was the highest at 38.93% in 2063/64 i.e. about 14082.69 million. During third & fourth year of studied period, the rate of loan & advances seem to be in decreasing trend. The increment of loan & advances of EBL was the lowest at 15.07% in 2066/67 i.e. about 19136.27 million. However, loan and advances of NIC bank is in increasing trend. It is lowest in first year i.e. about 6902.12 million and highest in the year 2065/66 i.e. about 12929 million.

The mean loan & advances of NIBL is highest at 27250.2 million, EBL has just below at 19136.27 million that while NIC is halfway down at 10868.21 million.

4.1.2 Loan Loss Provision

Since, according to the NRB directives, 1% provision is to be provided for all good loans too, it acquires a huge portion of the total loan loss provision. Thus, just by looking at mere loan loss provision, it can not be said the company has all good loans or voluminous bad loans. So here we discuss loan loss provision in detail, i.e. loan loss provision for good loan and loan loss provision for non- performing loan.

Table 4.2 Loan Loss Provision

Rs. In Million

Year	Nepal Investment Bank		Everest Bank		Nepal Industrial & Commercial Bank	
	Amount	%change	Amount	%change	Amount	%change
2062/63	401.94		334.95		246.16	
2063/64	482.67	20.08	418.60	20.79	187.25	-23.93
2064/65	532.65	10.35	497.35	17.29	200.65	7.16
2065/66	585.95	10	584.88	17.6	236.45	17.84
2066/67	630.13	7.54	600.04	2.59	197.29	16.56
Mean	526.67		487.16		213.56	

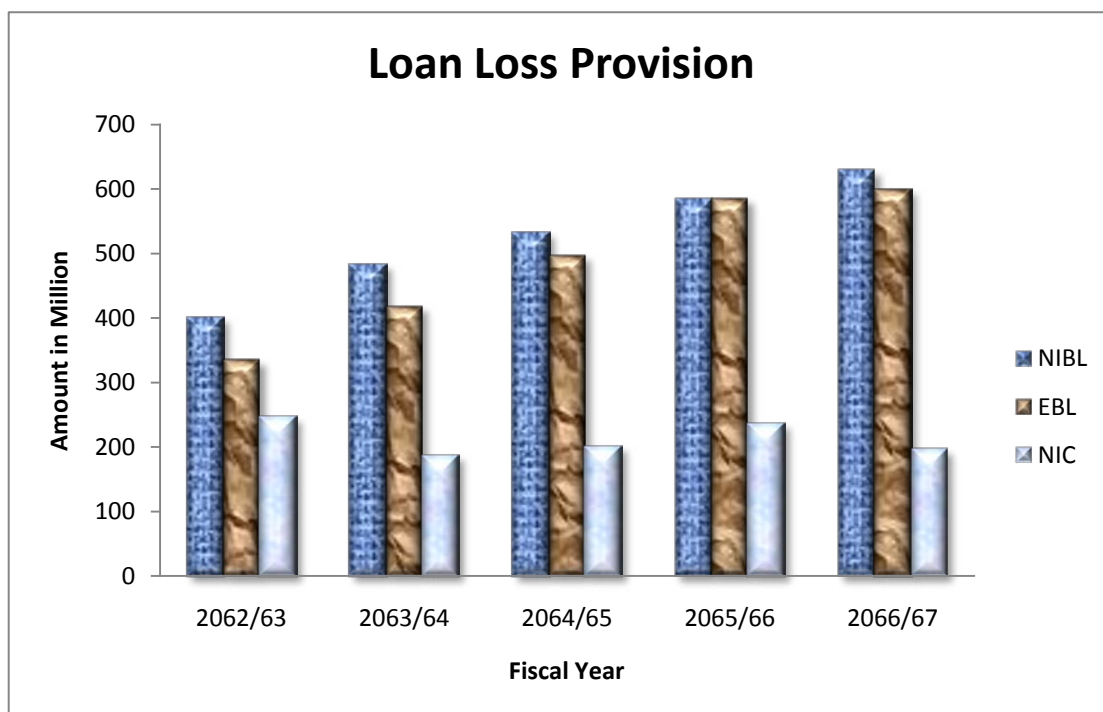


Chart 4.2 Loan Loss Provision

Table 4.2 shows the position of loan loss provision and percentage change during the studied period of the subjected banks. The amount of loan loss provision of NIBL & EBL banks are in increasing trend. However, the provision of NIC bank has substantially decreased by 23.93 percent in 2063/64 and has been gradually increasing since then. The amount of loan loss provision of two banks NIBL and EBL is the lowest in first year at 401.94 million, 334.95 million respectively. In case of NIBL, in third year it crosses 500 million to reach 532.65 million. In fourth and fifth year, it is almost equal at 585.95 million and 630.13 million respectively. Similarly, the loan loss provision of EBL in second year was increased by 20.79%. There has been uniform increase in the loan loss provision until 2065/66. However, in the last year i.e 2066/67 it was only increased by 2.59% to reach 600.04 million. In case of NIC bank, there has been substantial decrease in the loss provision in 2063/64. It dropped by about 23.93%. Since then, the loan loss provision is in increasing trend. The amount of loan loss provision of NIBL & EBL banks is the highest in last year at 630.13 million and 600.04 million respectively. But the amount of loan loss provision of NIC bank is the highest in the first year at 246.16 million.

The mean loan loss provision of NIC is the lowest at 213.56 million while that of NIBL and EBL is 526.67 million and 487.16 million respectively.

4.1.3 Classification of Loan Loss Provision

Table 4.3 Classification of Loan Loss Provision

Rs. In million

		2062/63	2063/64	2064/65	2065/66	2066/67
NIBL	Pass	128.76	173.49	274.45	381.19	420.84
	Substandard	11.06	24.57	15.43	2.69	13.93
	Doubtful	0.25	43.08	10.40	5.74	5.49
	Bad	225.49	236.82	227.01	191.66	187.33
EBL	Pass	97.57	137.51	185.55	242.49	280.31
	Substandard	2.67	14.05	1.58	0.34	1.37
	Doubtful	0.34	1.18	0.37	14.26	6.32
	Bad	117.88	106.61	120.26	88.11	25.60
NIC	Pass	66.89	90.19	113.50	137.71	128.37
	Substandard	0.16	1.53	2.41	0.61	4.66
	Doubtful	3.93	0.46	5.88	30.57	9.59
	Bad	171.03	94.08	76.77	65.63	54.67

Table 4.3 shows the classified form of loan loss provision. The pass loan provision of all three banks is in increasing trend except in the last year of NIC i.e. 2066/2067.

The substandard loan loss provision of NIBL in 2063/64 is the highest at 24.57 million. In first year it dwells around 11.06 million and goes up to reach the maximum amount in the next year. The loan loss provision in 2065/66 is the lowest. It is just 2.69 million. The provision for doubtful loan was the lowest at 0.25 million in 2062/63. In the next year, it inclines drastically and reaches 43.08 million. The provision for bad loan in 2062/63 is 225.49 million. In the next year it increases and reaches to the highest point of 236.82 million within the entire five years period but after that it declines and reaches to the lowest point 187.33 million in the last year i.e. 2066/67. In case of EBL bank, the lowest pass loan provision is 97.57 million in first year & the highest is 280.31 million in the last year. The provision for substandard and doubtful loan of EBL is irregular during the period. The highest substandard provisioning is 14.05 million in 2063/64 and the lowest is 0.34 million in 2065/66. Similarly, the highest doubtful loan provisioning is 14.26 million in 2065/66 and lowest is 0.34 million in 2062/63. The provisioning trend

for bad loan is in decreasing trend except for the third year i.e. in 2064/65 where it has reached the highest amount of 120.26 million. In fourth year it declines to 88.11 million and in the fifth year it further decreases to 25.60 million. In case of NIC bank, the pass loan provision is in increasing trend where 66.89 million is the lowest in the first year and 137.71 million is the highest in the fourth year. The provision has decreased in the final year reaching 128.37 million. The substandard loan loss provision increases to the highest point of 4.66 million in the final year. In the first year it is 0.16 million which is the lowest for the period. The doubtful loan loss provision is 30.57 million in fourth year which is the highest & then it declines drastically and reaches to the lower point of 9.59 million in the final year. The provision trend for bad loan is 171.03 million in first year which is the highest and gradually declines in the successive years reaching 94.08 million in the second year, 76.77 million in the third year, 65.63 million in the fourth year and 54.67 in the final year.

4.1.4 Interest Suspense

Interest Suspense refers to that portion of interest, which is due but not collected. NRB directives do not allow showing due unpaid interest as income. Interest suspense is the reserve or provision kept for interest that could not be collected in stipulated time. Interest suspense directly affects the profit of the bank. Thus, increases in this Interest Suspense decreases the profit of the company.

Table No. 4.4 Interest Suspense

Rs. In million

	Nepal Investment Bank		Everest Bank		Nepal Industrial & Commercial Bank	
	Amount	%change	Amount	%change	Amount	%change
2062/63	77.94		79.92		2.84	
2063/64	90.44	16.04	83.37	4.32	13.46	373.94
2064/65	106.67	17.94	92.22	10.61	12.91	-4.09
2065/66	153.60	44	83.34	-9.6	16.38	26.88
2066/67	184.87	20.36	68.60	-17.69	27.45	67.58
Mean	122.70		81.49		14.61	

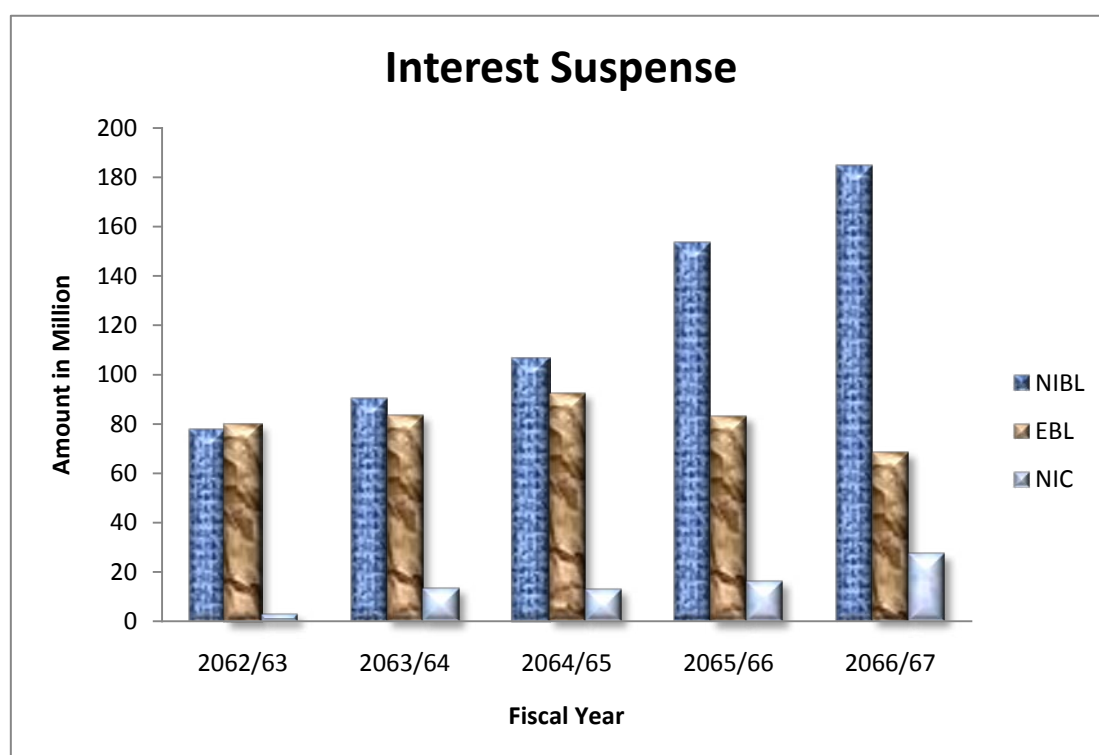


Chart 4.3 Interest Suspense

Table 4.4 and chart 4.3 shows the amount of interest suspense of subjected banks for the studied period and percentage change. The interest suspense of NIBL in 2062/63 is 77.94 million which is the lowest for the period and the amount is increasing year after

year. In the last five years, it increased by 16.04%, 17.94%, 44% and 20.36% respectively reaching a maximum of 184.87 million in the final year. The interest suspense of EBL in 2062/63 was only 79.92 million, but in the subsequent years it increased by 4.32% and 10.61% reaching 83.37 million and 92.22 million respectively. Then after it started decreasing gradually and reached 68.60 in the final year. The interest suspense of NIC in 2062/63 is 2.84 million which is lowest for the period. It reached 13.46 million after an increment by 373.94 % in the second year. It finally decreased to 12.91 million in the third year and again started increasing in the fourth and the final year reaching a maximum of 27.45 million in the year 2066/67. The average interest suspense of NIC is the lowest i.e.14.61 million and the highest is of NIBL with an amount of 122.70 million. EBL lies midway between NIBL and NIC with an amount of 81.49 million.

4.2 Analysis of Financial Ratios

Under this topic various financial ratios are calculated to evaluate and analyze the performance of subjected banks. Study of all types or ratios is not done; only those ratios that are important from the point of view of the loan & advances are calculated. The important ratios that are studied for this purpose are calculated according to objectives set.

4.2.1 Loan and Advances to Total Assets Ratio

This ratio measures the proportion of loan & advances to total assets. This shows the volume of loans & advances in assets with other headings. As the loans & advances is the income generating factor of the bank, large portion of assets as loan & advances will be profitable but the risk factor should also be considered.

Table 4.5 Loans and Advances to Total Assets Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	61.78	64.40	70.82	69.47	71.46	67.59
EBL	63.52	65.71	69.38	66.28	68.04	66.58
NIC	66.47	78.16	75.24	74.21	63.66	71.55

Table 4.5 shows the ratio of loan & advances and total assets of the subjected banks. The ratio of NIBL is fluctuating each year. In second year it increases to 64.40%

from 61.78% in first year, and then next year it increases and reaches to a higher point of 70.82%. In the fourth year it decreases to 69.47% and again increases to 71.46% in the final year. In case of EBL, the ratio increase from 63.52% in the first year to 65.71% in the second year and 69.38% in the third year. It then decreases to 66.28% in the fourth year and again climbs up to 68.04% in the last year. The portion of loan & advances to total assets of NIC is 66.47% in the first year. But in second year it increases to 75.24%, which is the highest for the period. Then in the fourth year and last year it decreases to 74.21% and 63.66% respectively which is the lowest for the period.

The mean percentage of loan & advances to total assets of three subjected banks are 67.59%, 66.58% and 71.55% respectively, which shows the NIC is little bit more aggressive than other two.

4.2.2 Loan & Advances to Total Deposit Ratio (C/D Ratio)

This ratio measures the relationship between loans & advances and deposits. The ratio is conducted with purpose to analyze how much of total deposit was invested in loan to generate income. All the banking business dwells around on deposit and loan. The main source of income is interest from loan and major expenses is interest to deposits. So the optimal proportion between them is a must for significant amount of profit. Loans and Advances to Total Deposits ratio indicate the firm's fund mobilizing power in gross Total deposits collected against giving interest to the customers which is the total amount available for investments. Loan and advances are the major areas where the companies can mobilize the funds with some returns. Any idle deposits mean loss. Thus, this ratio measures how well the deposits have been mobilized to generate income for paying interest to the deposits and also to make profit.

Table 4.6 Loan and Advances to Total Deposit Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	69.63	72.56	79.91	78.86	81.74	76.54
EBL	73.44	77.44	78.56	73.43	76.24	75.82
NIC	78.74	90.67	87.62	89.32	80.96	85.46

Table 4.6 shows the ratio of loan & advances to total deposit. In case of NIBL, the ratio seems to be fluctuating each year as it was in previous ratio. This may be due to irregular growth in loan and deposit. In first year 69.63% of total deposit was invested in loan which is the lowest for the period. Then it increases to 72.56% in second year and further increases to 79.91% in the third year. It again decreases to 78.86% in the fourth year and reaches the highest point of 81.74% in the last year. While the loan & advances to deposit ratio of EBL seems to be maintained above 73% in which it is 73.43% which is the lowest for the period in 2065/66. And in the third year, it is the highest at 78.56%. NIC had invested 78.74% of its total deposits in loan & advances in first year. It increases to 90.67% in second year, which is the highest for the period and then it decreases in next three years. In last year NIC had invested 80.96% of deposits in loan & advances.

The mean lending percentages out of total deposit of three subjected banks are 76.54%, 75.82% and 85.46% respectively.

4.2.3 Loan & Advances to Loan & Advances and Investment Ratio

Loan & advances and Investment are the major income generating activity of banks. Thus the ratio is conducted with a purpose of analyzing the portion of loan & advances in major income generating fund. Between these, loan & advances is area which relatively earns high interest than investments. So, this ratio is conducted to measure how much of total major income generating fund is loan & advances, or we can say this ratio reflects the proportion of high interest earning fund in total income generating fund. Loans & advances is a high interest earning.

Asset for the banks, side by it is also riskier one as bad debt losses may be born. So, investing all the funds only on loan & advances for high interest is not a wise job. Thus, optimal proportion is to be maintained between loan & advances and investment.

Table 4.7 Loans and Advances to Loan & Advances and Investment Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	70.17	73.20	80.02	83.27	82.58	77.85
EBL	70.70	73.86	78.83	80.44	84.90	77.75
NIC	73.57	85.09	83.22	82.14	72.33	79.27

Table 4.7 shows that all three banks have irregular ratio. In first year, out of major income generating fund of NIBL 70.17% is loan & advances which is the lowest for the period. This ratio increases to 73.20% in second year, 80.02% in the third year and the highest point of 83.27% in the fourth year. After that, it declines to 82.58% in the final year. In case of EBL also, the ratio seems irregular however it has maintained the ratio above 70% and is in increasing trend. In first year, the income generating fund of EBL is 70.70% which is the lowest for the period. It increases to 73.86% in second year, 78.83% in the third year, 80.44% in the fourth year and finally reaching to a highest point of 84.90% in the final year. In case of NIC, the ratio was 73.57% in the first year and in second year it increases to reach the highest ratio of 85.09%. Then after it increases to 83.22% in third year and again it decreases in fourth year to reach 82.14%. Then after in the fifth year it becomes 72.33% which is the lowest ratio for the period which shows that income generating fund of NIC bank is decreasing every year.

The mean lending percentages out of loan, advance and Investment of three subjected banks are 77.85%, 77.75% and 79.27% respectively.

4.2.4 Bills Purchased & Discounted to Total Loan & Advances Ratio

Bills purchased & discounted are also a type of loan which is just like a portfolio of commercial banks. Thus, the ratio of bills purchased & discounted to total loan & advances is calculated with the purpose to measure the portion of bills purchased & discounted in total loan & advances portfolio of the banks.

Table 4.8 Bills Purchased & Discounted to Total Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	1.23	1.55	1.37	1.35	0.49	1.20
EBL	0.30	0.29	0.12	0.42	0.09	0.24
NIC	0.28	0.23	0.16	0.19	0.18	0.21

Table 4.8 shows the portion of bills p & d in the total loans & advances portfolio of the subjected banks during the studied period. From the table it is clear that all three banks have invested minimal portion of their total loan in bills. The ratio of NIBL starts from 1.23% in first year, reaches maximum of 1.5% in the second year and again declines to 1.37% in third year and 1.35% in the fourth year. In the final year, it comes down to 0.49 % which is the minimum value for the entire period. The ratio of EBL is 0.30 % in the first year. It decreases until 2064/65 to reach 0.12% in the third year and again climbs up to reach a maximum value of 0.42% in 2065/66. It decreases drastically in the final year to reach 0.09 %, which is the least value for the entire period. It shows that the maximum portion of their loans have been invested in the fourth year and lowest in the last year. The ratio of NIC ranges from 0.16% in the third year to 0.28% in the first year. The ratio of NIC is found to be in decreasing trend. In the first year, it has invested the largest portion of its total loan. Similarly, the smallest portion the loan was invested in the third year. In the fourth and final year, the amount is almost constant and dwells around 0.18%. The average portion of bills purchased and discounted to total loans of subjected banks are 1.20%, 0.24%, and 0.21% respectively. This shows that NIBL has invested more in bills than the other two.

4.2.5 Non-Performing loan to Loan & Advances Ratio

This ratio measures the portion of non-performing loan out of total loan & advances. This ratio will help to measure the position of subjected banks in terms of non-performing loan with comparison to international standard and national average. The lower ratio signifies the good quality of assets in the total volume of Loan and Advances. Similarly, a higher ratio signifies relatively more risky assets. A higher portion of non-performing loan in total loan & advances makes the provision for it, interest suspense and risk of unrecoverable loan will also be higher. This will ultimately challenge the existence.

Table 4.9 Non-Performing Loan to Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	2.07	2.18	1.09	0.58	0.62	1.35
EBL	1.27	0.80	0.68	0.48	0.16	0.68
NIC	2.60	1.11	0.86	0.93	0.72	1.24

Table 4.9 shows the portion of non-performing loan out of total loan & advances of the subjected banks during the studied period. The ratio of NIBL in first year is 2.07% which shows that only about 2% of total loan & advances is non-performing loan. The ratio in second year is 2.18% which is the highest for the entire period. It then decreases in the third year to reach 1.09% and reaches a minimum value of 0.58% in the fourth year. The value in the final year is almost same as the previous year. The ratio of EBL ranges from 1.27% in the first year to the 0.16% in the last year. The ratio of EBL is in decreasing trend which shows that EBL had taken the highest portion of non-performing loan out of total loan & advances in the first year and the smallest portion of non-performing loan out of total loan & advances in the last year. Similarly, the ratio of NIC ranges from 2.60% in first year to the 0.72% in last year. The ratio of NIC is in decreasing trend which shows that NIC had also taken the highest portion of non-performing loan in first year and the smallest portion of non-performing loan out of total loan & advances in the last year.

The average percentage of non-performing loan in total loan & advances of the subjected banks is 1.35%, 0.68% and 1.24%. This shows that EBL has lent good loans as it has less amount of non-performing loan out of total loan and advances.

Table 4.10 Composition of Non-Performing Loan Ratio

		2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	Substandard	16.23	22.96	19.95	5.03	21.93	17.22
	Doubtful	0.18	20.39	6.70	5.37	4.33	7.39
	Bad	83.58	56.65	73.35	89.59	73.74	75.38
EBL	Substandard	8.25	3.73	4.96	1.15	12.51	6.12
	Doubtful	0.53	2.08	0.58	24.16	28.89	11.25
	Bad	91.19	94.20	94.45	74.68	58.57	82.62
NIC	Substandard	0.36	6.06	9.81	1.87	20.16	7.65
	Doubtful	4.38	0.92	11.98	47.32	20.73	17.06
	Bad	95.25	93.02	78.20	50.80	59.11	75.28

Table 4.10 shows the ratio of various class of non-performing loan to total non-performing loan. In case of NIBL, the portion of substandard loan is the highest at 22.96% in second year. It decreases to 19.95% in the third year and drastically decreases to 5.03% in the fourth year which is the lowest for the entire period. It again climbs up to 21.93% in the final year. The portion of doubtful loan is the lowest at 0.18% in the first year. It reaches the highest at 20.39% in second year and then decreases drastically in the subsequent years reaching 6.70 % in the third year. It further decreases to 5.37% in the fourth year and 4.33 % in the final year. The portion of bad loan is the lowest at 56.65% in second year and then increases in the following two years. It increases to 89.59% in fourth year which is the highest portion for the period. It again decreases to 73.74% in the final year. In case of EBL bank, the portion of substandard loan is in decreasing trend except for the last year where it climbs up to reach 12.51 % which is the highest for the entire period. In the first year is it 8.25% which decreases further in the second year and reaches 3.73%. It climbs up again in the third year to reach 4.96%. It reaches the minimal value of 1.15% in the fourth year and ascends again in the final year reaching 12.51%. The portion of doubtful loan is 0.53 % in the first year which is the lowest for the entire period. It climbs up to 2.08 % in the second year and again drops down to 0.58% in the third year. It increases in the fourth and fifth year with highest ratio of 28.89% in the final year. The portion of bad loan is 91.19 % in the first year. It increases in the second and the third year gradually. About 94.45% of the total non-performing loan is bad loan in 2064/6528 which is the highest for the entire period. It decreases further in the fourth and

the fifth year reaching 74.68% and 58.57% respectively. The substandard loan of NIC increases gradually from the first year. It has the lowest portion of only 0.36% in the first year and then goes up in the second and third year. Only 1.87% of the total nonperforming loan is substandard in 2065/66. It increases drastically in the final year and reaches 20.16% in 2066/67. The portion of doubtful loan of NIC is the highest at 47.32% in the fourth year and lowest at 0.92% in the second year. It decreases in the final year and reaches 20.73%. The portion of bad loan is the highest at 95.25% in first year. It decreases gradually after that and reaches 93.02% in the second year. It decreases further in the third year and fourth year and again ascends in the final year. In 2066/67, 59.11 % of the total non-performing loan is bad loan.

The average portions of substandard loan of subjected banks are 17.22%, 6.12% and 7.65% respectively. The average portions of doubtful loan of the subjected banks are 7.39%, 11.25% and 17.06% respectively. Likewise average portion of bad loan of subjected banks are 75.38%, 82.62 % and 75.28% respectively. A good performing bank should have large portion of substandard loan and small portion of bad loan out of total loan but in the case of all the three subjected banks, it is just the opposite.

4.2.6 Loan Loss Provision to Loan & Advances Ratio

The ratio of Loan Loss Provision to Total Loans and Advances describe the quality of assets that the bank is holding. The lower ratio signifies the good quality of assets in the total volume of loan and advances. Similarly, a higher ratio signifies relatively more risky assets.

Table 4.11 Loan Loss Provision to Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	3.05	2.72	1.93	1.59	1.54	2.17
EBL	3.30	2.97	2.64	2.39	2.13	2.69
NIC	3.57	2.05	1.75	1.70	1.53	2.12

Table 4.11 shows the relation of loan loss provision and loan & advances of the subjected banks during the studied period. In case of NIBL, the ratio is in decreasing trend. It is highest at 3.05% in the first year and lowest at 2.17% in the last year. Similarly in EBL, the ratio is highest at 3.30 in the first year and lowest at 2.13 in the last year,

which shows the ratio is in decreasing trend. In case of NIC, the provisioning for loan loss has gradually decreased each year. In the first year it is 3.57% which is the highest risky assets and in last year it is 1.53% which is the lowest risky assets and the good quality of assets.

The mean percentage of loan loss provision out of loan & advances of the subjected banks are 2.17%, 2.69% and 2.12% respectively. This shows that NIC has to set apart fewer amounts as provision regarding the total loan volume.

Table 4.12 Composition of Loan Loss Provision Ratio

		2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	Pass	32.03	35.94	51.53	65.06	66.79	50.27
	Substandard	2.75	5.09	2.90	0.46	2.21	2.68
	Doubtful	0.06	8.93	1.95	0.98	0.87	2.56
	Bad	56.10	49.06	42.62	32.71	29.73	42.04
EBL	Pass	29.13	32.85	37.31	41.46	46.72	37.49
	Substandard	0.80	3.36	0.32	0.06	0.23	0.95
	Doubtful	0.10	0.28	0.07	2.44	1.05	0.79
	Bad	35.19	25.47	24.18	15.06	4.27	20.83
NIC	Pass	27.17	48.17	56.57	56.79	65.07	50.75
	Substandard	0.06	0.82	1.20	0.26	2.36	0.94
	Doubtful	1.60	0.25	2.93	12.93	4.86	4.51
	Bad	69.48	50.24	38.26	27.76	27.71	42.69

Table 4.12 shows the composition of loan loss provision in total loan loss provision of the subjected banks. In case of NIBL, in first year the portion of pass loan provision is the lowest at 32.03% and then it increases in the following years and reaches the highest point of 66.79% in the final year. The portion of substandard loan provision is the lowest at 0.46% in fourth year and highest at 5.09% in the second year. The portion of doubtful loan provision is the lowest at 0.06% in first year but it drastically increases in second year at 8.93% which is the highest for the period. In the following years, it decrease further and reaches 0.87 % in the final year. The portion of bad loan provision is the highest at 56.10 % in the first year. It then decreases gradually in the following years and reaches minimum in the final year.

In case of EBL, the ratio is in decreasing trend. The portion of pass loan is the lowest at 29.13% in first year and the highest at 46.72% in final year. The portion of substandard loan loss provision is the lowest at 0.06% in the fourth year and the highest at 3.36% in the second year. Similarly the portion of doubtful loan is the lowest at 0.07% in the third year and the highest at 2.44% in the fourth year. In first year the portion of bad loan loss provision is the highest at 35.19% and then decreases in the following years gradually. The ratio is in decreasing trend. It has the lowest ratio of 4.27% in the final year.

In case of NIC, the ratio of pass loan provision is in increasing trend. The portion of pass loan provision is the lowest at 27.17% in the first year and the highest at 65.07% in the last year. In first year, the portion of substandard loan loss provision is the lowest at 0.06% and the highest at 2.36% in the last year. Similarly the portion of doubtful loan loss provision is the lowest at 0.25% in the second year and the highest at 12.93% in the fourth year. The ratio of bad loan loss provision is in decreasing trend. It has the highest portion of 69.48% in the first year and the lowest portion of 27.71% in the final year.

The average composition of loan loss provision of NIBL shows the lowest portion of doubtful loan provision at 2.56% and the highest portion of pass loan provision at 50.27%. Similarly the average composition of loan loss provision of EBL shows the lowest portion of doubtful loan provision at 0.79% and the highest portion of pass loan provision at 37.49%. The average composition of loan loss provision of NIC shows the lowest portion of substandard loan provision at 0.94% and the highest portion of pass loan provision at 50.75%.

4.2.7 Loan Loss Provision to Total Income Ratio

The ratio of Loan Loss Provision to total income describes the amount to be set apart from total income of the bank before calculating the net profit. NRB has directed to categorize its Loan and advances into good, substandard, doubtful and bad loans and to make the provisions of 1%, 25%, 50% and 100% respectively as loan loss provision. The purpose of issuing directive is to control the bank management from sharing profit and bonus even when the loan provided from the deposit is not recovering on time. In fact, it is the cushion against future contingency created by the default of the borrowers. A higher ratio indicates that the performance of bank is

questionable and a lower ratio indicates the performance of bank gives benefit to shareholders.

Table 4.13 Loan Loss Provision to Total Income Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	41.88	38.69	32.15	28.36	22.95	32.81
EBL	50.36	49.68	40.95	37.73	30.92	41.93
NIC	78.17	45.52	36.02	32.73	20.27	42.54

Table 4.13 shows the relation of loan loss provision and total income of the subjected banks during the studied period. In case of NIBL, in first year the ratio is 41.88% and in the second year it decreases to 38.69%. The ratio is in decreasing trend and the ratio declines to reach the lowest at 22.95% in the last year. In case of EBL, the ratio is also in decreasing trend. In first year the ratio is 50.36% which is the highest for the period and in the last year; it is 30.92%, which is the lowest for the period. The ratio trend of NIC is decreasing like NIBL and EBL. The ratio is highest at 78.17% in first year. It decreases gradually in the following years and reach the lowest at 20.27% in the last year.

The mean percentages of loan loss provision out of total income of the subjected banks are 32.81%, 41.93% and 42.54% respectively. This shows that out of total income NIBL has to set apart lesser amount for provision in comparison to EBL and NIC.

4.2.8 Interest Suspense to Total Interest Income from Loan & Advances Ratio

This ratio of interest suspense to total interest from loan and advances measures the composition of due but uncollected interest in the total income from loan and advances. Here the total interest from loan refers to summation of interest income from loan and interest suspense. A high degree of this ratio refers to the poor interest turnover and vice versa. Thus, this ratio also helps to analyze the capability of the bank in collecting the repayments of the loans and advances.

Table 4.14 Interest Suspense to Total Interest Income from Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
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NIBL	6.65	5.71	4.86	4.70	3.97	5.18
EBL	8.85	7.28	6.94	4.50	2.45	6.00
NIC	0.49	1.85	1.39	1.87	2.23	1.57

Table 4.14 shows the portion of interest suspense in total interest from loan & advances. The ratio of NIBL in first year is 6.65% which is the highest during the period which shows that it has poor interest turnover in first year but in second year it decreases to 5.71% which shows that it has improved in interest collection. Then it starts decreasing in the following years and reaches lowest at 3.97% in the last year. The ratio of EBL has also decreasing trend. The ratio is 8.85% in the first year which is the highest during the period. This shows that it has poor interest turn over initially. But in the following years the ratio decreases and reaches the lowest at 2.45% in the final year. It shows that it has collected more outstanding interest income than previous years. The ratio of NIC in first year is 0.49% which shows that it has good capability in interest income. Then it starts to increase gradually to 1.85% in second year, 1.87% in fourth year and 2.23% in the final year.

The average interest suspense portions of the subjected banks are 5.18%, 6 % and 1.57% respectively during the studied period. It shows that EBL has poor capability in interest income & collection because of the highest degree of interest turnover and NIC has improved in interest collection because of the lowest degree of interest turnover.

4.3 Statistical Analysis

4.3.1 Correlation between Different Variables

In this section of presentation and analysis, relation between variables of balance sheet and profit & loss account are analyzed. For this, correlation (r) and probable error (P. Er.) are calculated. Probable error of correlation coefficient is an old measure for testing the reliability of an observed correlation coefficient. If the value of correlation coefficient is greater than 6 times the value of probable error, the correlation coefficient is deemed as significant and reliable.

4.3.1.1 Correlation between Loan & Advances and Deposit

Correlation coefficient between deposit and loan & advances measure the degree of relation between these two variables. In this analysis, deposit is independent variable and loan & advances is dependent variable. The main objective of computing coefficient of correlation between these two variables is to justify whether deposits are significantly used as loan & advances or not.

Table 4.15 Correlation between Loan & Advances and Deposit

	Correlation Coefficient	Probable Error	Probable Error * 6
NIBL	0.99884	0.000694747	0.004168482
EBL	0.99711	0.001740235	0.010441412
NIC	0.97561	0.014552749	0.087316495

Table 4.15 shows the correlation, probable error of the correlation between loan & advances and deposit of the subjected banks during the studied period. The calculation shows a high degree of positive relation between loan & advances and deposit. The correlation coefficient between loan and deposit of NIBL is 0.99884 and EBL is 0.99711 i.e. almost 1 which mean loan & advances of both banks are increasing almost at the same ratio in which deposit is increasing, while the correlation of NIC is 0.97561 slightly lower in comparison to NIBL & EBL. Only high degree of positive correlation between variables is not sufficient. That relation must be reliable and significant as per probable error method. In this case, as the 6 times of probable error is less than correlation coefficient, the relation between loan & advances and deposit of all three banks is highly significant.

4.3.1.2 Correlation between Loan & Advances and Non-Performing Loan

Correlation coefficient between loan & advances and non – performing loan measures the degree of relation between the loan & advances and non-performing loan. The purpose of calculating this correlation coefficient is to justify whether the non–performing loan of the banks is moving as per loan & advances or not.

Table 4.16 Correlation between Loan and Advances and Non-Performing Loan

	Correlation Coefficient	Probable Error	Probable Error * 6
NIBL	-0.5886	0.197393232	1.184359389

EBL	-0.7159490	0.147223353	0.883340119
NIC	-0.5937946	0.195548296	1.173289774

Table 4.16 shows correlation, probable error of correlation between loan & advances and non-performing loan of the subjected banks during the studied period. The calculation shows negative relation between loan & advances and non-performing loan of all the subjected banks. However, the relation between loan & advances and non-performing loan of all three banks is not significant, as the 6 times of probable error is greater than correlation coefficient.

4.3.1.3 Correlation between Loan & Advances and Loan Loss Provision

Correlation coefficient between loan & advances and loan loss provision measures the degree of relation between the loan & advances and loan loss provision. The purpose of calculating this correlation coefficient is to justify whether the loan loss provision kept by the banks is as per loan & advances or not.

Table 4.17 Correlation between Loan and Advances and Loan Loss Provision

	Correlation Coefficient	Probable Error	Probable Error * 6
NIBL	0.979957	0.011986498	0.071918987
EBL	0.986167	0.008298511	0.049791065
NIC	-0.1848949	0.291722207	1.750333244

Table 4.17 shows correlation, probable error of correlation between loan and advances and loan loss provision of the subjected banks during the studied period. The calculation shows a high degree of positive relation between loan & advances and loan loss provision of NIBL and EBL. However, there exists a negative correlation in case of NIC. The correlation coefficient between loan and loan loss provision of the subjected banks are 0.979957, 0.986167 and -0.1848949 respectively. This means that loan provision of NIC is decreasing as the loan & advances is increasing. While the loan loss provision of EBL & NIBL are increasing almost at the same ratio in which loan & advances is increasing. Only a high degree of positive correlation between variables is not sufficient which relation must be reliable and significant as per probable error method. In this case, as the 6 times of probable error is less than correlation coefficient, the relation between loan & advances and loan loss provision of two banks is significant but the

relationship between loan and advances & loan loss provision of NIC bank is not significant, as the 6 times of probable error is greater than correlation coefficient.

4.3.2 Trend Analysis and Projection

In this part of analysis of data, trend analysis and projection of various variables has been conducted. The measure of trend analysis exhibits the behavior of given variables in series of time and on the basis of trend analysis the projection for the next five years has been made. The Least Square Method of trend analysis has been adopted to measure the trend values or projection. The projection is based on the following assumptions.

- The main assumption is that other things will remain unchanged.
- The forecast will be true only when the limitations of least square method are carried out.
- The bank will run in present position.
- The economy will remain in the present stage.
- Nepal Rastra Bank will not change its guidelines to commercial banks.

4.3.2.1 Trend Analysis of Loan & Advances

In this part of analysis, the projection of loan & advances of all three subjected banks for following five years has been calculated. The projection is based on the assumption that all other factors effecting loan & advances will be constant.

Table 4.18 Projection of Loan & Advances

Year	NIBL	EBL	NIC
2062/63	13178	10136.25	6902.12
2063/64	17769	14082.69	9128.65
2064/65	27529	18836.43	11465.3
2065/66	36827	24469.6	13916
2066/67	40948	28156.4	12929
2067/68	49629.6	33064.437	15920.547
2068/69	57089.4	37707.158	17604.658
2069/70	64549.2	42349.879	19288.769
2070/71	72009	46992.6	20972.88
2071/72	79468.8	51635.321	22656.991

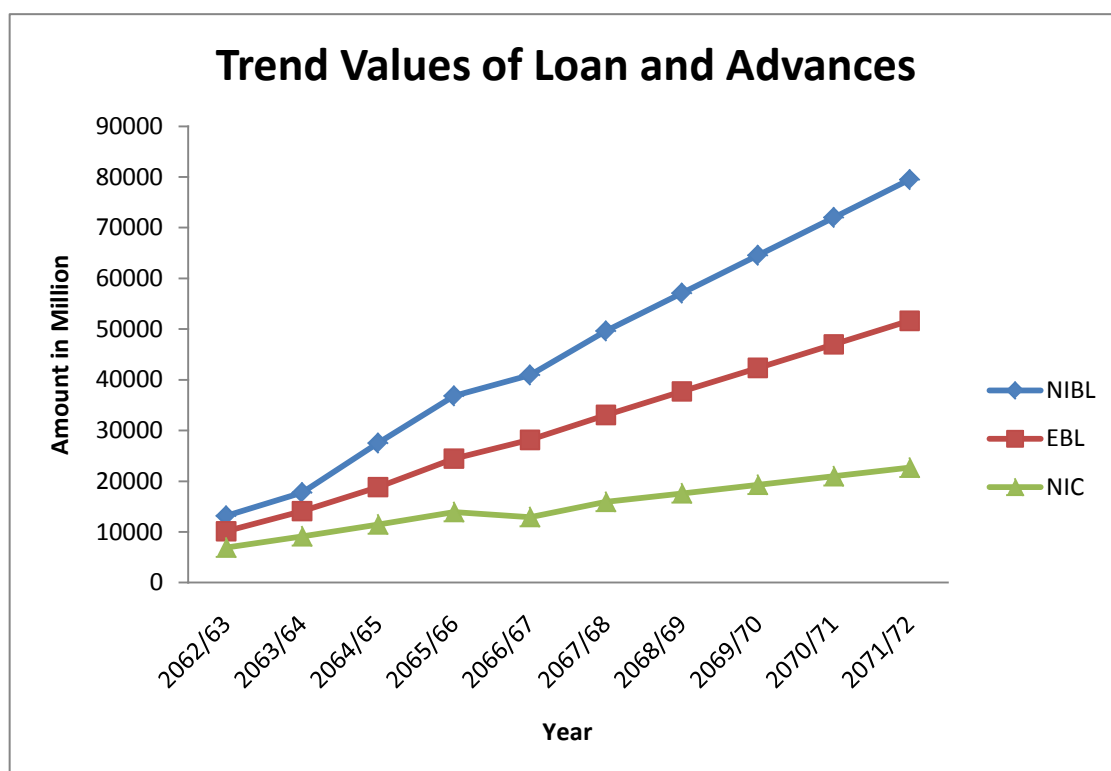


Chart 4.4 Trend Values of Loan and Advances

Table 4.18 & chart 4.1 shows the actual figure and projected trend values of loan & advances of subjected banks for the following five years which are calculated on the basis of least square method. The projection of loan and advances is in increasing trend, if all other factors effecting loan & advances remain constant.

4.3.2.2 Trend Analysis of Non-Performing Loan

In this part of analysis, the projection of non-performing loan of all three subjected banks for following five years has been calculated. This projection is based on the assumption that all other factors effecting loan & advances will be constant.

Table 4.19 Projection of Non-performing Loan

Year	NIBL	EBL	NIC
2062/63	272.49	129.27	179.55
2063/64	421.97	113.18	101.14
2064/65	309.47	127.31	98.17
2065/66	213.91	117.99	129.18
2066/67	254.03	43.71	92.49
2067/68	220.88	56.399	76.282
2068/69	196.382	39.768	61.674
2069/70	171.884	23.137	47.066
2070/71	147.386	6.506	32.458
2071/72	122.888	-10.125	17.85

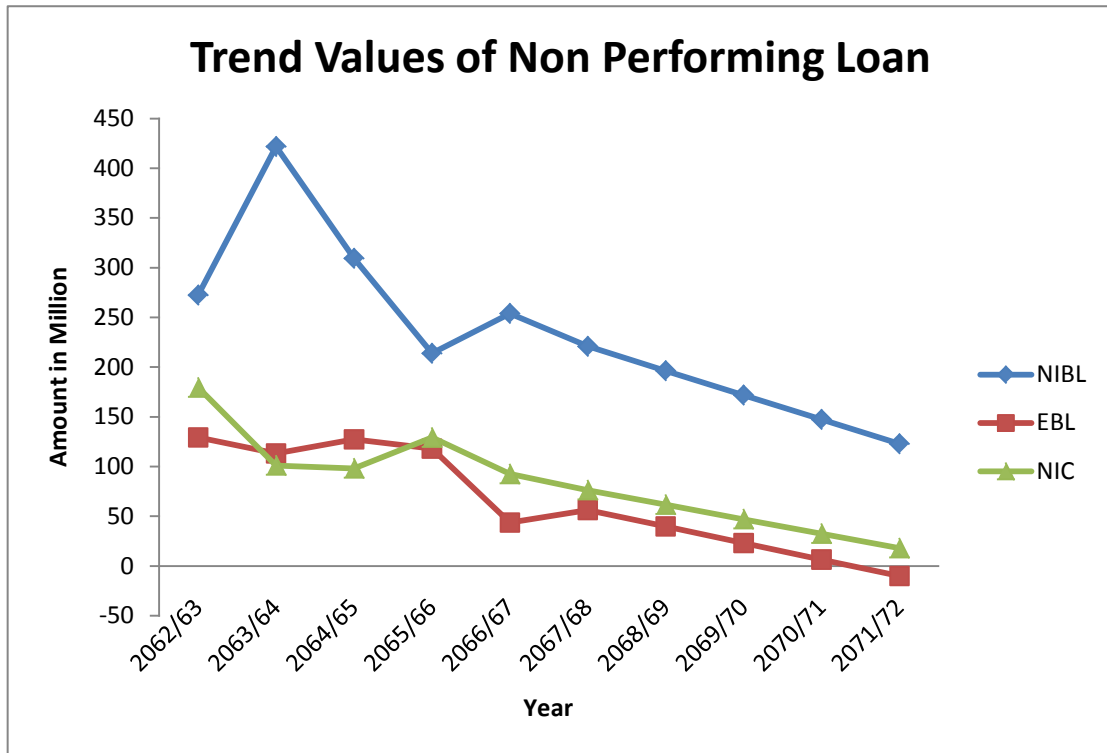


Chart 4.5 Trend Values of Non-Performing Loan

Table 4.19 & chart 4.2 shows the actual figure and projected trend values for following five years of non-performing loan of subjected banks which are calculated on the basis of least square method. The projection of non-performing loan of all the subjected banks is in decreasing trend, if all other factors effecting loan & advances remain constant.

4.3.2.3 Trend Analysis of Interest Suspense

In this part of analysis, the projection of interest suspense of all three banks for following five years has been calculated. The projection is based on the assumption that all other factors effecting loan & advances will be constant.

Table 4.20 Projection of Interest Suspense

Year	NIBL	EBL	NIC
2062/63	77.94	79.92	2.84
2063/64	90.44	83.37	13.46
2064/65	106.67	92.22	12.91
2065/66	153.6	83.34	16.38
2066/67	184.87	68.6	27.45
2067/68	205.81	74.689	30.25
2068/69	233.512	72.422	35.464
2069/70	261.214	70.155	40.678
2070/71	288.916	67.888	45.892
2071/72	316.618	65.621	51.106

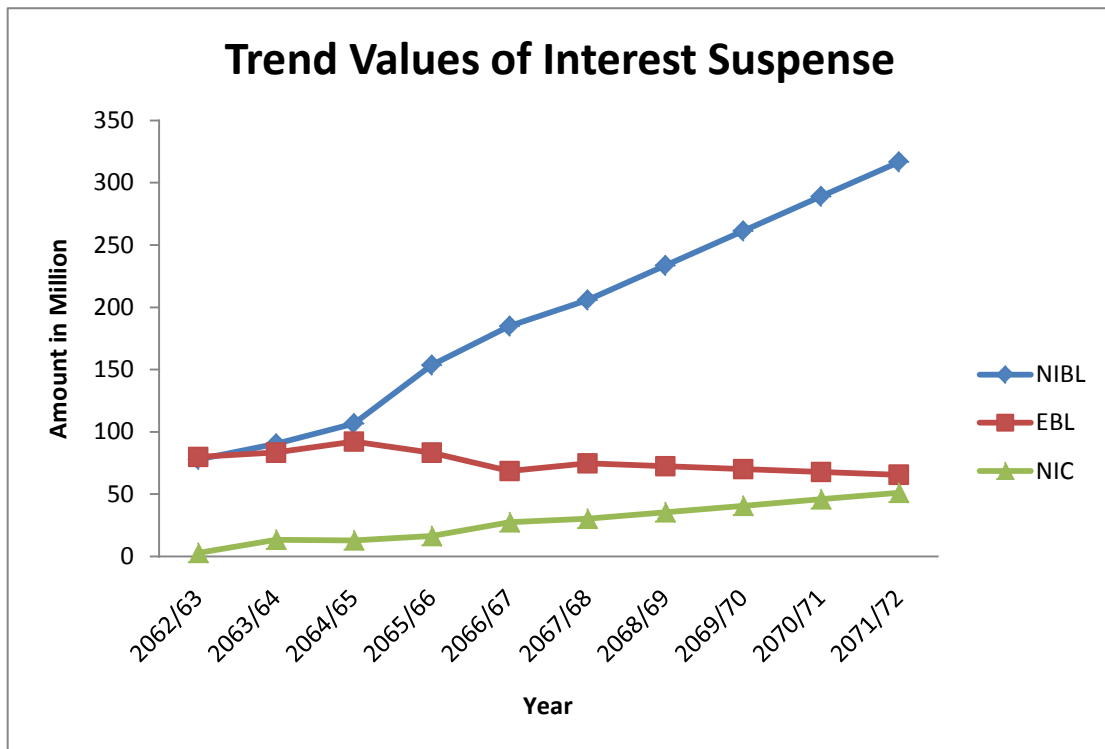


Chart 4.6 Trend Values of Interest Suspense

Table 4.20 & chart 4.3 show the actual figure and projected trend values for following five years of interest suspense of subjected banks which are calculated on the basis of least square method. The projection of interest suspense of NIBL and NIC are in increasing trend while that EBL is in decreasing trend, if all other factors effecting loan & advances remain constant.

4.3.2.4 Trend Analysis of Loan Loss Provision

In this part of analysis, the projection of loan loss provision of all three subjected banks for following five years has been calculated. The projection is based on the assumption that all other factors effecting loan & advances will be constant.

Table 4.21 Projection of Loan Loss Provision

Year	NIBL	EBL	NIC
2062/63	401.94	334.95	246.16
2063/64	482.67	418.6	187.25
2064/65	532.65	497.35	200.65
2065/66	585.95	584.88	236.45
2066/67	630.13	600.04	197.29
2067/68	694.566	696.102	198.998
2068/69	750.532	765.748	194.144
2069/70	806.498	835.394	189.29
2070/71	862.464	905.04	184.436
2071/72	918.43	974.686	179.582

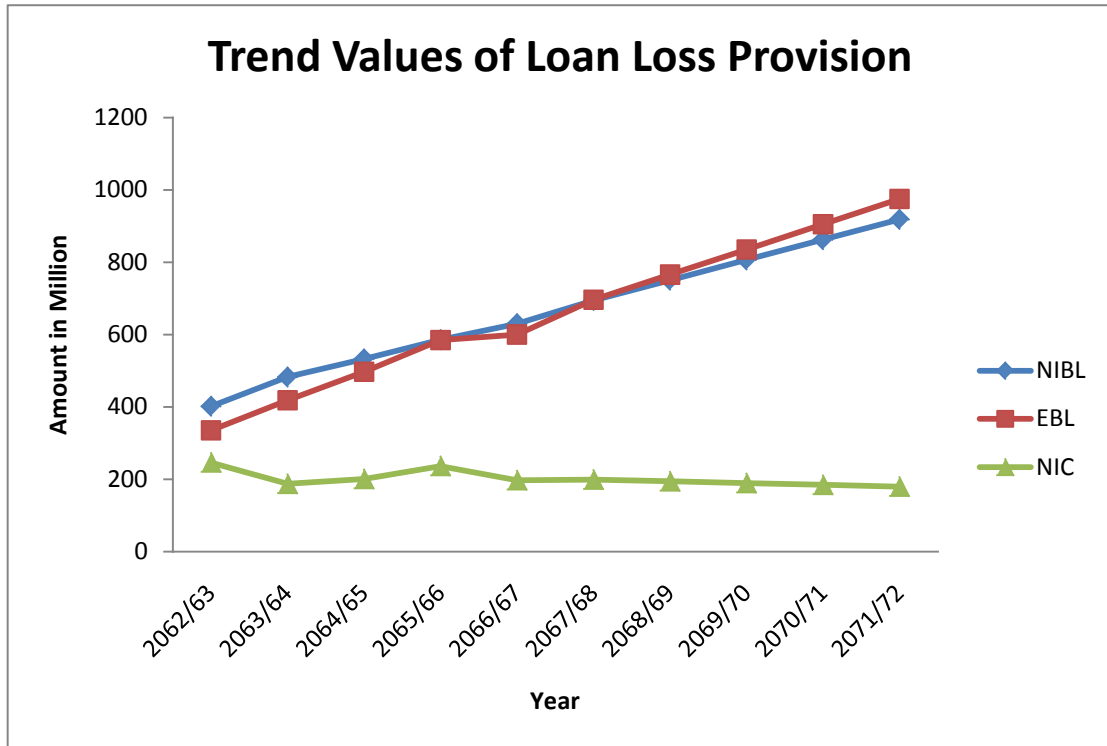


Chart 4.7 Trend Values of Loan Loss Provision

Table 4.21 & chart 4.4 show the actual figure and projected trend values for following five years of loan loss provision of subjected banks which are calculated on the basis of least square method. The projection of loan loss provision of NIBL and EBL is in increasing trend while that of NIC is in decreasing trend, if all other factors effecting loan & advances remain constant.

4.4 Theoretical Analysis

4.4.1 Effect of Non-Performing Loan on Performance of Banks

As already stated non-performing loan are those loans which banks are unable to recover at scheduled time and is the most important and sensitive area, which affect the overall system of a bank. Non-performing assets indicate the substandard, doubtful and bad loans in which a bank has invested. Bank operates its business through money collected from public as the deposit. Thus government and central bank use to control the misuse of fund or bad investments. In the past, non-performing loan didn't have any significant effect on the performance of the bank. Even if the loan & advances invested were bad or unrecoverable; banks use to show a huge amount of profit as due interest which can be recorded as income and shared as dividend and bonus. It puts question mark

on the safety of the public's deposit, thus central bank i.e. Nepal Rastra Bank imposed various directives regarding loan loss provision, interest suspense, restriction on dividend and bonus.

Non-performing loan definitely decreases the lending capacity of the banks. If the bank has non-performing loan then it should keep provision for bad loans from profit according to amount of non-performing loan. As the loan loss provision is directly changed into profit it is obvious that it will decrease the profit volume. The result of profit volume directly affects the dividend, bonus and general reserves. The affect on general reserve affects the volume of core capital and as a result the lending capacity of the banks will be affected, as the single borrower obligor limit of bank is based on the core capital. In case of subjected banks, if these banks don't have or have lesser provision for non-performing loan they could increase core capital and single borrower obligor limit.

Interest suspense is also counted in non-performing assets. Interest suspense is that amount which a bank has recorded as income in accrued basis but could not collect even in following quarter also. If a bank has any interest suspense amount it should be deducted form the profit and kept idle, this will decreases the profit level and its effect on performance of bank will be as stated above.

A high amount of non-performing loan creates doubt in public about the existence of the bank; this will negatively effect the deposit collection. It is well known that without deposit no bank can imagine business. If the level of non-performing loan of a bank becomes huge then NRB could overtake the management itself or could hand over it to other as done with Lumbini Bank, Nepal Bank and Rastriya Banijya Bank.

4.4.2 Recovery of Loan & Advances

Recovery is a vital part of distribution of Loan and Advances. It is the recovery part that brings income and keeps its fund moving which are essential requirements of earnings of banks. In the present context, recovery is one of the major problems in the banking sector rather than distribution of credit.

The analysis of recovery of loan is basically done on the basis of the informal interviews taken. It is seen that people are willing to take the loan but have hard time while paying them. The increasing non-performing loan and loan loss provision also

points the same condition. In many cases, especially in business loan, it is seen that people are ready to pay penalty rather make timely payments. It is very normal for the borrowers to keep couple of dues unpaid. And when some very harsh reminder is given, the borrowers clear their dues in order to prevent from further legal actions. Once the loan is given, it is more like the banks have to literally chase the borrower to recover its investment. It is seen that loanee who has some knowledge about regulations regarding loan granting procedure and recovery can manipulate it to his benefit.

Liquidity of the collateral is not easy part to recover the guarantee. Once the names of borrowers are published in papers in different notices they tend to be more reluctant to pay. They probably deduce that since they are exposed they need not fear of it again. And after the long processing when banks finally set out liquidating the property, the borrower can come along and pay some part of the debt which will stop the liquidation and the debt continues. More than that if the borrower continues to pay couple of dues, his loan comes in the list of good loans and all the actions fades out.

The incorporation of Reen Asuli Nyaydhikaran has somewhat supported the banks to recover their bad debts. Along with this, inclusion of act relating to recovery of loan in "Bank and Financial Institutions Ordinance 2061" and directives issued by Nepal Rastra Bank regarding the black listing has helped banks to recover their bad loans.

4.5 Major Findings

The analysis of absolute data shows the irregular increment in loan & advances. The lending trend of all the banks is in increasing trend; however the increment rate is not regular. We can take the increment in loan & advances of the subjected banks as the overall increment of banking industry. The average loan & advances of the NIBL is the highest, that of EBL is just behind while of NIC is way behind.

The analysis of classified form of non-performing loan shows the amount of doubtful loan of NIBL is much higher in 2063/64 and amount of bad loan is higher than doubtful loan throughout the studied period. This means that even among the non-performing loan, volume of the worst loan is more and this clearly indicates that the loans are converting to bad loans every year. In case of EBL, the amount of doubtful loan is much higher than the substandard loan in 2065/66 and 2066/67. The amount of bad loan is higher than doubtful loan throughout the studied period which shows that the amount of

good loans is decreasing in the recent years. In case of NIC, in the first year, most of the loan is bad. In the following years the amount of bad loans has decreased subsequently giving clear indication of increment of good loans. From the study it is quite clear that the banks have been lending rampantly without proper study which has, in turn converted most of the loans into bad loans. It is thus, imperative that the banks focus on quality lending rather than quantity.

The loan loss provision of all the subjected banks is increasing. This may be due to increment in volume of loan & advances as for every loan out flow, 1% loan loss provision is compulsory or due to the degradation of loan.

This analysis of classified form of loan loss provision shows the increment of pass loan provision of all three subjected banks which clarify the increment in loan & advances. The provisions for substandard and doubtful loan are decreasing year after year while bad loan provision is increasing every year, which shows the degradation of loan. The provision of pass loan loss is increasing per year while substandard & doubtful loan loss provisions are irregular. The bad loan of all three banks are increasing .So focus is to be made on recovery of due loans.

The interest suspense of EBL and NIC are fluctuating while that of NIBL is increasing in gradual rate. The average amount of interest suspense of EBL is 81.49 million which clarifies that EBL has maintained the interest suspense at a level range. The performance of NIBL in interest collection is not satisfactory, as the volume of interest suspense is increasing year after year, however the average interest suspense is greater than EBL. The interest collection of NIC is satisfactory as it has only 14.61 million in interest suspense.

The analysis of loan & advances to total assets ratio reveals that portion of loan & advances in total assets of all banks are fluctuating, however there are certain exceptions. The average ratio of NIBL is 67.59% and EBL is 66.58% which shows NIBL is just higher than EBL and NIC is the highest at 71.55%. From this, it can be said that NIBL and EBL are little bit defensive and want minimum risk, so they maintain the strategy of investing only around 60% of assets in loan & advances, while NIC seems aggressive as it has the highest mean of assets as loan, NIC is following the popular statement in

business field, "No Risk No Gain". So, it is carrying large amount or risky assets to make huge amount of profit.

The maximum percent of deposit invested in loan & advance by NIBL is 81.74% in 2066/67, however the mean ratio is 76.54% and the average of EBL is just below i.e. 75.82%. In case of EBL, the ratio of loan & advances to total deposit ratio is consistent throughout the period around 75%. This shows an aggressive characteristic of EBL in fund mobilization. NIC is almost similar while EBL has little more aggression of risk taking. The maximum percent of deposit invested in loan & advances by NIC is 90.67% in 2063/64 but the average ratio is only 85.46% which is higher than other two banks.

Out of total income generation fund i.e. loan plus investment, NIBL has invested 77.85% loan while EBL and NIC has 77.75% and 79.27% respectively. The ratio of all the subjected banks is above 70% throughout the period thus it clarifies that the banks do not believe in lending in stocks, fixed deposits.

The average amount of bills purchased and discounted in total loan portfolio of subjected banks are 1.20%, 0.24% & 0.21% respectively, it could be concluded that portion of bills purchased and discounted in total loan & advances portfolio is insignificant.

The non-performing loan to total loan ratio reveals the quality of the loan of the subjected banks. In this context it could be say that EBL has lent quality loan & advances having 0.68% average non-performing loan in total loan, while the quality loan of NIBL is 1.35% and NIC is 1.24%. The analysis shows that EBL has recovered lots of non-performing loan during the period, while NIBL and NIC has maintained average amount of non-performing loan.

As the loan loss provision is outcome of volume of non-performing loan, average loan loss provision to total loan ratio of NIC is lowest at 2.12%, however the ratio is irregular. The ratio of loan loss provision to total loan of NIBL is almost equal to the ratio of NIC, i.e. 2.17% while EBL has slightly a greater ratio of 2.69%. In the first few years, the ratio of NIBL and NIC is above average while in later half the ratio is reduced below average. In case of EBL it is almost constant throughout above 2%, which means that EBL has to maintain the quality of loan & advances and could be serious problem if not corrected in time.

The amount of loan provision is kept as certain percent of total loan outstanding; however it is set apart from total income. Thus the amount of loan loss provision directly affects the profitability of the bank. The ratio of loan loss provision to total income reveals that NIC has set apart the large amount of total income as loan loss provision averaging 42.54%, which definitely reduces its net profit. The average ratio of EBL is just behind NIC i.e. 41.93%. The performance of NIBL is superior as it has 32.81% of total income as provision in average.

The ratio of interest suspense to total interest from loan & advances reveals that NIBL and EBL has poor turnover of income from loan as they have 5.18% and 6% of interest income from loan respectively as interest suspense, however they are able to reduce it during the studied period. The average ratio of NIC is the lowest at 1.57% which shows that it has good interest turnover.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter of the study focuses on facts and matters acquired from the various parts of the study or deals with the result of the study. This part of the study includes, summary of the study, conclusions of the study and recommendation as per the findings and conclusion.

5.1 Summary

Banking system is a backbone of the national economy, which supports it to erect and rise up and the prosperity of banking system depends on its two major functions deposit collection and lending. At present situation deposit collection is not much difficult, as liquidity of overall banking system is rising up. But the lending function is not like that, as banks are facing two major challenges in lending. First of all, due to unfavorable political environment and violence businessmen are reluctant to invest in business so the volume of loan & advances is not in regular trend and if loan is given the problem of turning loan to non-performing is another challenge banks are facing.

In this scenario an attempt of studying on loan & advances of commercial banks and effect of non-performing loan is made in this thesis. Nepal Investment Bank Ltd., Everest Bank Ltd. and Nepal Industrial and Commercial Bank Ltd. are taken as the sample for the study. The quantitative i.e. financial and statistical, and theoretical analysis, for the findings and conclusion, are made from the data collected from these banks and their websites.

The findings are drawn after analyzing the five years data of above-mentioned banks. Different ratios were calculated to get the results for conclusions. Since the topic of the study revolves around the loan & advances and non-performing loan, the distribution of loans and advances, their recovery, volume of non performing loan, loan loss provision, interest suspense and the ratios of those items that are related to loans and advances are calculated.

5.2 Conclusion

From the study conclusion could be drawn that along with increment in deposits the volume of loan and advances of the commercial banks are increasing. The lending and recovery trend of the commercial banks is inconsistent; however the lending and recovery process is continuously going on.

The volume of non-performing loan reveals the situation of loan recovery of commercial banks. The study shows that the lending capacity of the commercial banks is increasing year after year along with its core capital.

Regarding the loan & advances portfolio, the commercial banks are focused to lend private sector only. The study reveals that loan & advances contribute major portion in total income thus loan & advances is life for the commercial banks. The portion of non-performing loan in total loan portfolio is improving year after year, however among the non-performing loan portion of bad loan is highest, this means turning new loans into non-performing is rare and the past non-performing are still not recovered and degraded every year.

5.3 Recommendations

Based on the findings and conclusions, the following recommendations have been forwarded.

The volume of loan & advances of all three subjected banks is increasing this is good as it will increase in interest income. But the serious thing is increment of non-performing loan along with it. The neck to neck competition between banks led them to rampant lending which results to non-performing loans. Thus the perfect credit appraisal should be followed to avoid the bad loans. Banks should thoroughly analyze the capital, character, management capability and credit information of the customer as the primary factor and external environment and collateral as the secondary factor before taking lending decision. After loan disbursement the regular monitoring and follow-up is essential to maintain the loan as good loan.

Banks seems to be focused only on loan & advances while there are various other relatively risk free sectors of investments like, stocks, debentures, etc. Portfolio condition of all three banks should be examined carefully in regular interval to maintain equilibrium condition. The banks should not forget the statement "all eggs should not be kept in same

basket". The subjected banks, especially EBL, are suggested to increase their portfolio in government sector lending and bills purchased, which are relatively less risky, as they have only nominal portion of those in their portfolio.

The analysis of non-performing loan, loan loss provision and interest suspense shows that NIBL and NIC have to focus more on quality lending and effective recovery in comparison with EBL.

To acquire the market space in today's growing neck to neck competition in banking sector, the banking should be customer oriented. It should facilitate customers and should provide easy and quick services in convenient way and along with this it must follow the safety measures to banks investment then only success will be achieved.

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Appendix-1

Calculation of best fit straight line equation & trend value of loan & advances of NIBL

Year (t)	Loan (y)	X = t - 65	x²	x × y
62/63	13178	-2	4	-26356
63/64	17769	-1	1	-17769
64/65	27529	0	0	0
65/66	36827	1	1	36827
66/67	40948	2	4	81896
Total	136251	0	10	74598

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 27250.2$$

$$b = \frac{\sum xy}{\sum x^2} = 7459.8$$

$$yc = 27250.2 + 7459.8x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	49629.6
68/69	4	57089.4
69/70	5	64549.2
70/71	6	72009
71/72	7	79468.8

Appendix -2

Calculation of best fit straight line equation & trend value of loan & advances of EBL

Year (t)	Loan (y)	X = t - 65	x²	x × y
62/63	10136.25	-2	4	-20272
63/64	14082.69	-1	1	-14083
64/65	18836.43	0	0	0
65/66	24469.6	1	1	24470
66/67	28156.4	2	4	56313
Total	95681.37	3	10	46427

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 19136$$

$$b = \frac{\sum xy}{\sum x^2} = 4642.7$$

$$yc = 19136 + 4642.7x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	33064.44
68/69	4	37707.16
69/70	5	42349.88
70/71	6	46992.60
71/72	7	51635.32

Appendix-3

Calculation of best fit straight line equation & trend value of loan & advances of NIC

Year (t)	Loan (y)	X = t - 65	x²	x × y
62/63	6902.12	-2	4	-13804
63/64	9128.65	-1	1	-9129
64/65	11465.3	0	0	0
65/66	13916	1	1	13916
66/67	12929	2	4	25858
Total	54341.07	0	10	16841

$$y = ax + b$$

$$a = \frac{\sum y}{n} = 10868.2$$

$$b = \frac{\sum xy}{\sum x^2} = 1684.1$$

$$y_c = 10868.2 + 1684.1x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	15920.55
68/69	4	17604.66
69/70	5	19288.77
70/71	6	20972.88
71/72	7	22656.99

Appendix-4

Calculation of best fit straight line equation & trend value of Interest Suspense

of NIBL

Year (t)	Interest Suspense (y)	X = t – 65	x ²	x × y
62/63	77.94	-2	4	-155.9
63/64	90.44	-1	1	-90.44
64/65	106.67	0	0	0
65/66	153.6	1	1	153.6
66/67	184.87	2	4	369.74
Total	613.52	0	10	277.02

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 122.704$$

$$b = \frac{\sum xy}{\sum x^2} = 27.702$$

$$yc = 122.704 + 27.702x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	205.81
68/69	4	233.512
69/70	5	261.214
70/71	6	288.916
71/72	7	316.618

Appendix-5

Calculation of best fit straight line equation & trend value of Interest Suspense of EBL

Year (t)	Interest Suspense (y)	X = t – 65	x ²	x × y
62/63	79.92	-2	4	-159.8
63/64	83.37	-1	1	-83.37
64/65	92.22	0	0	0
65/66	83.34	1	1	83.34
66/67	68.6	2	4	137.2
Total	407.45	0	10	-22.67

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 81.49$$

$$b = \frac{\sum xy}{\sum x^2} = -2.267$$

$$yc = 81.49 + (-2.267)x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	74.689
68/69	4	72.422
69/70	5	70.155
70/71	6	67.888
71/72	7	65.621

Appendix-6

Calculation of best fit straight line equation & trend value of Interest Suspense of NIC

Year (t)	Interest Suspense (y)	X = t – 65	x ²	x × y
62/63	2.84	-2	4	-5.68
63/64	13.46	-1	1	-13.46
64/65	12.91	0	0	0
65/66	16.38	1	1	16.38
66/67	27.45	2	4	54.9
Total	73.04	0	10	52.14

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 14.608$$

$$b = \frac{\sum xy}{\sum x^2} = 5.214$$

$$yc = 14.608 + 5.214x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	30.25
68/69	4	35.464
69/70	5	40.678
70/71	6	45.892
71/72	7	51.106

Appendix-7

Calculation of best fit straight line equation & trend value of Non-Performing of NIBL

Year (t)	Non-performing loan (y)	X = t - 65	x ²	x × y
62/63	272.49	-2	4	-545
63/64	421.97	-1	1	-422
64/65	309.47	0	0	0
65/66	213.91	1	1	213.91
66/67	254.03	2	4	508.06
Total	1471.87	0	10	-245

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 294.374$$

$$b = \frac{\sum xy}{\sum x^2} = -24.5$$

$$yc = 294.374 + (-24.5)x$$

Trend values for period 2065/66 to 2069/70 as par above linear equation.

Year	X	Trend Values
67/68	4	220.88
68/69	5	196.382
69/70	6	171.884
70/71	7	147.386
71/72	8	122.888

Appendix-8

Calculation of best fit straight line equation & trend value of Non-Performing of EBL

Year (t)	Non-performing loan (y)	X = t – 65	x ²	x × y
62/63	129.27	-2	4	-285.5
63/64	113.18	-1	1	-113.2
64/65	127.31	0	0	0
65/66	117.99	1	1	117.99
66/67	43.71	2	4	87.42
	531.46	0	10	-166.3

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 106.292$$

$$b = \frac{\sum xy}{\sum x^2} = -16.63$$

$$yc = 106.292 + (-16.63)x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	56.399
68/69	4	39.768
69/70	5	23.137
70/71	6	6.506
71/72	7	-10.125

Appendix-9

Calculation of best fit straight line equation & trend value of Non-Performing Loan of NIC.

Year (t)	Non-performing loan (y)	X = t – 65	x ²	x × y
62/63	179.55	-2	4	-359.1
63/64	101.14	-1	1	-101.1
64/65	98.17	0	0	0
65/66	129.18	1	1	129.18
66/67	92.49	2	4	184.98
Total	600.53	0	10	-146.1

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 120.106$$

$$b = \frac{\sum xy}{\sum x^2} = -14.61$$

$$yc = 120.106 + (-14.61)x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	76.282
68/69	4	61.674
69/70	5	47.066
70/71	6	32.458
71/72	7	17.85

Appendix-10

Calculation of best fit straight line equation & trend value of Loan Loss Provision of NIBL

Year (t)	Loan loss provision (y)	X = t – 65	x ²	x × y
62/63	401.94	-2	4	-803.9
63/64	482.67	-1	1	-482.7
64/65	532.65	0	0	0
65/66	585.95	1	1	585.95
66/67	630.13	2	4	1260.3
Total	2633.34	0	10	559.66

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 526.668$$

$$b = \frac{\sum xy}{\sum x^2} = 55.966$$

$$yc = 526.668 + 55.966x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	694.566
68/69	4	750.532
69/70	5	806.498
70/71	6	862.464
71/72	7	918.43

Appendix-11

Calculation of best fit straight line equation & trend value of Loan Loss Provision Suspension of EBL

Year (t)	Loan loss provision (y)	X = t – 65	x ²	x × y
62/63	334.95	-2	4	-669.9
63/64	418.6	-1	1	-418.6
64/65	497.35	0	0	0
65/66	584.88	1	1	584.88
66/67	600.04	2	4	1200.1
Total	2435.82	0	10	696.46

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 487.164$$

$$b = \frac{\sum xy}{\sum x^2} = 69.646$$

$$yc = 487.164 + 69.646x$$

Trend values for period 2067/68 to 2071/72 as par above linear equation.

Year	X	Trend Values
67/68	3	696.102
68/69	4	765.748
69/70	5	835.394
70/71	6	905.04
71/72	7	974.686

Appendix-12

Calculation of best fit straight line equation & trend value of Loan Loss Provision of NIC

Year (t)	Loan loss provision (y)	X = t - 62	x ²	x × y
62/63	246.16	-2	4	-492.3
63/64	187.25	-1	1	-187.3
64/65	200.65	0	0	0
65/66	236.45	1	1	236.45
66/67	197.29	2	4	394.58
Total	1067.8	0	10	-48.54

$$yc = a + bx$$

$$a = \frac{\sum y}{n} = 213.56$$

$$b = \frac{\sum xy}{\sum x^2} = -4.854$$

$$yc = 213.56 + (-4.854) x$$

Trend values for period 2065/66 to 2069/70 as par above linear equation.

Year	X	Trend Values
67/68	3	198.998
68/69	4	194.144
69/70	5	189.29
70/71	6	184.436
71/72	7	179.582

Appendix-13

Correlation between Loan & Advances and Deposit

	Correlation Coefficient	Probable Error	Probable Error * 6
NIBL	0.99884	0.000694747	0.004168482
EBL	0.99711	0.001740235	0.010441412
NIC	0.97561	0.014552749	0.087316495

Correlation between Loan and Advances and Non-Performing Loan

	Correlation Coefficient	Probable Error	Probable Error * 6
NIBL	-0.5886	0.197393232	1.184359389
EBL	-0.7159490	0.147223353	0.883340119
NIC	-0.5937946	0.195548296	1.173289774

Correlation between Loan and Advances and Loan Loss Provision

	Correlation Coefficient	Probable Error	Probable Error * 6
NIBL	0.979957	0.011986498	0.071918987
EBL	0.986167	0.008298511	0.049791065
NIC	-0.1848949	0.291722207	1.750333244

Total Loan and Advances

Rs. In Million

Year	Nepal Investment Bank		Everest Bank		Nepal Industrial & Commercial Bank	
	Amount	%Change	Amount	%Change	Amount	%Change
2062/63	13178		10136.25		6902.12	
2063/64	17769	34.84	14082.69	38.93	9128.65	37.15
2064/65	27529	54.93	18836.43	33.75	11465.3	25.6
2065/66	36827	33.78	24469.6	29.91	13916	21.37
2066/67	40948	11.19	28156.4	15.07	12929	-7.09
Mean	27250.2		19136.27		10868.21	

Loan Loss Provision

Rs. In Million

Year	Nepal Investment Bank		Everest Bank		Nepal Industrial & Commercial Bank	
	Amount	%change	Amount	%change	Amount	%change
2062/63	401.94		334.95		246.16	
2063/64	482.67	20.08	418.60	20.79	187.25	-23.93
2064/65	532.65	10.35	497.35	17.29	200.65	7.16
2065/66	585.95	10	584.88	17.6	236.45	17.84
2066/67	630.13	7.54	600.04	2.59	197.29	16.56
Mean	526.67		487.16		213.56	

Classification of Loan Loss Provision

Rs. In million

		2062/63	2063/64	2064/65	2065/66	2066/67
NIBL	Pass	128.76	173.49	274.45	381.19	420.84
	Substandard	11.06	24.57	15.43	2.69	13.93
	Doubtful	0.25	43.08	10.40	5.74	5.49
	Bad	225.49	236.82	227.01	191.66	187.33
EBL	Pass	97.57	137.51	185.55	242.49	280.31
	Substandard	2.67	14.05	1.58	0.34	1.37
	Doubtful	0.34	1.18	0.37	14.26	6.32
	Bad	117.88	106.61	120.26	88.11	25.60
NIC	Pass	66.89	90.19	113.50	137.71	128.37
	Substandard	0.16	1.53	2.41	0.61	4.66
	Doubtful	3.93	0.46	5.88	30.57	9.59
	Bad	171.03	94.08	76.77	65.63	54.67

Interest Suspense

Rs. In million

	Nepal Investment Bank		Everest Bank		Nepal Industrial & Commercial Bank	
	Amount	%change	Amount	%change	Amount	%change
2062/63	77.94		79.92		2.84	
2063/64	90.44	16.04	83.37	4.32	13.46	373.94
2064/65	106.67	17.94	92.22	10.61	12.91	-4.09
2065/66	153.60	44	83.34	-9.6	16.38	26.88
2066/67	184.87	20.36	68.60	-17.69	27.45	67.58
Mean	122.70		81.49		14.61	

Loans and Advances to Total Assets Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	61.78	64.40	70.82	69.47	71.46	67.59
EBL	63.52	65.71	69.38	66.28	68.04	66.58
NIC	66.47	78.16	75.24	74.21	63.66	71.55

Loan and Advances to Total Deposit Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	69.63	72.56	79.91	78.86	81.74	76.54
EBL	73.44	77.44	78.56	73.43	76.24	75.82
NIC	78.74	90.67	87.62	89.32	80.96	85.46

Loans and Advances to Loan & Advances and Investment Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	70.17	73.20	80.02	83.27	82.58	77.85
EBL	70.70	73.86	78.83	80.44	84.90	77.75
NIC	73.57	85.09	83.22	82.14	72.33	79.27

Bills Purchased & Discounted to Total Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	1.23	1.55	1.37	1.35	0.49	1.20
EBL	0.30	0.29	0.12	0.42	0.09	0.24
NIC	0.28	0.23	0.16	0.19	0.18	0.21

Non-Performing Loan to Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	2.07	2.18	1.09	0.58	0.62	1.35
EBL	1.27	0.80	0.68	0.48	0.16	0.68
NIC	2.60	1.11	0.86	0.93	0.72	1.24

Composition of Non-Performing Loan Ratio

		2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	Substandard	16.23	22.96	19.95	5.03	21.93	17.22
	Doubtful	0.18	20.39	6.70	5.37	4.33	7.39
	Bad	83.58	56.65	73.35	89.59	73.74	75.38
EBL	Substandard	8.25	3.73	4.96	1.15	12.51	6.12
	Doubtful	0.53	2.08	0.58	24.16	28.89	11.25
	Bad	91.19	94.20	94.45	74.68	58.57	82.62
NIC	Substandard	0.36	6.06	9.81	1.87	20.16	7.65
	Doubtful	4.38	0.92	11.98	47.32	20.73	17.06
	Bad	95.25	93.02	78.20	50.80	59.11	75.28

Loan Loss Provision to Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	3.05	2.72	1.93	1.59	1.54	2.17
EBL	3.30	2.97	2.64	2.39	2.13	2.69
NIC	3.57	2.05	1.75	1.70	1.53	2.12

Composition of Loan Loss Provision Ratio

		2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	Pass	32.03	35.94	51.53	65.06	66.79	50.27
	Substandard	2.75	5.09	2.90	0.46	2.21	2.68
	Doubtful	0.06	8.93	1.95	0.98	0.87	2.56
	Bad	56.10	49.06	42.62	32.71	29.73	42.04
EBL	Pass	29.13	32.85	37.31	41.46	46.72	37.49
	Substandard	0.80	3.36	0.32	0.06	0.23	0.95
	Doubtful	0.10	0.28	0.07	2.44	1.05	0.79
	Bad	35.19	25.47	24.18	15.06	4.27	20.83
NIC	Pass	27.17	48.17	56.57	56.79	65.07	50.75
	Substandard	0.06	0.82	1.20	0.26	2.36	0.94
	Doubtful	1.60	0.25	2.93	12.93	4.86	4.51
	Bad	69.48	50.24	38.26	27.76	27.71	42.69

Loan Loss Provision to Total Income Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	41.88	38.69	32.15	28.36	22.95	32.81
EBL	50.36	49.68	40.95	37.73	30.92	41.93
NIC	78.17	45.52	36.02	32.73	20.27	42.54

Interest Suspense to Total Interest Income from Loan & Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	Mean
NIBL	6.65	5.71	4.86	4.70	3.97	5.18
EBL	8.85	7.28	6.94	4.50	2.45	6.00
NIC	0.49	1.85	1.39	1.87	2.23	1.57